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**Guaranty
Federal
Bancshares**

2019 Annual Report and Proxy



MISSION

Guaranty Bank actively invests in the communities we serve. We do this by delivering world-class solutions to our customers, engaging and rewarding opportunities for our employees, and superior value to our shareholders.

COMMUNITY COMMITMENT CREST



GUIDING PRINCIPLES



Guaranty Federal Bancshares, Inc.

2019 Annual Report

INVESTOR INFORMATION

ANNUAL MEETING OF STOCKHOLDERS:

The Annual Meeting of Stockholders of the Company will be held Wednesday, May 27, 2020 at 6:00 p.m., local time, at the bank's Farmers Park headquarters, 2144 E. Republic Road, Building F, Springfield, MO.

ANNUAL REPORT ON FORM 10-K:

Copies of the Company's Annual Report on Form 10-K, including the financial statements, filed with the Securities and Exchange Commission are available without charge upon written request to:

Vicki Lindsay, Secretary
Guaranty Federal Bancshares, Inc.
2144 East Republic Road, Suite F200, Springfield, MO 65804

TRANSFER AGENT:

Computershare Investor Services
PO Box 43078
Providence, RI 02940-3078

STOCK TRADING INFORMATION:

Symbol: GFED

SPECIAL LEGAL COUNSEL:

Husch Blackwell LLP
901 St. Louis Street, Suite 1900
Springfield, MO 65806

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:

BKD, LLP
910 St. Louis Street
PO Box 1190
Springfield, MO 65801-1190

STOCKHOLDER AND FINANCIAL INFORMATION:

Carter Peters
Executive Vice President, Chief Financial Officer
833-875-2492



COMPANY OVERVIEW

- 16 full-service branches in Southwest Missouri
- 32,000+ MoneyPass ATMs
- Loan Production Office in Marshfield, Missouri
- New HQ and “Branch of the Future” in Springfield, Missouri, opened November 2017
- Acquired Hometown Bancshares, Inc. (Carthage/Joplin, Missouri) in Q2 2018 adding \$180MM in assets
- Ameriprise Financial Services partnership launched in 2019
- 229 Employees

FINANCIAL HIGHLIGHTS: YEAR ENDED DECEMBER 31, 2019

Balance Sheet (dollars in thousands)

Total Assets	\$ 1,012,025
Total Loans	723,519
Total Deposits	821,407
Total Equity	84,632

Profitability

Return on Average Assets	0.96%
Return on Average Equity	11.26%
Net Interest Margin	3.46%
Efficiency Ratio	70.88%

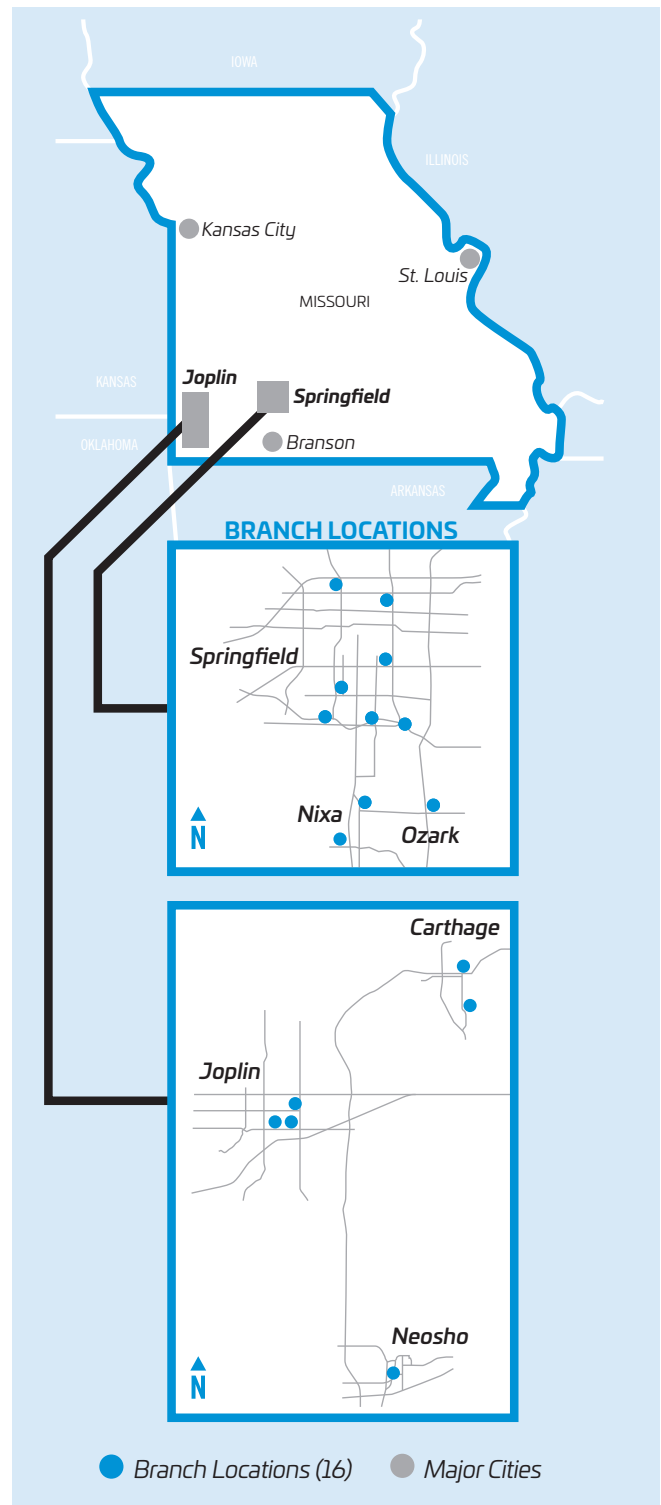
Asset Quality

Nonperforming Assets/Total Assets	1.09%
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Capital

Tangible Common Equity Ratio	8.00%
Tangible Book Value per Common Share	\$18.71

BRANCH MAP



A MESSAGE FROM THE PRESIDENT

DEAR FELLOW SHAREHOLDERS:

In 2019, Guaranty had strong results as we continued to execute on our long-term strategy of improved profitability with steady and prudent growth. The company had record earnings of \$94 million and achieved a significant milestone in our 106-year history by surpassing \$1 billion in assets. When compared to 2018, our diluted earnings per share increased by 29% to \$2.11, deposits rose by \$71.8 million (a 10% increase), more than \$40 million of short-term wholesale borrowings were repaid, and \$6.3 million of higher cost subordinated debentures were redeemed.

These strong operating results allowed us to repurchase over 3% of our outstanding common shares and increase our quarterly dividend 15%. 2019 was the sixth consecutive year we increased the dividend, growing over 200% since 2014, and we continued to deliver above-peer average Total Shareholder Return for the last three-, five- and ten-year periods.

During the course of the year, we remained focused on building the capabilities needed to successfully meet our customers' expectations, and for Guaranty to compete and grow well into the future. Our new alliance with Achieve Private Wealth, a private wealth advisory practice of Ameriprise Financial Services, Inc., will expand the range of investment and financial planning services to our clients. We also further sharpened our omni-channel strategy and strengthened our cybersecurity and platform resiliency to insure your assets and data are safe and secure.

As I write this letter, the entire world is focused on reducing the spread of COVID-19. There are many unknowns and we are uncertain about the short- and long-term impact on our communities and the economy. However, during this challenge it is encouraging to see our entire Guaranty team living and demonstrating our guiding principles as they serve each other and our customers, with actions based on engagement, integrity, accountability, collaboration, and community. Our company has strong capital and liquidity positions, and we are committed to standing behind and supporting our team members, our customers, and our communities as we navigate the challenges created by the pandemic.

Thank you for your continuing support and investment in Guaranty!



Sincerely,

A handwritten signature in black ink that reads "Shaun A. Burke". The signature is written in a cursive, flowing style.

Shaun A. Burke
President & Chief Executive Officer
Guaranty Federal Bancshares, Inc.

OUR COMMUNITY BANK CULTURE

Choice Employer

- Value employee contribution and perspective
- Provide development to reach full potential

Authentic Culture and Values

- Foster communication, collaboration, accountability, trust and respect
- Moments of Magic world-class customer service

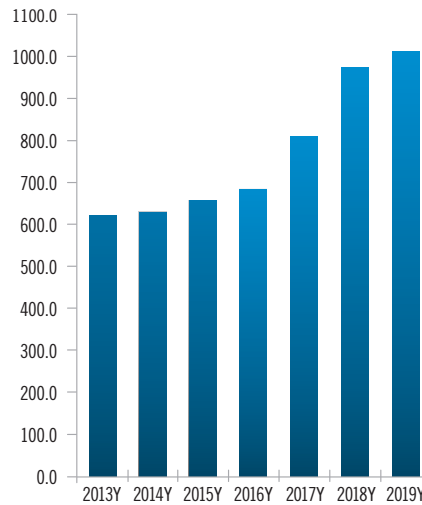
Shared Vision

- Simple, powerful strategic blueprint for success

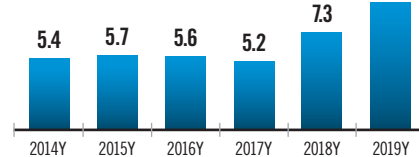
Relationship Banking Focus

- Thriving communities need community banks

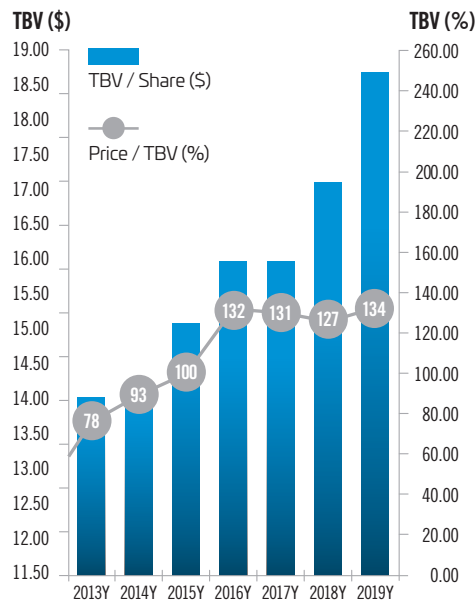
TOTAL ASSETS (\$M)



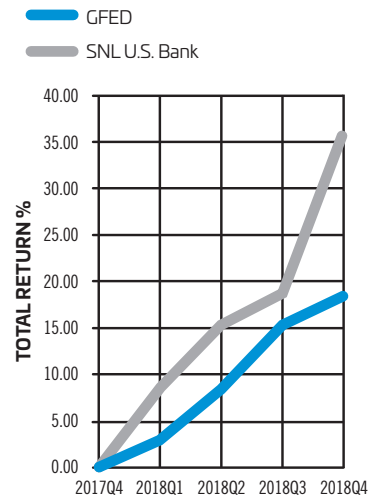
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS (\$M)



TANGIBLE BOOK VALUE (TBV) PER SHARE

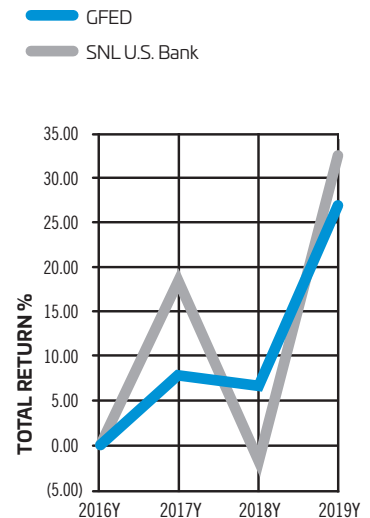


TOTAL 1-YEAR SHAREHOLDER RETURN



SNL U.S. Bank: Includes all Major Exchange (NYSE, NYSE MKT, NASDAQ) Banks in SNL's coverage universe.

TOTAL 3-YEAR SHAREHOLDER RETURN



SNL U.S. Bank: Includes all Major Exchange (NYSE, NYSE MKT, NASDAQ) Banks in SNL's coverage universe.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number: 0-23325



Guaranty Federal Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

43-1792717
(IRS Employer Identification No.)

2144 E Republic Rd, Suite F200
Springfield, Missouri
(Address of principal executive offices)

65804
(Zip Code)

Registrant's telephone number: 1-833-875-2492

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.10 per share	GFED	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, based on the average bid and asked prices of the registrant's Common Stock as quoted on the Global Market of The NASDAQ Stock Market on June 30, 2019 (the last business day of the registrant's most recently completed fiscal second quarter) was \$72.3 million. As of March 1, 2020, there were 4,337,462 shares of the registrant's Common Stock, par value of \$0.10 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2019 are incorporated by reference into Part III hereof.

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GUARANTY FEDERAL BANCSHARES, INC.

Form 10-K

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PART I

Item 1. Business

Guaranty Federal Bancshares, Inc.

Guaranty Federal Bancshares, Inc. (hereinafter referred to as “we,” “us,” “our,” or the “Company”) is a Delaware-chartered corporation that was formed in September 1997. The Company became a unitary savings and loan holding company for Guaranty Federal Savings Bank, a federal savings bank (the “Bank”) on December 30, 1997, in connection with a plan of conversion and reorganization involving the Bank and its then existing mutual holding company. The mutual holding company structure had been created in April 1995 at which time more than a majority of the shares of the Bank were issued to the mutual holding company and the remaining shares were sold in a public offering. In connection with the conversion and reorganization on December 30, 1997, the shares of the Bank held by the mutual holding company were extinguished along with the mutual holding company, and the shares of the Bank held by the public were exchanged for shares of the Company. All of the shares of the Bank which remained outstanding after the conversion are owned by the Company.

On June 27, 2003, the Bank converted from a federal savings bank to a state-chartered trust company with banking powers in Missouri, and the Company became a bank holding company. On this date, the name of the Bank was changed from Guaranty Federal Savings Bank to Guaranty Bank. The primary activity of the Company is to oversee its investment in the Bank. The Company engages in few other activities. For this reason, unless otherwise specified, references to the Company include operations of the Bank. Further, information in a chart or table based on Bank only data is identical to or immaterially different from information that would be provided on a consolidated basis. In addition to the Bank, the Company owns Guaranty Statutory Trust I and Guaranty Statutory Trust II, both Delaware statutory trusts.

On April 2, 2018, the Company completed the acquisition of Carthage, Missouri-based Hometown Bancshares, Inc. (“Hometown”) including its wholly owned bank subsidiary, Hometown Bank, National Association and Hometown Bancshares Statutory Trust I, a Delaware statutory trust. Under the terms of the Agreement and Plan of Merger, each share of Hometown common stock was exchanged for \$20.00 in cash and the transaction was valued at approximately \$4.6 million. Hometown’s subsidiary bank, Hometown Bank, National Association, was merged into Guaranty Bank on June 8, 2018. Including the effects of acquisition method accounting adjustments, the Company acquired approximately \$178.8 million in assets, including approximately \$143.9 million in loans (inclusive of loan discounts) and approximately \$161.2 million in deposits. Goodwill of \$1.4 million was also recorded as a result of this transaction. The acquisition strengthened the Company’s position in Southwest Missouri and the Company believes it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing and other administrative functions all of which gave rise to the goodwill recorded.

At December 31, 2019, the Company’s consolidated assets were \$1.012 billion, net loans were \$720.7 million, deposits were \$821.4 million and total stockholders’ equity was \$84.6 million. See Item 6 “Selected Financial Data” for further details regarding the Company’s financial position and results of operations for the previous five fiscal years.

Guaranty Bank

The Bank’s principal business has been, and continues to be, attracting retail deposits from the general public and investing those deposits, together with funds generated from operations, in commercial real estate loans, multi-family residential mortgage loans, construction loans, permanent one- to four-family residential mortgage loans, business, consumer and other loans. The Bank also invests in mortgage-backed securities, U.S. Government and federal agency securities and other marketable securities. The Bank’s revenues are derived principally from interest on its loans and other investments and fees charged for services provided, and gains generated from sales of loans and investment securities, and the Bank’s results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank’s primary sources of funds are: deposits; borrowings; amortization and prepayments of loan principal; and amortizations, prepayments and maturities of investment securities.

The Bank is regulated by the Missouri Division of Finance (“MDF”) and its deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the “FDIC”). See discussion under section captioned “Supervision and Regulation” in this Item 1. The Bank is a member of the FHLB of Des Moines, which is one of 11 regional Federal Home Loan Banks (“FHLB”).

Internet Website

The Company's internet website address is www.gbankmo.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company makes available through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments to these reports as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. These materials are also available free of charge (other than a user's regular internet access charges) on the Securities and Exchange Commission's website at www.sec.gov.

Market Area

The Bank's primary market areas are Greene, Christian, Jasper, and Newton Counties, which are in the southwestern corner of Missouri and includes the cities of Springfield, Nixa, Ozark, Joplin, Carthage and Neosho, Missouri (our "Market Area"). The major components of the Market Area's economy are service industries, education, retail, light manufacturing and health care. There is a significant regional health care presence with three large regional hospitals. There also are four accredited colleges and two major universities. Part of the area's growth can be attributed to its proximity to Branson, Missouri, which has developed a strong tourism industry related to country music and entertainment. Branson is located 30 miles south of Springfield and attracts between six and seven million tourists each year, many of whom pass through Springfield. The Bank also has one Loan Production Office in Webster County, Missouri.

Lending Activities

Like many commercial banks in our market, our loan portfolio is comprised of different types of industries. However, real estate lending is a significant portion of our business and accounted for over 80% of our loan portfolio by value as of December 31, 2019. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

	As of December 31,									
	2019		2018		2017		2016		2015	
	\$	%	\$	%	\$	%	\$	%	\$	%
	(Dollars in Thousands)									
Mortgage loans (includes loans held for sale):										
One to four family	\$121,611	17%	\$133,928	17%	\$108,223	17%	\$108,594	20%	\$100,160	20%
Multi-family.....	87,448	13%	90,548	12%	85,225	13%	48,483	9%	41,604	8%
Construction.....	77,309	10%	88,554	11%	64,744	10%	40,912	7%	45,463	9%
Commercial real estate	<u>300,619</u>	<u>41%</u>	<u>322,921</u>	<u>41%</u>	<u>261,866</u>	<u>41%</u>	<u>249,581</u>	<u>46%</u>	<u>208,824</u>	<u>42%</u>
Total mortgage loans....	<u>586,987</u>	<u>81%</u>	<u>635,951</u>	<u>81%</u>	<u>520,058</u>	<u>81%</u>	<u>447,570</u>	<u>82%</u>	<u>396,051</u>	<u>79%</u>
Commercial business loans	114,048	15%	119,369	15%	94,523	15%	75,405	14%	81,007	16%
Consumer loans	<u>30,666</u>	<u>4%</u>	<u>33,091</u>	<u>4%</u>	<u>24,716</u>	<u>4%</u>	<u>23,606</u>	<u>4%</u>	<u>21,992</u>	<u>4%</u>
Total consumer and other loans.....	<u>144,714</u>	<u>19%</u>	<u>152,460</u>	<u>19%</u>	<u>119,239</u>	<u>19%</u>	<u>99,011</u>	<u>18%</u>	<u>102,999</u>	<u>21%</u>
Total loans.....	<u>731,701</u>	<u>100%</u>	<u>788,411</u>	<u>100%</u>	<u>639,297</u>	<u>100%</u>	<u>546,581</u>	<u>100%</u>	<u>499,050</u>	<u>100%</u>
Less:										
Deferred loan fees/costs, net	574		600		663		382		333	
Allowance for loan losses	<u>7,608</u>		<u>7,996</u>		<u>7,107</u>		<u>5,742</u>		<u>5,812</u>	
Total Loans, net.....	<u>\$723,519</u>		<u>\$779,815</u>		<u>\$631,527</u>		<u>\$540,457</u>		<u>\$492,905</u>	

The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2019. The table shows loans that have adjustable rates as due in the period during which they contractually mature. The table does not include prepayments or scheduled principal amortization.

12/31/2019

Loan Maturities	Due in One	Due After	Due After	Total
	Year or Less	One Through Five Years	Five Years	
(Dollars in thousands)				
One to four family	\$ 13,644	\$ 57,629	\$ 50,338	\$ 121,611
Multi-family	8,162	78,214	1,072	87,448
Construction	40,775	36,008	526	77,309
Commercial real estate	9,539	182,144	108,936	300,619
Commercial loans.....	34,911	48,334	30,803	114,048
Consumer loans.....	7,671	8,196	14,799	30,666
Total loans (1).....	<u>\$ 114,702</u>	<u>\$ 410,525</u>	<u>\$ 206,474</u>	<u>\$ 731,701</u>
Less:				
Deferred loan fees/costs				574
Allowance for loan losses.....				7,608
Loans receivable net.....				<u>\$ 723,519</u>

(1) Includes mortgage loans held for sale of \$2,787

The following table sets forth the dollar amount of all loans due after December 2020, before deductions for unearned discounts, deferred loan fees/costs and allowance for loan losses, which have pre-determined interest rates and those which have adjustable interest rates.

Fixed and Adjustable Rate Loans by Type

	Fixed Rates	Adjustable Rates	Total	% Adjustable
	(Dollars in Thousands)			
One to four family	\$ 62,828	\$ 45,139	\$ 107,967	42%
Multi-family	60,843	18,442	79,285	23%
Construction	11,889	24,645	36,534	67%
Commercial real estate	143,222	147,858	291,080	51%
Commercial loans.....	43,268	35,870	79,138	45%
Consumer loans.....	5,560	17,435	22,995	76%
Total loans (1)	<u>\$ 327,610</u>	<u>\$ 289,389</u>	<u>\$ 616,999</u>	<u>47%</u>

(1) Before deductions for unearned discounts, deferred loan fees/costs and allowances for loan losses.

Commercial Real Estate Loans. As of December 31, 2019, the Bank had commercial real estate loans totaling \$300.6 million or 41% of the Bank's total loan portfolio. Commercial real estate loans are generally originated in amounts up to 80% of the appraised value of the mortgaged property. The majority of the Bank's commercial real estate loans have been originated with adjustable rates of interest, the majority of which are quoted at a spread to the Wall Street Journal Prime rate for the initial fixed rate period with subsequent adjustments at a spread to the Wall Street Journal Prime rate. The Bank's commercial real estate loans are generally permanent loans secured by improved property such as office buildings, retail stores, small shopping centers, medical offices, motels, churches and other non-residential buildings.

To originate commercial real estate loans, the Bank generally requires a mortgage and security interest in the subject real estate, personal guarantees of the principals, a security interest in the related personal property, and a standby assignment of rents and leases. The Bank has established its loan-to-one borrower limitation, which was \$29.0 million as of December 31, 2019, as its maximum commercial real estate loan amount.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent on successful operation or management of the properties, repayment of such loans may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks by careful underwriting, requiring personal guarantees, lending only to established customers and borrowers otherwise known by the Bank, and generally restricting such loans to its primary Market Area.

As of December 31, 2019, the Bank's commercial real estate loan portfolio included approximately \$17.4 million, or 2.4% of the Bank's total loan portfolio in loans to develop land into residential lots. The Bank utilizes its knowledge of the local market conditions and appraisals to evaluate the development cost and estimate projected lot prices and absorption rates to assess loans on residential subdivisions. The Bank typically loans up to 75% of the appraised value over terms up to two years. Development loans generally involve a greater degree of risk than residential mortgage loans because (1) the funds are advanced upon the security of the land which has a materially lower value prior to completion of the infrastructure required of a subdivision, (2) the cash flow available for debt repayment is a function of the sale of the individual lots, and (3) the amount of interest required to service the debt is a function of the time required to complete the development and sell the lots.

Commercial Business Loans. As of December 31, 2019, the Bank had commercial business loans totaling \$114.0 million or 15% of the Bank's total loan portfolio. Commercial business loans are generally secured by business assets, such as accounts receivable, equipment and inventory. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. The Bank expects to continue to expand its commercial business lending as opportunities present themselves.

One- to Four-Family Mortgage Loans. The Bank offers fixed- and adjustable-rate ("ARM") first mortgage loans secured by one- to four-family residences in the Bank's primary lending area. Typically, such residences are single family homes that serve as the primary residence of the owner. However, there are a number of loans originated by the Bank which are secured by non-owner occupied properties. Loan originations are generally obtained from existing or past customers, members of the local community, attorney referrals, established builders and realtors within our Market Area. Originated mortgage loans in the Bank's portfolio include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent.

As of December 31, 2019, \$121.6 million or 17% of the Bank's total loan portfolio consisted of one- to four-family residential loans. The Bank currently offers ARM and balloon loans that have fixed interest rate periods of one to seven years. Generally, ARM loans provide for limits on the maximum interest rate adjustment ("caps") that can be made at the end of each applicable period and throughout the duration of the loan. ARM loans are originated for a term of up to 30 years on owner-occupied properties and generally up to 25 years on non-owner occupied properties. Typically, interest rate adjustments are calculated based on U.S. treasury securities adjusted to a constant maturity of one year (CMT), plus a 2.50% to 2.75% margin. Interest rates charged on fixed-rate loans are competitively priced based on market conditions and the cost of funds existing at the time the loan is committed. The Bank's fixed-rate mortgage loans are made for terms of 15 to 30 years which are currently being sold on the secondary market.

Generally, ARM loans pose credit risks different from the risks inherent in fixed-rate loans, primarily because as interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. The Bank does not originate ARM loans that provide for negative amortization.

The Bank generally originates both owner occupied and non-owner occupied one- to four-family residential mortgage loans in amounts up to 80% of the appraised value or the selling price of the mortgaged property, whichever is lower. The Bank on occasion may make loans up to 95% of appraised value or the selling price of the mortgage property, whichever is lower. However, the Bank typically requires private mortgage insurance for the excess amount over 80% for mortgage loans with loan to value percentages greater than 80%.

Multi-Family Mortgage Loans. The Bank originates multi-family mortgage loans in its primary lending area. As of December 31, 2019, \$87.4 million or 13% of the Bank's total loan portfolio consisted of multi-family residential real estate loans. With regard to multi-family mortgage loans, the Bank generally requires personal guarantees of the principals as well as a security interest in the real estate. Multi-family mortgage loans are generally originated in amounts of up to 80% of the appraised value of the property. A portion of the Bank's multi-family mortgage loans have been originated with adjustable rates of interest which are quoted at a spread to the FHLB advance rate for the initial fixed rate period with subsequent adjustments based on the Wall Street prime rate. The loan-to-one-borrower limitation, \$29.0 million as of December 31, 2019, is the maximum the Bank will lend on a multi-family residential real estate loan.

Loans secured by multi-family residential real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Construction Loans. As of December 31, 2019, construction loans totaled \$77.3 million or 10% of the Bank's total loan portfolio. Construction loans originated by the Bank are generally secured by permanent mortgage loans for the construction of owner-occupied residential real estate or to finance speculative construction secured by residential real estate or owner-operated commercial real estate. This portion of the Bank's loan portfolio consists of speculative loans, i.e., loans to builders who are speculating that they will be able to locate a purchaser for the underlying property prior to or shortly after the time construction has been completed.

Construction loans are made to contractors who have sufficient financial strength and a proven track record, for the purpose of resale, as well as on a "pre-sold" basis. Construction loans made for the purpose of resale generally provide for interest only payments at floating rates and have terms of six months to fifteen months. Construction loans for speculative purposes, models, and commercial properties typically have loan to value ratios of up to 80%. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant.

Construction lending by its nature entails significant additional risks as compared with one-to four-family mortgage lending, attributable primarily to the fact that funds are advanced upon the security of the project under construction prior to its completion. As a result, construction lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower or guarantor to repay the loan. Because of these factors, the analysis of the prospective construction loan projects requires an expertise that is different in significant respects from that which is required for residential mortgage lending. The Bank attempts to address these risks through its underwriting and construction monitoring procedures.

Consumer and Other Loans. The Bank also offers consumer loans, primarily consisting of loans secured by certificates of deposit, automobiles, boats and home equity loans. As of December 31, 2019, the Bank has such loans totaling \$30.7 million or 4% of the Bank's total loan portfolio. The Bank expects to continue to expand its consumer lending as opportunities present themselves.

Director and Insider Loans. Management believes that loans to Directors and Officers are prudent and within the normal course of business. These loans reflect normal credit terms and represent no more collection risk than any other loan in the portfolio.

Delinquencies, Non-Performing and Problem Assets.

Delinquent Loans. As of December 31, 2019, the Bank had four loans 90 days or more past due with an aggregate principal balance of \$184,535 and 20 loans between 30 and 89 days past due with an aggregate principal balance of \$1,171,118. The Bank generally does not accrue interest on loans past due more than 90 days.

The following table sets forth the Bank's loans that were accounted for on a non-accrual basis or 90 days or more delinquent at the dates indicated.

Delinquency Summary

	As of December 31,				
	2019	2018	2017	2016	2015
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis or contractually past due 90 days or more					
Mortgage Loans:					
One to four family	\$ 2,398	\$ 4,136	\$ 4,423	\$ 2,060	\$ 2,272
Multi-family	-	-	-	-	-
Construction	3,738	4,088	4,452	5,447	8,080
Commercial real estate	2,941	3,593	162	162	1,241
	<u>9,077</u>	<u>11,817</u>	<u>9,037</u>	<u>7,669</u>	<u>11,593</u>
Non-mortgage loans:					
Commercial loans	856	1,263	803	925	2,149
Consumer and other loans	70	2	122	38	13
	<u>926</u>	<u>1,265</u>	<u>925</u>	<u>963</u>	<u>2,162</u>
Total non-accrual loans	<u>10,003</u>	<u>13,082</u>	<u>9,962</u>	<u>8,632</u>	<u>13,755</u>
Accruing loans which are contractually past maturity or past due 90 days or more:					
Mortgage Loans:					
One to four family	-	-	-	-	-
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial real estate	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-mortgage loans:					
Commercial loans	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total past maturity or past due accruing loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due	<u>\$ 10,003</u>	<u>\$ 13,082</u>	<u>\$ 9,962</u>	<u>\$ 8,632</u>	<u>\$ 13,755</u>
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due as a percentage of net loans	<u>1.38%</u>	<u>1.68%</u>	<u>1.58%</u>	<u>1.60%</u>	<u>2.79%</u>
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due as a percentage of total assets	<u>0.99%</u>	<u>1.36%</u>	<u>1.24%</u>	<u>1.25%</u>	<u>2.11%</u>

Non-Performing Assets. Loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, the collection of all interest at contractual rates becomes doubtful. As part of such review, mortgage loans are placed on non-accrual status generally when either principal or interest is more than 90 days past due, or when other circumstances indicate the collection of principal or interest is in doubt. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income.

Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is deemed a foreclosed asset held for sale until such time as it is sold. When a foreclosed asset held for sale is acquired it is recorded at its estimated fair value, less estimated selling expenses. Valuations of such foreclosed assets are periodically performed by management, and any subsequent decline in estimated fair value is charged to operations.

The following table shows the principal amount of non-performing loans (i.e. loans that are not performing under regulatory guidelines) and all foreclosed assets, including assets acquired in settlement of loans and the resulting impact on interest income for the periods then ended.

Non-Performing Assets

	As of				
	December 31,				
	2019	2018	2017	2016	2015
(Dollars in Thousands)					
Non-accrual loans:					
Mortgage loans:					
One to four family	\$ 2,398	\$ 4,136	\$ 4,423	\$ 2,060	\$ 2,272
Multi-family	-	-	-	-	-
Construction	3,738	4,088	4,452	5,447	8,080
Commercial real estate	2,941	3,593	162	162	1,241
	<u>9,077</u>	<u>11,817</u>	<u>9,037</u>	<u>7,669</u>	<u>11,593</u>
Non-mortgage loans:					
Commercial loans	856	1,263	803	925	2,149
Consumer and other loans	70	2	122	38	13
	<u>926</u>	<u>1,265</u>	<u>925</u>	<u>963</u>	<u>2,162</u>
Total non-accrual loans	10,003	13,082	9,962	8,632	13,755
Real estate and other assets acquired in settlement of loans	992	1,127	283	2,682	2,392
Total non-performing assets	<u>\$ 10,995</u>	<u>\$ 14,209</u>	<u>\$ 10,245</u>	<u>\$ 11,314</u>	<u>\$ 16,147</u>
Total non-accrual loans as a percentage of net loans	<u>1.38%</u>	<u>1.68%</u>	<u>1.58%</u>	<u>1.60%</u>	<u>2.79%</u>
Total non-performing assets as a percentage of total assets	<u>1.09%</u>	<u>1.47%</u>	<u>1.28%</u>	<u>1.64%</u>	<u>2.47%</u>
Impact on interest income for the period:					
Interest income that would have been recorded on non-accruing loans	<u>\$ 398</u>	<u>\$ 299</u>	<u>\$ 95</u>	<u>\$ 90</u>	<u>\$ 573</u>

Problem Assets. Federal regulations require that the Bank review and classify its assets on a regular basis to determine those assets considered to be of lesser quality. In addition, in connection with examinations of insured institutions, bank examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful, and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable, and improbable. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations have also created a "special mention" category, described as assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Federal regulations require the Bank to establish general allowances for loan losses from assets classified as substandard or doubtful. If an asset or portion thereof is classified as loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss or charge off such amount. A portion of general loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital.

For management purposes, the Bank also designates certain loans for additional attention. Such loans are called “Special Mention” and have identified weaknesses, that if the situation deteriorates, the loans would merit a substandard classification.

The following table shows the aggregate amounts of the Bank's classified assets as of December 31, 2019.

Classification of Assets

	Special Mention		Substandard		Doubtful		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in Thousands)							
Loans:								
One to four family	3	\$ 535	30	\$ 2,667	-	\$ -	33	\$ 3,202
Multi-family.....	-	-	-	-	-	-	-	-
Construction.....	-	-	8	3,820	-	-	8	3,820
Commercial real estate	3	1,476	18	6,896	-	-	21	8,372
Commercial	5	8,793	24	4,655	-	-	29	13,448
Consumer and Other ..	-	-	4	1,000	-	-	4	1,000
Total loans	<u>11</u>	<u>10,804</u>	<u>84</u>	<u>19,038</u>	<u>-</u>	<u>-</u>	<u>95</u>	<u>29,842</u>
Foreclosed assets held-for-sale:								
One to four family	-	-	-	-	-	-	-	-
Land and other assets	-	-	6	992	-	-	6	992
Total foreclosed assets...	<u>-</u>	<u>-</u>	<u>6</u>	<u>992</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>992</u>
Total.....	<u>11</u>	<u>\$ 10,804</u>	<u>90</u>	<u>\$ 20,030</u>	<u>-</u>	<u>\$ -</u>	<u>101</u>	<u>\$ 30,834</u>

Allowance for Loan Losses and Provision for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience, and other factors that warrant recognition in providing for an adequate loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and valuation of foreclosed assets held for sale. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

As of December 31, 2019, the Bank's total allowance for loan losses was \$7.6 million or 1.04% of gross loans outstanding (excluding mortgage loans held for sale), a decrease of \$387,982 from December 31, 2018. The Bank experienced loan charge offs in excess of recoveries as management charged off specific loans that had been previously identified and classified as impaired. This allowance reflects not only management's determination to maintain an allowance for loan losses consistent with regulatory expectations for non-performing or problem assets, but also reflects the regional economy and the Bank's policy of evaluating the risks inherent in its loan portfolio.

Management records a provision for loan losses to bring the total allowance for loan losses to a level considered adequate based on the Bank's internal analysis and methodology. During 2019, the Bank recorded a provision for loan loss expense, as shown in the following table. Management anticipates the need to continue adding to the allowance through charges to provision for loan losses as growth in the loan portfolio or other circumstances warrant.

In accordance with generally accepted accounting principles for acquisition accounting, the loans acquired through the acquisition of Hometown were recorded at fair value; therefore, there was no allowance associated with Hometown's loans at acquisition. Management continues to evaluate the allowance needed on the acquired Hometown loans factoring in the net remaining discount of \$960,451 at December 31, 2019.

The following tables set forth certain information concerning the Bank's allowance for loan losses for the periods indicated.

Allowance for Loan Losses

	Year ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in Thousands)				
Beginning balance	\$ 7,996	\$ 7,107	\$ 5,742	\$ 5,812	\$ 6,589
Gross loan charge offs					
Mortgage Loans:					
One to four family	(272)	(8)	(11)	(47)	(99)
Multi-family	-	-	-	-	-
Construction	-	-	-	(1,222)	(1,233)
Commercial real estate	(122)	(37)	(72)	(69)	-
	<u>(394)</u>	<u>(45)</u>	<u>(83)</u>	<u>(1,338)</u>	<u>(1,332)</u>
Non-mortgage loans:					
Commercial loans	(381)	(110)	(240)	(171)	-
Consumer and other loans	(280)	(382)	(213)	(190)	(119)
	<u>(661)</u>	<u>(492)</u>	<u>(453)</u>	<u>(361)</u>	<u>(119)</u>
Total charge offs	<u>(1,055)</u>	<u>(537)</u>	<u>(536)</u>	<u>(1,699)</u>	<u>(1,451)</u>
Recoveries					
Mortgage Loans:					
One to four family	8	32	19	34	20
Multi-family	-	-	-	-	-
Construction	252	97	74	91	10
Commercial real estate	31	2	-	32	-
	<u>291</u>	<u>131</u>	<u>93</u>	<u>157</u>	<u>30</u>
Non-mortgage loans:					
Commercial loans	125	17	12	8	4
Consumer and other loans	51	53	46	89	40
	<u>176</u>	<u>70</u>	<u>58</u>	<u>97</u>	<u>44</u>
Total recoveries	<u>467</u>	<u>201</u>	<u>151</u>	<u>254</u>	<u>74</u>
Net loan charge-offs	<u>(588)</u>	<u>(336)</u>	<u>(385)</u>	<u>(1,445)</u>	<u>(1,377)</u>
Provision charged to expense	200	1,225	1,750	1,375	600
Ending balance	<u>\$ 7,608</u>	<u>\$ 7,996</u>	<u>\$ 7,107</u>	<u>\$ 5,742</u>	<u>\$ 5,812</u>
Net charge-offs as a percentage of average loans, net	<u>0.08%</u>	<u>0.04%</u>	<u>0.06%</u>	<u>0.28%</u>	<u>0.27%</u>
Allowance for loan losses as a percentage of average loans, net...	<u>1.00%</u>	<u>1.03%</u>	<u>1.17%</u>	<u>1.12%</u>	<u>1.16%</u>
Allowance for loan losses as a percentage of total non- performing loans	<u>76%</u>	<u>61%</u>	<u>71%</u>	<u>67%</u>	<u>42%</u>

Allocation of Allowance for Loan Losses

The following table shows the amount of the allowance allocated to the mortgage and non-mortgage loan categories and the respective percent of that loan category to total loans.

	As of									
	December 31,									
	2019		2018		2017		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Mortgage Loans.....	\$ 5,762	76%	\$ 6,337	79%	\$ 4,577	64%	\$ 4,126	72%	\$ 3,770	65%
Non-Mortgage Loans ...	1,846	24%	1,659	21%	2,530	36%	1,616	28%	2,042	35%
Total.....	<u>\$ 7,608</u>	<u>100%</u>	<u>\$ 7,996</u>	<u>100%</u>	<u>\$ 7,107</u>	<u>100%</u>	<u>\$ 5,742</u>	<u>100%</u>	<u>\$ 5,812</u>	<u>100%</u>

Investment Activities

The investment policy of the Company, which is established by the Company's Board of Directors and reviewed by the Asset/Liability Committee of the Company's Board of Directors, is designed primarily to provide and maintain liquidity, to generate a favorable return on investments, to help mitigate interest rate and credit risk, and to complement the Bank's lending activities. The policy currently provides for held-to-maturity and available-for-sale investment security portfolios. The Company does not currently engage in trading investment securities and does not anticipate doing so in the future. As of December 31, 2019, the Company has investment securities with an amortized cost of \$117.2 million and an estimated fair value of \$118.2 million. See Note 1 of the "Notes to Consolidated Financial Statements" for description of the accounting policy for investments. As of December 31, 2019, all of the Company's investment securities are considered as available-for-sale.

From time to time, the Company will sell a security to change its interest rate risk profile or restructure the portfolio and its cash flows. In 2019, the Company sold or had called \$37.8 million in securities and recognized \$89,564 of net gains.

The Company has the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, corporate securities, trust preferred securities, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, and sale of federal funds.

Composition of Investment Securities Portfolio

The following tables set forth the amortized cost and approximate fair market values of the available-for-sale securities and held-to-maturity securities.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2019				
AVAILABLE-FOR-SALE SECURITIES:				
Debt Securities:				
U.S. government agencies	\$ 2,499,755	\$ -	\$ (11,962)	\$ 2,487,793
Municipals	35,625,038	675,382	(125,693)	36,174,727
Corporates.....	15,395,190	154,942	(14,945)	15,535,187
Mortgage-backed securities - private label	13,788,728	52,035	(29,392)	13,811,371
Government sponsored mortgage-backed securities and SBA loan pools.....	49,844,049	585,641	(193,454)	50,236,236
	<u>\$ 117,152,760</u>	<u>\$ 1,468,000</u>	<u>\$ (375,446)</u>	<u>\$ 118,245,314</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2018				
AVAILABLE-FOR-SALE SECURITIES:				
Debt Securities:				
Corporates.....	\$ 3,000,000	\$ 18,927	\$ -	\$ 3,018,927
Municipals	34,470,648	10,581	(710,709)	33,770,520
Government sponsored mortgage-backed securities and SBA loan pools.....	50,632,011	81,999	(1,237,260)	49,476,750
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities.	11,794	136	(80)	11,850
	<u>\$ 88,102,659</u>	<u>\$ 111,507</u>	<u>\$ (1,947,969)</u>	<u>\$ 86,266,197</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2017				
AVAILABLE-FOR-SALE SECURITIES:				
Debt Securities:				
Corporates.....	\$ 3,000,000	\$ 65,000	\$ -	\$ 3,065,000
Municipals	33,908,207	253,872	(263,621)	33,898,458
Government sponsored mortgage-backed securities and SBA loan pools.....	45,414,845	9,283	(908,913)	44,515,215
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities.	16,457	327	(55)	16,729
	<u>\$ 82,339,509</u>	<u>\$ 328,482</u>	<u>\$ (1,172,589)</u>	<u>\$ 81,495,402</u>

The following tables set forth certain information regarding the weighted average yields and maturities of the Bank's investment securities portfolio as of December 31, 2019.

Investment Portfolio Maturities and Average Weighted Yields	Amortized Cost	Weighted Average Yield	Approximate Fair Value
Due in one to five years.....	385,947	2.76%	391,254
Due in five to ten years.....	18,704,471	3.74%	18,877,281
Due after ten years.....	34,429,565	2.90%	34,929,172
Mortgage-backed securities - private label not due on a single maturity date	13,788,728	3.12%	13,811,371
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	49,844,049	2.86%	50,236,236
	<u>\$ 117,152,760</u>	<u>3.07%</u>	<u>\$ 118,245,314</u>

	After One Through Five Years	After Five Through Ten Years	After Ten Years	Securities Not Due on a Single Maturity Date	Total
As of December 31, 2019					
Debt Securities:					
U.S. government agencies	\$ -	\$ 2,487,793	\$ -	\$ -	\$ 2,487,793
Corporates.....	-	14,062,589	1,472,598	-	15,535,187
Municipals	391,254	2,326,899	33,456,574	-	36,174,727
Mortgage-backed securities - private label	-	-	-	13,811,371	13,811,371
Government sponsored mortgage-backed securities and SBA loan pools.....	-	-	-	50,236,236	50,236,236
	<u>\$ 391,254</u>	<u>\$18,877,281</u>	<u>\$34,929,172</u>	<u>\$64,047,607</u>	<u>\$118,245,314</u>

Sources of Funds

General. The Company's primary sources of funds are retail and commercial deposits, FHLB borrowings, amortization and prepayments of loans and amortization, prepayments and maturities of investment securities. Secondary sources of funds are brokered deposits, internet deposits and federal funds lines of credit from correspondent banks.

Deposits. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank has concentrated on a diverse deposit mix, such that transaction accounts make up a greater percent of funding than in the past. The Bank offers various checking accounts, money markets, savings, fixed-term certificates of deposit and individual retirement accounts.

The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, local competition and competition from non-bank financial service providers. The Company closely monitors its deposit position and mix to manage interest rate risk and net interest margin. The Bank's deposits are typically obtained from the areas in which its offices are located. The Bank relies primarily on experienced customer service, long-term relationships with customers and convenient banking center locations to attract and retain a high level of core deposits.

Deposit Account Types

The following table sets forth the distribution of the Bank's deposit accounts at the dates indicated (dollars in thousands).

	As of December 31, 2019			As of December 31, 2018			As of December 31, 2017		
	Average Interest Rate	Amount	Percent of Total Deposits	Average Interest Rate	Amount	Percent of Total Deposits	Average Interest Rate	Amount	Percent of Total Deposits
Transaction	0.93%	\$487,622	59%	1.16%	\$388,515	52%	0.57%	\$326,522	53%
Savings	0.28%	39,204	5%	0.30%	39,664	5%	0.19%	30,848	5%
Non-interest bearing									
demand	0.00%	87,598	11%	0.00%	88,908	12%	0.00%	94,728	16%
Total		614,424	75%		517,087	69%		452,098	74%
Certificates of Deposit: (fixed-rate, fixed-term)									
1-11 months	1.79%	91,295	11%	0.91%	139,255	19%	0.71%	92,349	15%
12-23 months	2.34%	113,335	14%	1.49%	53,954	7%	0.99%	39,930	7%
24-35 months	1.97%	1,008	0%	1.95%	34,246	4%	1.42%	12,472	2%
36-47 months	2.97%	1,292	0%	2.00%	4,172	1%	1.49%	6,420	1%
48-59 months	1.59%	45	0%	1.39%	843	0%	1.46%	3,753	1%
60-71 months	1.59%	8	0%	2.05%	58	0%	1.34%	339	0%
72-95 months	0.00%	-	0%	1.59%	4	0%	1.34%	3	0%
Total		206,983	25%		232,532	31%		155,266	26%
Total Deposits		\$821,407	100%		\$749,619	100%		\$607,364	100%

Maturities of Certificates of Deposit of \$100,000 or More

	(Dollars in thousands) As of December 31, 2019
Three months or less	\$ 30,989
Over three through six months	12,277
Over six through twelve months	17,027
Over twelve months	63,472
Total	\$ 123,765

Borrowings

The Company's borrowings at December 31, 2019 consist of FHLB advances, a note payable and line of credit at another financial institution and issuances of junior subordinated debentures. Other borrowings available to the Company include borrowings from the Federal Reserve Bank and Securities Sold Under Agreements to Repurchase.

Deposits are the primary source of funds for the Bank's lending activities and other general business purposes. However, during periods when the supply of lendable funds cannot meet the demand for such loans, the FHLB System, of which the Bank is a member, makes available, subject to compliance with eligibility standards, a portion of the funds necessary through loans (advances) to its members. Use of FHLB advances is a common practice, allowing the Bank to provide funding to its customers at a time when significant liquidity is not present, or at a rate advantageous relative to current market deposit rates. FHLB advances, due to their structure, allow the Bank to better manage its interest rate and liquidity risk. The following table presents certain data for FHLB advances as of the dates indicated.

	As of December 31,		
	2019	2018	2017
	(Dollars in Thousands)		
Remaining maturity:			
Less than one year	\$ 65,000	\$ 105,300	\$ 92,200
One to two years	-	-	2,100
Two to three years	-	-	-
Total	<u>\$ 65,000</u>	<u>\$ 105,300</u>	<u>\$ 94,300</u>
Weighted average rate at end of period	1.83%	2.69%	1.97%
For the period:			
Average outstanding balance	\$ 53,358	\$ 96,957	\$ 93,942
Weighted average interest rate	2.42%	2.29%	1.78%
Maximum outstanding as of any month end	\$ 71,100	\$ 112,800	\$ 116,700

Junior Subordinated Debentures:

On December 15, 2005, the Company completed an offering of \$15 million of “Trust Preferred Securities” (defined hereinafter). The Company formed two wholly-owned subsidiaries, Guaranty Statutory Trust I (“Trust I”) and Guaranty Statutory Trust II (“Trust II”) each a Delaware statutory trust (each a “Trust”, and collectively, the “Trusts”), for the purpose of issuing the \$15 million of Trust Preferred Securities. The proceeds of the sale of Trust Preferred Securities, together with the proceeds of the Trusts’ sale of their common securities to the Company, were used by each Trust to purchase certain debentures from the Company. The Company issued 30-year junior subordinated deferrable interest debentures to the Trusts in the principal amount of \$5,155,000 (“Trust I Debentures”) and \$10,310,000 (“Trust II Debentures”, and together with the Trust I Debentures, the “Debentures”) pursuant to the terms of Indentures dated December 15, 2005 by and between the Company and Wilmington Trust Company, as trustee. The Trust I Debentures bear interest at a fixed rate of 6.92%, payable quarterly. The Trust II Debentures bear interest at a fixed rate of 6.47% for 5 years, payable quarterly, after issuance and thereafter at a floating rate equal to the three month LIBOR plus 1.45%. The interest payments by the Company to the Trusts will be used to pay the dividends payable by the Trusts to the holders of the Trust Preferred Securities.

The Debentures mature on February 23, 2036. Subject to prior approval by the Federal Reserve Board, the Debentures and the Trust Preferred Securities are each callable by the Company or the Trusts, respectively and as applicable, at its option after five years from issuance, and sooner in the case of a special redemption at a special redemption price ranging up to 103.2% of the principal amount thereof, and upon the occurrence of certain events, such as a change in the regulatory capital treatment of the Trust Preferred Securities, either Trust being deemed an investment company or the occurrence of certain adverse tax events. In addition, the Company and the Trusts may defer interest and dividend payments, respectively, for up to five consecutive years without resulting in a default. An event of default may occur if the Company declares bankruptcy, fails to make the required payments within 30 days or breaches certain covenants within the Debentures. The Debentures are subordinated to the prior payment of any other indebtedness of the Company.

Pursuant to two guarantee agreements by and between the Company and Wilmington Trust Company, the Company issued a limited, irrevocable guarantee of the obligations of each Trust under the Trust Preferred Securities whereby the Company has guaranteed any and all payment obligations of the Trusts related to the Trust Preferred Securities including distributions on, and the liquidation or redemption price of, the Trust Preferred Securities to the extent each Trust does not have funds available.

On April 2, 2018 the Company acquired Carthage, Missouri-based Hometown Bancshares. Pursuant to a Second Supplemental Indenture dated April 2, 2018 by and among the Company, Hometown and Wilmington Trust Company, as Trustee, the Company assumed Hometown's rights, duties and obligations under the original Indenture of a wholly owned subsidiary, Hometown Bancshares Capital Trust I, a Delaware statutory trust formed on October 29, 2002. This Trust was formed for the purposes of issuing \$6.0 million of Trust Preferred Securities. Hometown issued 30-year junior subordinated deferrable interest debentures to the Trust in the principal amount of \$6,186,000 ("Hometown Trust I Debentures") pursuant to the terms of Indentures dated October 29, 2002 by and between the Company and Wilmington Trust Company, as trustee. These debentures bore interest at a floating rate equal to the three-month LIBOR plus 5.00%, payable quarterly, until May 2019. The rate from May 2019 until maturity in 2032 was a floating rate equal to the three-month LIBOR plus 6.00%, payable quarterly, with a maximum interest rate of 12.5%. The interest payments by the Company to the Trust were be used to pay the dividends payable by the Trust to the holders of the Trust Preferred Securities.

The Hometown Trust I Debentures had an original maturity date of November 7, 2032. However, the Company fully redeemed the debentures on July 5, 2019 at 100% of principal amount plus accrued interest after receiving all necessary approvals by the Federal Reserve Board.

The following table sets forth certain information as to the Company's subordinated debentures issued to the Trusts at the dates indicated.

	As of December 31,		
	2019	2018	2017
	(Dollars in Thousands)		
Subordinated debentures	\$ 15,465	\$ 21,761	\$ 15,465
Weighted average interest rate of subordinated debentures ...	4.55%	4.72%	4.08%

Note Payable to Bank

During 2019, the Company increased an established note payable from \$5.0 million to \$11.2 million with another financial institution. The Bank has borrowed \$11.2 million on this note as of December 31, 2019. The funds were used to provide additional capital for funding Bank asset growth and to redeem Hometown Bancshares subordinated debentures noted above. The note carries a variable interest rate tied to 30-day LIBOR plus 250 basis points and matures on June 30, 2024.

Line of Credit to Bank

During 2019, the Company established a \$3.0 million revolving line of credit with the same financial institution. No amounts were borrowed on this line as of December 31, 2019. The funds, if used, will be to provide additional capital for funding Bank asset growth or repurchasing outstanding common shares. The note carries a variable interest rate tied to 30-day LIBOR plus 250 basis points and matures on June 28, 2021.

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank had the ability to borrow \$57.3 million as of December 31, 2019. The Federal Reserve Bank requires the Bank to maintain collateral in relation to borrowings outstanding. The Bank had no borrowings on this line as of December 31, 2019 and 2018.

Subsidiary Activity and Segment Information

The Company has three wholly-owned subsidiaries: (i) the Bank, the Company's principal subsidiary and a state-chartered bank with trust powers in Missouri; (ii) Trust I; and (iii) Trust II. As discussed in more detail above, Trust I and Trust II were formed in December 2005 for the exclusive purpose of issuing trust preferred securities to acquire junior subordinated debentures issued by the Company. Those debentures are the sole assets of the Trusts. The interest payments by the Company on the debentures are the sole revenues of the Trusts and are used by the Trusts to pay the dividends to the holders of the trust preferred securities. The Company has guaranteed any and all payment obligations of the Trusts related to the trust preferred securities. Under generally accepted accounting principles, the Trusts are not consolidated with the Company.

The Bank has one service corporation subsidiary, Guaranty Financial Services of Springfield, Inc., a Missouri corporation. This service corporation, which has been inactive since February 1, 2003, had agreements with third party providers for the sale of securities and casualty insurance products.

The Company's banking operation conducted through its principal subsidiary, the Bank, is the Company's only reportable segment. Other information about the Company's business segment is contained in the section captioned "Segment Information" in Note 1 to the Notes of the Consolidated Financial Statements in this report.

Return on Equity and Assets

The following table sets forth certain dividend, equity and asset ratios of the Company for the periods indicated.

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Common Dividend Payout Ratio.....	26%	30%	36%
Return on Average Assets	0.96%	0.77%	0.69%
Return on Average Equity	11.26%	9.35%	6.97%
Stockholders' Equity to Assets	8.36%	8.34%	9.43%
EPS Diluted.....	\$ 2.11	\$ 1.64	\$ 1.16
Dividends on Common Shares	\$ 0.54	\$ 0.49	\$ 0.42

Employees

As of December 31, 2019, the Bank had 213 full-time employees and 16 part-time employees. As of December 31, 2019, the Company had no employees. None of the Bank's employees are represented by a collective bargaining group.

Competition

The Bank experiences substantial competition both in attracting and retaining deposit accounts and in the origination of loans. The Bank's primary competition consists of commercial banks, credit unions, and savings institutions.

Direct competition for deposit accounts comes from other commercial banks, credit unions, regional bank and thrift holding companies, and savings institutions located in the remainder of our Market Area. Significant competition for the Bank's other deposit products and services come from money market mutual funds, brokerage firms, insurance companies, and retail stores. Recently, online firms have offered attractive financial service products to consumers, irrespective of location. The primary factors in competing for loans are interest rates and loan origination fees and the range of services offered by various financial institutions. Our larger competitors have a greater ability to finance wide-ranging advertising campaigns through their greater capital resources. Our marketing efforts depend heavily upon referrals from officers, directors and shareholders, selective advertising in local media and direct mail solicitations. The Bank believes it is able to compete effectively in its primary Market Area by offering competitive interest rates and loan fees, and a variety of deposit products, and by emphasizing personal customer service.

Supervision and Regulation

General

The Company and the Bank are subject to an extensive regulatory framework under federal and state law. Consequently, the Company's growth and earnings performance may be affected by the requirements of federal and state statutes and by regulations and policies of various bank regulatory authorities, including the:

- Board of Governors of the Federal Reserve System ("FRB");
- Missouri Division of Finance ("MDF");
- Federal Deposit Insurance Corporation ("FDIC"); and
- Consumer Financial Protection Bureau ("CFPB").

Additionally, the Company's business may be impacted by assorted laws and rules, including:

- anti-money laundering laws enforced by the U.S. Department of Treasury (Treasury);
- taxation laws administered by the Internal Revenue Service (IRS) and state taxing authorities;
- accounting rules developed by the Financial Accounting Standards Board (FASB); and
- securities laws administered by the Securities and Exchange Commission (SEC) and state securities authorities.

Regulatory agencies often have significant discretion regarding their supervisory and enforcement activities. This comprehensive supervisory and regulatory framework significantly impacts the Company's operations and results. Additionally, new legislation is introduced from time to time that could impact the Company and the Bank in substantial ways and the nature, extent, or impact of new statutes or regulations on the Company's or the Bank's operations or financial conditions cannot be predicted with any certainty.

Set forth below is a brief summary of certain material laws and regulations applicable to the Company and the Bank. These laws and regulations are primarily intended for the protection of the Bank's customers and depositors and not for the benefit of the stockholders or creditors of the Company. The following description does not purport to be complete and is qualified in its entirety by reference to the full text of the statutes and regulations described below.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act" or "Dodd-Frank") significantly changed the regulatory framework for financial institutions and their holding companies. Among other provisions, the Dodd-Frank Act:

- created the CFPB, which is responsible for implementing, supervising, and enforcing compliance with consumer financial protection laws;
- increased the deposit insurance coverage limit and changed the assessment base for calculating a bank's deposit insurance assessments;
- repealed the prohibition on payment of interest on demand deposits;
- provided for new disclosures related to executive compensation and corporate governance and prohibited compensation arrangements that encourage inappropriate risks or that could provide excessive compensation;
- imposed new capital requirements on banking institutions (see "New Capital Rules" below);
- enhanced the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries; and
- imposed new requirements and restrictions on consumer mortgage banking.

The Dodd-Frank Act contains numerous provisions scheduled to be implemented through rulemakings by various federal regulatory agencies over a period of several years. Many, but not all, of the regulations have been issued and full implementation of the Dodd-Frank Act is still not complete. This law will continue to significantly influence the regulatory environment in which the Bank and the Company operate. As a result, the Company cannot predict the Dodd-Frank Act's ultimate impact on the Company or the Bank at this time. Certain rules proposed or adopted under the Dodd-Frank Act are discussed throughout this section.

Minimum Capital Requirements

In July 2013, the U.S. federal banking agencies approved a final rule to comprehensively revise the regulatory capital framework for the U.S. banking sector, implementing many aspects of the framework agreed to by the International Basel Committee on Bank Supervision and incorporating changes required by the Dodd-Frank Act (the "Basel III Rule"). The capital requirements apply to all banks and savings associations, bank holding companies with more than \$3 billion in assets and savings and loan holding companies (other than certain savings and loan holding companies engaged in insurance underwriting and grandfathered diversified holding companies). The Basel III Rule establishes new higher capital ratio requirements, tightens the definition of "capital," imposes new operating restrictions on banking organizations with insufficient capital buffers, and increases the risk-weighting of certain assets. Cumulatively, these changes result in substantially more demanding capital standards for U.S. banking organizations.

The Basel III Rule distinguishes between banking organizations subject to the “advanced approaches” method of computing risk-based regulatory capital, which are those with \$250 billion or more in total consolidated assets or \$10 billion or more in foreign exposures, and other banking organizations that successfully opt-in (“Advanced Banks”) and other banking organizations, such as the Company and the Bank, which operate under the “standardized approach” (“Standardized Banks”). The new rules became effective for the Company and the Bank on January 1, 2015, including certain requirements that were phased-in between January 2016 and January 2019.

The Basel III Rule, among other features:

- Introduces a new capital measure, Common Equity Tier 1 (“CET1” or “Tier 1 Common”), which is defined as common stock instruments, related surplus (net of Treasury stock), and retained earnings, subject to certain regulatory adjustments; and
- Requires banking institutions to maintain:
 - o a new minimum ratio of CET1 to risk-weighted assets of at least 4.5% (plus a capital conservation buffer);
 - o a minimum amount of Tier 1 capital (the sum of CET1 and Additional Tier 1 capital) to risk-weighted assets of at least 6%, which is an increase from 4% (plus a capital conservation buffer);
 - o a total capital (the sum of Tier 1 and Tier 2 capital) ratio of at least 8% of risk-weighted assets (plus a capital conservation buffer); and
 - o a minimum leverage ratio of Tier 1 capital of 4%.

In addition, the Basel III Rule requires that banking organizations maintain a “capital conservation buffer” comprised of CET1 in order to avoid restrictions on the ability to make capital distributions (including dividends and stock purchases) and pay discretionary bonuses to executive officers. The capital conservation buffer is equal to 2.5% of risk-weighted assets, in addition to the minimum CET1, Tier 1, and total capital ratios. The capital conservation buffer was phased-in beginning at 0.625% of risk-weighted assets on January 1, 2016, and increasing each subsequent year by an additional 0.625%, to reach the final level of 2.5% of risk-weighted assets on January 1, 2019. Accordingly, factoring in the capital conservation buffer, the minimum ratios noted above increase to 7% for CET1, 8.5% for Tier 1 capital, and 10.5% for total capital.

Furthermore, the Basel III Rule includes more restrictive definitions for the components of capital. For example, cumulative perpetual preferred stock and trust preferred securities have been phased-out of Tier 1 capital. However, for smaller entities with less than \$15 billion in assets as of December 31, 2009, such as the Bank, the final rule permanently grandfathered as Tier 1 capital trust preferred securities and similar instruments issued by such entities prior to May 19, 2010, until such entity exceeds \$15 billion in assets. The final Basel III Rule provides entities such as the Company and the Bank with a one time “opt-out” right to continue excluding accumulated other comprehensive income (“AOCI”) from CET1 capital. This opt-out was required to be made in the first quarter of 2015 and the Company and Bank made this election. Accordingly, the Bank and the Company need not include AOCI in CET1 capital going forward. The rule also requires that goodwill and certain other intangible assets, other than mortgage servicing assets, net of associated deferred tax liabilities, be deducted from CET1 capital. Additionally, certain deferred tax assets and mortgage servicing assets must be deducted from CET1 capital if such assets exceed a certain percentage of an institution’s CET1 capital. Generally, greater deductions from CET1 reduce an institution’s capital base.

Moreover, the Basel III Rule changes the risk-weightings for certain assets that are used to calculate capital ratios. All else being equal, a higher risk weight results in a higher risk-weighted asset amount which, in turn, gives rise to a lower risk-based capital ratio. The final rule assigns a higher risk-weighting of 150% (up from 100%) for exposures that are more than 90 days past due and assigns a higher risk-weighting of 150% (up from 100%) for high-volatility commercial real estate loans, which are credit facilities that, prior to conversion to permanent financing, finance or have financed the acquisition, development, or construction of real property, subject to certain exclusions. Although initially contemplated, there was no change to the risk-weighting treatment of residential mortgage loans in the final Basel III Rule.

Although the Basel III Rule is more stringent than previous capital rules, the Basel III Rule has had minimal impact on the Company and the Bank, to date. The Company and the Bank have a strong capital base and currently maintain adequate capital to meet the new standards.

A final rule issued on September 17, 2019 by federal banking regulators provides a simpler method of measuring adequate capital ratios for community banking organizations. The community bank leverage ratio (CBLR) framework is an optional framework that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. The framework provides a simple measure of capital adequacy for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9 percent are considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rule. These institutions also must have met well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The final rule went into effect on January 1, 2020.

Nonetheless, federal banking guidelines provide that financial institutions experiencing significant growth could be expected to maintain capital levels above the minimum requirements without significant reliance on intangible assets. Additionally, higher capital levels could be required under certain circumstances, such as situations involving interest rate risk, risk from concentrations of credit, or nontraditional activities. Accordingly, the Company and the Bank could be required to maintain higher capital levels in the future even if we otherwise fully comply with the CBLR rule.

Regulation of the Bank

General. The Bank, as a Missouri-chartered non-member depository trust company, is primarily regulated by the MDF and FDIC. The Bank is subject to extensive federal and state regulatory oversight in all areas of banking operations, including, but not limited to, lending activities, investments, loans, deposits, interest rates payable on deposits, establishment of branches, corporate restructuring, and capital adequacy. The Bank is also subject to certain reserve requirements promulgated by the FRB.

The MDF, in conjunction with the FDIC, regularly examines the Bank and reports to the Bank's Board of Directors on any deficiencies that are found in the Bank's operations. The Bank must also file reports with the MDF and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other banks or savings institutions. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies. Regulation by these agencies is designed to protect the Bank's depositors and not the Company's shareholders.

Insurance of Deposit Accounts and Assessments. The deposit accounts held by the Bank are insured by the DIF, as part of the FDIC. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to \$250,000 per insured depositor, retroactive to January 1, 2009. The Dodd-Frank Act also increased the minimum ratio of net worth to insured deposits of the DIF from 1.15% to 1.35%.

A bank's insurance assessment is determined quarterly by multiplying its assessment rate by its assessment base. Per FDIC rules, a bank's assessment base is the institution's average consolidated total assets minus its average tangible equity. The FDIC has adopted a risk-based system for assessment rates. For banks with less than \$10 billion in assets, such as the Bank, the risk classification is based on the Bank's capital levels and level of supervisory risk. Assessment rates are subject to adjustment and (1) decrease for issuance of long-term unsecured debt (including senior unsecured debt and subordinated debt); (2) increase for holdings of long-term unsecured or subordinated debt issued by other insured banks; and (3) for banks that are not well-rated or not well-capitalized, increase for significant holdings of brokered deposits.

The FDIC may terminate a bank's deposit insurance if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Regulatory Capital Requirements and Prompt Corrective Action. The FDIC is required to take prompt corrective action if an insured depository institution, such as the Bank, does not meet its minimum capital requirements. The FDIC has established five capital tiers: “well-capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized” and “critically undercapitalized”. A depository institution’s capital tier depends upon its capital levels in relation to various relevant capital measures, which, among others, include a Tier 1 and total risk-based capital measure and a leverage ratio capital measure. The Prompt Corrective Action rules were amended effective January 1, 2015 to incorporate changes under the Basel III Rule, including the CET1 requirements, and to raise capital requirements for certain categories. An insured financial institution is considered:

- “Well-capitalized” if it has a Tier 1 leverage ratio of 5% or greater, a CET1 to risk-based capital ratio of 6.5% or greater, a Tier 1 to risk-based capital ratio of 8% or greater, a total risk-based capital ratio of 10% or greater and is not subject to any written agreement, order, capital directive, or prompt corrective action directive;
- “Adequately capitalized” if it has it has a Tier 1 leverage ratio of 4% or greater, a CET1 to risk-based capital ratio of 4.5% or greater, a Tier 1 to risk-based capital ratio of 6% or greater, and a total risk-based capital ratio of 8% or greater;
- “Undercapitalized” if it has a Tier 1 leverage ratio of less than 4%, a CET1 to risk-based capital ratio of less than 4.5%, a Tier 1 to risk-based capital ratio of less than 6% and a total risk-based capital ratio of less than 8%;
- “Significantly undercapitalized” if it has a Tier 1 leverage ratio of less than 3%, a CET1 to risk-based capital ratio of less than 3%, a Tier 1 to risk-based capital ratio of less than 4%, and a total risk-based capital ratio of less than 6%; and
- “Critically undercapitalized” if it has a tangible equity capital to total assets ratio equal to or less than 2%.

The FDIC may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. It is also permitted to require an adequately capitalized or undercapitalized institution to comply with supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution. An institution may be reclassified if the FDIC determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

Federal banking agencies are required to take prompt corrective action to resolve capital deficiencies at insured depository institutions. Failure to meet the capital guidelines could subject a bank to a variety of enforcement actions, including the issuance of a capital directive, prohibition on paying dividends or management fees, prohibition on accepting brokered deposits, and restrictions on paying bonuses or increasing compensation for executive officers. For critically undercapitalized institutions, a receiver may be appointed.

The Bank met its minimum capital adequacy guidelines, and the Bank was categorized as “well-capitalized”, as of December 31, 2019. Applicable capital and ratio information is contained under the section titled “Regulatory Matters” in Note 1 to the “Notes of the Consolidated Financial Statements” in this report.

Safety and Soundness Standards. The federal bank regulators have adopted guidelines to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest-rate-risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits and other operational and managerial standards. The guidelines provide standards in each area and an institution must establish its own procedures to achieve such goals.

If an institution fails to meet a standard, a regulator may require the institution to submit an acceptable plan to achieve compliance with the standard. If an institution fails to submit an acceptable plan or fails to implement an accepted plan, an agency must, by order, require the institution to correct the deficiency. The agency may, and in some cases must, take other supervisory actions until the deficiency has been corrected.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, which is one of 11 regional FHLBs. The FHLB system’s primary purpose is to provide stable funding to member institutions that such institutions in turn use to make loans to families, farms and businesses. The FHLBs are overseen by the Federal Housing Finance Agency

("FHFA"). As a member, the Bank is required to purchase and maintain a minimum investment in the stock of the FHLB. As of December 31, 2019, the Bank was in compliance with this requirement.

Dividend Limitations. The amount of dividends that the Bank may pay is subject to various regulatory limitations. Under federal law, an FDIC-insured institution may not pay dividends if it is undercapitalized or if payment would cause it to be undercapitalized. If the FDIC believes that a bank is engaged in, or about to engage in, an unsafe or unsound practice, the FDIC may require, after notice and hearing, that the bank cease and desist from that practice. In addition, under Missouri law, the Bank may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired. Additionally, under Missouri statute, dividends paid by the Bank are restricted by a statutory formula, which provides for the maintenance of a surplus fund and prohibits the payment of dividends which would impair the surplus fund.

Anti-Money Laundering and Anti-Terrorism Regulation. The Bank Secrecy Act ("BSA") establishes the framework for anti-money laundering ("AML") obligations imposed on U.S. financial institutions. The purpose of the BSA is to prevent banks and other financial services providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, drug trafficking, money laundering, and other crimes. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") amended the BSA and imposes a number of obligations on banks, including the requirement to implement policies, procedures and controls reasonably designed to detect and report instances of money laundering and terrorism financing. The USA Patriot Act also requires financial institutions to develop written customer identification programs. In addition, the U.S. Department of Treasury's Office of Foreign Asset Controls ("OFAC") administers and enforces economic and trade sanctions based on U.S. foreign policy and national security against entities such as targeted foreign countries and terrorists.

Consumer Protection Laws. In connection with its banking activities, the Bank is subject to a number of federal and state laws designed to protect consumers in their transactions with banks. These laws include, but are not limited to, the Equal Credit Opportunity Act ("ECOA"), Fair Credit Reporting Act ("FCRA"), Fair and Accurate Credit Transaction Act of 2003 ("FACTA"), Gramm-Leach-Bliley Act ("GLBA"), Electronic Funds Transfer Act ("EFTA"), Home Mortgage Disclosure Act ("HMDA"), Real Estate Settlement Procedures Act ("RESPA"), and Truth in Lending Act ("TILA"), and their various state counterparts. In addition, the Dodd-Frank Act prohibits unfair, deceptive, or abusive acts or practices ("UDAAP"). Moreover, several federal laws, including GLBA, FCRA, and FACTA, regulate consumer financial privacy and restrict the sharing of consumer financial information. The Bank also must comply with various state statutes related to maintaining the security of consumer financial information and take steps to prevent and report data breaches if they arise.

Transactions with Affiliates and Insiders. Federal law imposes certain limitations on the ability of a bank to engage in "covered transactions" with affiliates. The Company is an affiliate of the Bank for purposes of these restrictions. The definition of "covered transactions," which was expanded under the Dodd-Frank Act, includes extensions of credit to affiliates, investments in stock or other securities of affiliates, and acceptance of the stock or other securities of an affiliate as collateral for loans. Additionally, federal law prohibits institutions from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same as, or at least as favorable to the Bank as, those prevailing at the time for comparable transactions with non-affiliated companies. Federal law also restricts the Bank's ability to extend credit to its executive officers, directors, principal shareholders, and their related interests, including that such credit extensions must be made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with unrelated third parties, and not involve more than the normal risk of repayment or present other unfavorable features.

Transaction Account Reserve Requirements. The FRB requires insured depository institutions to maintain reserves against specified deposit liabilities. Reservable liabilities consist of net transaction accounts, non-personal time deposits, and Eurocurrency liabilities. For 2019, the first \$16.3 million of otherwise reservable balances are exempt from the reserve requirements; the reserve requirement is 3% for net transaction accounts between \$16.3 million and \$124.2 million; and the reserve requirement is 10% for net transaction accounts in excess of \$124.2 million. These reserve requirements are subject to annual adjustment.

Commercial Real Estate Lending. The Bank may be subject to greater scrutiny from federal banking regulators based on its concentration of commercial real estate ("CRE") loans. Federal regulators have issued guidance to address concerns about CRE concentrations and to provide expectations for managing a concentrated portfolio. The guidance includes development and construction loans for which repayment is dependent upon the sale of the property, as well as properties for which repayment is dependent upon rental income.

Per the guidance, institutions that may have significant CRE concentration risk are those that have experienced rapid growth in CRE lending, have notable exposures to a specific type of CRE, or are approaching or exceed the following supervisory criteria: (i) total loans for construction, land development, and other land represent 100% or more of the institution's total capital; or (ii) total CRE loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's CRE loan portfolio has increased by 50% or more during the prior 36 months. If a bank's portfolio goes outside of these general guidelines, the bank must engage in heightened risk management practices.

Residential Real Estate Lending. The CFPB has issued rules implementing several Dodd-Frank requirements regarding residential mortgage lending. Lenders must assess a borrower's ability to repay the mortgage-related obligation and must consider certain underwriting factors. Lenders also receive certain protections from liability if they make "qualified mortgages." Additionally, new rules prohibit certain loan features, such as negative amortization, interest-only payment, balloon payments, and restrict points and fees paid by a borrower and prepayment penalties." CFPB also issued servicing standards applying to mortgage servicers generally but in particular with defaulted loans.

Volcker Rule. The Volcker Rule, issued by the federal banking and securities regulators pursuant to the Dodd-Frank Act, generally prohibits insured depository institutions and their affiliated companies from: (i) short-term proprietary trading in securities and other financial instruments; and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds, subject to certain exceptions.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977 ("CRA"), the Bank has a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs of its communities, including low- and moderate-income neighborhoods. As part of its examinations, the FDIC evaluates the Bank's record in meeting these obligations. CRA ratings are also taken into account by regulators in evaluating applications for mergers, acquisitions, or to open a new branch or facility. Based on its most recent CRA compliance examinations, the Bank has received a "Satisfactory" CRA rating.

Regulation of the Company

General. The Company is a registered bank holding company subject to regulation and supervision by the FRB under the Bank Holding Company Act of 1956 ("BHCA"). The Company is required to file periodic reports of its operations with the FRB. Additionally, the Company is legally obligated to act as a source of strength to the Bank and to commit resources to support the Bank.

Restrictions on Dividends and Stock Repurchases. The Company's source of funds (including cash flow to pay dividends to stockholders) is dividends paid to it by the Bank. The right of the Company to receive dividends or other distributions from the Bank is subject to the prior claims of creditors of the Bank, including depositors, and applicable regulatory restrictions, including prior approval in certain situations.

The amount of dividends that the Company may pay is subject to various regulatory limitations, including the requirement to maintain adequate capital. Financial institutions are generally prohibited from paying dividends if, following payment of dividends, the institution would be considered undercapitalized. Additionally, under the Basel III Rule, institutions seeking to pay dividends must maintain the required capital conservation buffer. Also, the FRB strongly encourages financial institutions to consult with the agency prior to paying dividends. The FRB has indicated that a board of directors should "eliminate, defer, or severely limit" dividends if:

- the bank holding company's net income available to shareholders for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividends;
- the bank holding company's rate of earnings retention is inconsistent with capital needs and overall macroeconomic outlook; or
- the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Banking regulators also have the authority to prohibit banks and bank holding companies from paying a dividend if such payment would be an unsafe or unsound practice.

Generally, a bank holding company must notify the FRB prior to the purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when aggregated with the net consideration paid for all such purchases during the preceding twelve months is equal to 10% or more of the bank holding company's consolidated net worth. Prior approval may not be required if the bank holding company, among other things, will meet or exceed "well capitalized" thresholds both before and after the repurchase, is considered "well managed," and is not subject to any unresolved supervisory issues. Additionally, bank holding companies are expected to consult with the FRB before redeeming or repurchasing stock if:

- the bank holding company is at "significant risk" of developing a financial weakness;
- the bank holding company is considering expansion (either acquisition or new activities); and
- if such redemption or repurchase will cause a net reduction in capital from the beginning of the quarter in which the redemption or repurchase occurs.

The FRB may disapprove of the purchase or redemption if it determines, among other things, that the proposal would constitute an unsafe or unsound business practice.

Support of Banking Subsidiaries. Under FRB policy, the Company is expected to act as a source of financial strength to the Bank and, where required, to commit resources to support the Bank. Financial support from the Company may be required even when the Company might not otherwise be inclined to provide it. Moreover, if the Bank should become undercapitalized, the Company would be required to guarantee the Bank's compliance with its capital restoration plan in order for such plan to be accepted by the FDIC.

Acquisitions, Activities, and Changes in Control. Under the BHCA, the Company must obtain the prior approval of the FRB before the Company may: (i) acquire substantially all the assets of a bank; (ii) acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank; or (iii) merge or consolidate with any other bank holding company. The BHCA also restricts the Company's ability to acquire direct or indirect ownership or control of 5% or more of any class of voting shares of any nonbanking corporation. The FRB is required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy. Consideration of convenience and needs includes the involved institutions' performance under the CRA. The FRB may not approve a transaction if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects are clearly outweighed by the public interest in meeting the needs and convenience of the community to be served.

Additionally, FRB approval is required prior to any person or company acquiring "control" of a bank holding company. "Control" is conclusively presumed to exist if a person or company acquires 25% or more of the outstanding voting shares of a bank holding company. There is a rebuttable presumption of control if a person or company acquires more than 10% but less than 25% of any class of voting securities.

Moreover, bank holding companies are generally prohibited from engaging in any business other than that of banking, managing, and controlling banks or furnishing services to banks and their subsidiaries, although bank holding companies are permitted to engage in activities that are determined to be "closely related to banking" and "a proper incident thereto."

Transactions with Affiliates. As discussed above, federal regulations restrict the extent to which the Company and its officers and directors may engage in certain "covered transactions" with the Bank, including borrowing or otherwise obtaining credit from or selling assets or securities to the Bank. Additionally, any transactions that are "covered transactions" with the Bank must be on nonpreferential terms.

Federal Securities Regulation and Corporate Governance. The Company's stock is registered with the SEC and, therefore, the Company is subject to SEC restrictions and requirements, including rules regarding information sharing, proxy solicitation, and insider trading.

The Sarbanes-Oxley Act of 2002 (“SOX”) addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Per SOX, the Company’s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that the quarterly and annual reports do not contain any untrue statement of a material fact. The SEC’s rules regarding CEO and CFO certifications require these officers to certify, among others, that: (i) they are responsible for establishing, maintaining and regularly evaluating the effectiveness of internal controls over financial reporting; (ii) they have made certain disclosures to auditors and the audit committee of the board of directors; and (iii) they have included information in quarterly and annual reports about their evaluation and whether there have been changes in internal controls over financial reporting or in other factors that could materially affect internal control over financial reporting.

The Dodd-Frank Act provides other investor protections, corporate governance, and executive compensation requirements that affect U.S. publicly traded companies. For example, the Dodd-Frank Act requires companies to give shareholders a non-binding vote approving executive compensation and “golden parachute” payments. Pursuant to the Dodd Frank Act, in July 2015, the SEC proposed a rule that companies whose securities are listed on national securities exchanges and associations (including the Company whose securities are listed on the NASDAQ Global Market) would be required to develop and enforce recovery policies that, in the event of an accounting restatement, would “claw back” from current and former executive officers incentive-based compensation they should not have received based on the restatement. Recovery would be required without regard to fault and without regard to whether any misconduct occurred in connection with or an executive officer’s responsibility for the erroneous misstatement. The proposed rules would also require disclosure of listed companies’ recovery policies, and their actions under those policies. The proposed rules are not yet final.

Tax Reform. In the fourth quarter of 2017 the Company re-measured its deferred tax assets and liabilities as a result of the enactment of the new tax law "H.R.1," originally known as the "Tax Cuts and Jobs Act" (the "Tax Reform Legislation"). The enactment occurred on December 22, 2017. The Tax Reform Legislation became effective January 1, 2018 and modifies the tax law in many ways. The centerpiece of the Tax Reform Legislation is the reduction of the federal corporate income tax rate from 35% to 21%. All deferred tax items as of December 22, 2017 needed to be re-valued using the new federal corporate income tax rate of 21%. As a result, income tax expense recorded in 2017 included a \$1.0 million reduction to deferred tax assets. The impact of the Tax Reform Legislation on the Company’s 2017 financial results is not necessarily indicative of the results to be achieved in any future periods.

Information about our Executive Officers

Set forth below is information concerning the executive officers of the Company. Each executive officer is annually elected to a one-year term by the Board of Directors of the Company.

Shaun A. Burke joined the Bank in March 2004 as President and Chief Executive Officer and was appointed President and Chief Executive Officer of the Company on February 28, 2005. He has over 35 years of banking experience. Mr. Burke received a Bachelor of Science Degree in Finance from Missouri State University and is a graduate of the Graduate School of Banking of Colorado. Mr. Burke served as Chairman of the Board of the Missouri Bankers Association in 2018/2019 and previously served as Chairman of the Legislative Affairs Committee and Chairman of the Audit Committee. In 2019 he was appointed to the Government Relations Council of the American Bankers Association and previously served on the Community Bankers Council from 2014 to 2017. In March 2016, he was appointed to the Federal Reserve Bank of St. Louis' Community Depository Institutions Advisory Council and served a three-year term ending in 2018. From 2012 to 2014, he was a Board Member of the Springfield Area Chamber of Commerce serving as Vice Chairman of Economic Development in 2014. From 2009 through 2014, he was a Board Member of the Springfield Business Development Corporation, the economic development subsidiary of the Springfield Area Chamber of Commerce serving as President in 2012. He is also a past Member of the United Way Allocations and Agency Relations Executive Committee, Salvation Army Board and Big Brothers Big Sisters Board.

Carter Peters is Executive Vice President and Chief Financial Officer of the Bank and the Company. Mr. Peters has over 27 years of experience in the financial services and public accounting industries. Prior to joining the Company in August 2005, Mr. Peters served as the Chief Financial Officer of Southern Missouri Bank for approximately two years and was employed by BKD, LLP, a certified public accounting and advisory firm, for eleven years. He is a Certified Public Accountant with a Bachelor of Science Degree in Accounting from Missouri State University. He is a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants. Mr. Peters has been recognized by the Springfield Business Journal as a "40 Under 40" honoree. He has served several not-for-profit organizations, including past Chairman of the Southwest Missouri Regional Board of the Make-A-Wish Foundation of Missouri, as well as the Missouri Bankers Association.

Sheri Biser is Executive Vice President and Chief Credit Officer of the Bank. She joined the Bank in February 2009. Ms. Biser has over 30 years of banking experience. Prior to joining the Bank, Ms. Biser served as Chief Credit Officer of Metropolitan National Bank for nearly eight years and worked in credit administration for fourteen years at another financial institution. She received a Bachelor of Science Degree in Accounting from Fort Hays State University.

Robin E. Robeson is Executive Vice President and Chief Operating Officer of the Bank. She joined the Bank in July 2012. Ms. Robeson has over 30 years of experience in the financial services industry and three years of executive management experience in the technology industry. She has a Bachelor of Art Degree in Communication from the University of Missouri and was awarded the Certified Trust & Financial Advisor (CTFA) professional designation from the Institute of Certified Bankers. She serves as a Board Member for CoxHealth and the Springfield Business and Development Corporation and is Chairman for the Springfield Area Chamber of Commerce. She previously served as board Vice Chairman for City Utilities of Springfield, as Past President of the Big Brothers/Big Sisters of the Ozarks and Rotary Club of Springfield boards and as a member of the Ozarks Transportation Organization board. She is a graduate of Leadership Springfield Class XIII, and has been recognized by the Springfield Business Journal as one of the "20 Most Influential Women in Business" and been named a "40 Under 40" honoree.

As of December 31, 2019, the age of these individuals was 56 for Mr. Burke, 50 for Mr. Peters, 56 for Ms. Biser and 53 for Ms. Robeson.

Item 1A. Risk Factors

Our business and operations are subject to, and may be adversely affected by, certain risks and uncertainties. An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included and incorporated by reference in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value.

We have acquired, and in the future may continue to acquire, other financial institutions or parts of those institutions in the future. We may also consider and enter into new lines of business or offer new products or services.

We may incur substantial costs to expand, and we can give no assurances such expansion will result in the levels of profits we seek. There can be no assurances that integration efforts for any mergers of acquisitions will be successful. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any mergers or acquisitions, our integration efforts will achieve profits comparable to, or better than, our historical experience.

Acquisitions and mergers involve a number of expenses and risks, including:

- the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;
- the accuracy of the estimates and judgements used to evaluate credit, operations, management and market risk with respect to the target institution;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and generation of sufficient assets and deposits to support the costs of expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- entry in to markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations;
- closing delays and increased expenses related to the resolution of lawsuits filed by shareholders of targets; and
- the risk of loss of key employees and customers.

Generally, the Company must receive federal regulatory approval before it can acquire a bank or bank holding company. We cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. The sale of branches as a condition of receiving regulatory approval may be required.

Future acquisitions could be material to the Company's financial statements. Additional shares of stock may be issued to pay for acquisitions, which would dilute current shareholders' ownership interests.

Our business is concentrated in and largely dependent upon the continued growth and welfare of the general geographical markets in which we operate.

Our operations are heavily concentrated in the Greene, Christian, Jasper and Newton Counties, which are in the southwestern corner of Missouri, including the cities of Springfield, Nixa, Ozark, Joplin, Carthage and Neosho, Missouri (our "Market Area"). Our success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us, affect the value of collateral underlying loans and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Our loan/lease portfolio possesses increased risk due to our relatively high concentration of real estate loans, which involve risks specific to real estate values.

Real estate lending comprises a significant portion of our lending business. Real estate loans were \$587.0 million, or approximately 80% of our total loan/lease portfolio, as of December 31, 2019. The market value of real estate securing our real estate loans can fluctuate significantly in a short period of time as a result of market conditions in our Market Area which is where most of the real estate on which our real estate loans are made is located. Adverse developments affecting real estate values in our Market Area could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of our control or that of our borrowers could negatively impact the future cash flow and market values of the affected properties impairing the ability of our borrowers to repay their loans which could materially and adversely affect the Bank's financial condition and results of operations depending on the severity of the economic downturn or the nature of the regulatory changes.

Deterioration in asset quality could have an adverse impact on our business.

A significant source of risk for us arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of diverse real and personal property that may be affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, environmental contamination (as discussed in more detail below) and other external events. In addition, decreases in real estate values due to the nature of the Bank's loan portfolio (discussed above) could affect the ability of customers to repay their loans. The Bank's loan policies and procedures may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operation or liquidity.

We are subject to environmental liability risk associated with real estate collateral securing our loans.

A significant portion of our loan portfolio is secured by real property. Under certain circumstances, we may take title to the real property collateral through foreclosure or other means. As the titleholder of the property, we may be responsible for environmental risks, such as hazardous materials, which attach to the property. For these reasons, prior to extending credit, we conduct an environmental review to identify any known environmental risks associated with the real property that will secure our loans. In addition, we routinely inspect properties prior to foreclosing. If environmental risks are found, environmental laws and regulations may prescribe our approach to remediation. As a result, while we have ownership of a property, we may incur substantial expense and bear potential liability for any damages caused. The environmental risks may also materially reduce the property's value or limit our ability to use or sell the property. We also cannot guarantee that our environmental review will detect all environmental issues relating to a property, which could subject us to additional liability.

Our loan portfolio possesses increased risk due to the percentage of commercial real estate loans and commercial business loans.

Our loan portfolio includes a significant amount of commercial real estate loans and commercial business loans. The credit risk related to these types of loans is considered to be greater than the risk related to owner-occupied residential real estate loans or consumer loans because commercial loans often have larger balances, and repayment usually depends on the borrowers' successful business operations. The underlying commercial real estate values, customer cash flow and payment expectations on such loans can be more easily influenced by adverse conditions in the related industries, the real estate market or in the economy in general. Any significant deterioration in the credit quality of the commercial loan portfolio or underlying collateral values would have a material adverse effect on our financial condition and results of operation.

Management's analysis of the necessary funding for the allowance for loan loss account may be incorrect or may suddenly change resulting in lower earnings.

The funding of the allowance for loan loss account is the most significant estimate made by management in its financial reporting to stockholders and regulators. The determination of the appropriate level of the allowance for loan losses involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which are subject to material changes.

Although management believes that the allowance for loan/lease losses as of December 31, 2019 was adequate to absorb losses on any existing loans/leases that may become uncollectible, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future, particularly if economic conditions are more difficult than management currently expects. If negative changes to the performance of our loan portfolio were to occur, management may find it necessary to or be required to fund the allowance for loan loss account through additional charges to our provision for loan loss expense. These changes may occur suddenly and be dramatic in nature. Additional provisions to the allowance for loan losses and loan losses in excess of said allowance may adversely affect our business, financial condition and results of operations.

A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The FASB has adopted a new accounting standard that is scheduled to be effective for us on January 1, 2023. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, regional and super-regional banking institutions, national banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, brokerage companies, and other non-bank businesses. Many of these competitors have substantially greater resources than we do and some are not subject to the same regulatory restrictions as we are. Many of our competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services.

As we try to meet our competitors' terms and pricing, increased competition in our markets may result in:

- interest rate changes to various types of accounts;
- a decrease in the amounts of our loans and deposits;
- reduced spreads between loan rates and deposit rates; or
- loan terms that are more favorable to the borrower and less favorable to the Bank.

Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted.

Our operations are concentrated in one subsidiary bank. An event or a series of events having a material adverse impact on the financial condition and results of operations of the Bank would have a material adverse impact on our financial condition and results of operation and, accordingly, on your investment in us.

As a holding company with only one subsidiary bank, our investment risk is concentrated in just one primary operating asset in a relatively small geographic location. A substantial portion of our cash flow comes from dividends paid directly to us by the Bank. If and to the extent the Bank is not successful or an event were to occur that prevents it or hinders it from operating effectively, our financial condition and results of operations could be materially and adversely impacted. Larger bank holding companies with more subsidiary banks or bank facilities and which are more geographically dispersed are not as susceptible to the concentrated risks we are if one of their subsidiary banks or facilities was not able to operate effectively.

A failure in or breach of our information security controls, or those of our third-party service providers, including as a result of cyber-attacks, could result in unintentional disclosure or misuse of confidential or proprietary information, adversely impact our financial condition and cause reputational harm.

Information pertaining to us and our customers is maintained, and transactions are executed, on networks and systems maintained by us and certain third-party vendors, such as our online banking, mobile banking and accounting systems. Our operations are heavily dependent on the secure maintenance and transmission of confidential information, as well as the execution of transactions over these networks and systems.

As a bank, we are susceptible to electronic fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our customers. In addition, our customers may use personal mobile or computing devices to access our products or services that are outside of our network environment and are subject to their own cybersecurity risks. If one or more of these events occurs, it may result in financial losses or increased costs to us or our customers, inadvertent and unintentional disclosure or misuse of our information or our customer information, misappropriation of assets, litigation or damage to our reputation. In addition, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities.

The risk of such incidents within the financial services industry has increased significantly in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunication technologies to conduct financial transactions, and the increased sophistication and activities of attackers, such as hackers. In recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity.

Fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our customers, denial or degradation of service attacks and malware or other cyber-attacks. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or our customers' confidential information, including our employees and our third-party vendors.

Although we have implemented security measures that are designed to prevent security breaches and endeavor to modify them as circumstances warrant, there is no assurance that all of our security measures will be effective, especially as cyber-attacks are becoming more sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. Failure to mitigate breaches of security could result in violations of applicable privacy laws, regulatory fines, litigation exposure, and increased security compliance costs, all of which could damage our reputation and result in the loss of customers and business. Any of these occurrences could have a material adverse impact on our results of operations.

We depend upon third-party vendors for a significant portion of our operations.

We rely on third-party service providers for a substantial portion of our operations, including communication, record retention, and financial control systems technology. While we endeavor to select reliable and competent vendors, we cannot control our vendors or their actions. The potential for operational risk exposure exists because of our interactions with, and reliance on, third parties in our daily and ongoing operations. Any problems caused by or suffered by a third-party vendor, including a vendor's failure to provide contracted services, poor performance by a vendor, disruption of a vendor's business operations, or otherwise, could materially and adversely affect our ability to serve our customers or to conduct our business efficiently and effectively. Replacing a vendor could entail significant delay and expense.

Our third-party vendors are also subject to the cybersecurity risks discussed above. A cyberattack, information or security breach, or a technology failure of a third-party vendor could have a material adverse effect on our business. Although we review the security practices of third-party vendors before contracting with them, we cannot control their systems or security. If our data or the data of our customers is improperly accessed, used, transmitted, or otherwise obtained because of, or due in part to, actions or inactions caused by our third-party vendors, we could face significant operational harm, legal and financial exposure, and reputational damage.”

We continually encounter technological change, and we cannot predict how changes in technology will affect our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Changes in consumer use of banks and changes in consumer spending and savings habit could adversely affect our financial results.

Technology and other changes now allow many customers to complete financial transactions without using banks. For example, consumers can pay bills and transfer funds directly without going through a bank. This process of eliminating banks as intermediaries could result in loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, changes in consumer spending and saving habits could adversely impact our operations, and we may be unable to timely develop competitive new products and services in response to these changes.

Rapidly changing interest rate environments could reduce our net interest margin and otherwise negatively impact our results of operations.

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are the key drivers of our net interest margin and are subject to many factors beyond the control of management. As interest rates change, our net interest income is affected. Rapid increases in interest rates in the future could result in our interest expense increasing faster than interest income because of mismatches in the maturities of our assets and liabilities. Furthermore, substantially higher rates generally reduce loan demand and may result in slower loan growth for us. Decreases or increases in interest rates could have a negative effect on the spreads between our interest rates earned on assets and our rates of interest paid on liabilities, and therefore decrease our net interest income, which would have a material adverse effect on our financial condition and results of operation.

Interest rate changes may affect borrowers' repayment schedules, negatively impacting our financial condition.

Interest rate increases often result in larger payment requirements for our borrowers, which increase the potential for default. At the same time, the marketability of underlying collateral may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on certain of our loans as borrowers refinance at lower rates. Fluctuation in interest rates may therefore change borrowers' timing of repayment of, or ability to repay loans, which could have a material adverse impact on our financial condition.

Changes in interest rates could negatively impact our nonperforming assets, decreasing net interest income.

Changes in interest rates also can affect the value of loans. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in our nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets resulting from changes in interest rates would have an adverse impact on net interest income, which could have a material adverse effect on our financial condition and results of operation.

The replacement of LIBOR could adversely affect our revenue or expenses and the value of those assets or obligations.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, interest rates on our floating rate obligations, derivatives, and other financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our floating rate obligations, derivatives, and other financial instruments tied to LIBOR rates.

As of December 31, 2019, the Company had derivative financial instruments, a note payable and a line of credit with another financial institution, certain investment securities and a segment of consumer loans indexed to LIBOR. Management continues to monitor developments with the transition to a new benchmark, however, due to uncertainties in benchmark alternatives and limited regulatory guidance, the impact of this change on our financial results is unknown at this time.

The financial condition of the Bank's customers and borrowers could adversely affect the Bank's liquidity, financial condition and its results of operations.

Two of the Bank's primary sources of funds are customer deposits and loan repayments. Customer deposit levels may also be affected by a number of factors, including the competitive interest rate environment in both the national market and our Market Area, local and national economic conditions, natural disasters such as earthquakes, landslides, wildfires, extreme weather conditions, hurricanes, floods, and other acts of nature, geopolitical events such as those involving civil unrest, changes in government regimes, terrorism or military conflict, and pandemics and other public health crises, and other catastrophic events.

Though scheduled loan repayments are a relatively stable source of liquidity, they are subject to the borrowers' ability to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors, including but not limited to those noted above, including concerns about the occurrence of such events.

The foregoing events or concerns about the occurrence of any such events, could impair our borrowers' ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, result in an increase in the amount of our non-performing loans and a higher level of non-performing assets (including real estate owned), net charge-offs, and provision for loan losses, lead to other operational difficulties and impair our ability to manage our business, which could materially and adversely affect our business, financial condition, results of operations and the value of

our common stock. We also could be adversely affected if our key personnel or a significant number of our employees were to become unavailable due to a public health crisis or an outbreak of a contagious disease (such as the current coronavirus of COVID-19 pandemic), natural disaster, war, act of terrorism, accident, or other reason. Natural disasters, geopolitical events, public health crises (again, such as the coronavirus) and other catastrophic events could also negatively affect our customers, counterparties and service providers, as well as result in disruptions in general economic activity and the financial and real estate markets.

There continue to be broad and continuing concerns related to the potential effects of the coronavirus or COVID-19 outbreak. If the coronavirus has an adverse effect on (i) customer deposits, (ii) the ability of our borrowers to satisfy their obligations to us, (iii) the demand for our loans or our other products and services, (iv) other aspects of our business operations, or (v) on financial markets or economic growth, this could, depending on the extent of the decline in customer deposits or loan defaults, materially and adversely affect our liquidity and financial condition and the results of operations could be materially and adversely affected.

Liquidity needs could adversely affect our results of operations and financial condition.

Adequate liquidity is critical in our ability to meet the needs of our customers. An inability to access funding through customer deposits, available borrowings, sales of loans or investments could have an adverse effect on our liquidity. Furthermore, regional and community banks, including the Bank, generally have less access to the capital markets, than do the national and super-regional banks because of their smaller size and limited analyst coverage. Any significant decline in available funding could adversely impact our ability in the future to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

A decrease in cash flows from our investment portfolio may adversely affect our liquidity.

Another primary source of liquidity for the Bank is cash flows from investment securities. Cash flows from the investment portfolio may be affected by changes in interest rates, resulting in excessive levels of cash flow during periods of declining interest rates and lower levels of cash flow during periods of rising interest rates. These changes may be beyond our control and could significantly influence our available cash.

If we are required to rely on secondary sources of liquidity, those sources may not be immediately available.

We may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include the FHLB advances, brokered deposits and federal funds lines of credit from correspondent banks. Our ability to borrow could be impaired by factors that are not specific to us, such as severe disruption of the financial markets or negative publicity about the financial services industry as a whole. We may also be required to pledge investments as collateral to borrow money from third parties. In certain cases, we may be required to sell investment instruments for sizable losses to meet liquidity needs, thereby reducing interest income and resultantly net income. While we believe that we are currently sufficiently liquid, there can be no assurance we will not in the future be required to turn to these secondary sources of liquidity which may not be available or only at costs that could materially and adversely affect our financial condition and results of operation.

Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues, net income and growth plans.

Our performance is largely dependent on the talents and efforts of highly skilled individuals and their ability to attract and retain customer relationships in a community bank environment. We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. Certain key management team members and loan officers are not subject to employment contracts with us. Such employees are at-will and thus are not restricted from terminating their employment. The lack of employment contracts with key employees could have a material adverse impact on our ability to retain such employees. The loss of key management or our key loan officers with their contacts in the business communities within our Market Area may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues.

If we do struggle with employee retention, our success may also be impacted if we are unable to recruit replacement management and key employees in a reasonable amount of time. There is intense competition in the financial services industry for qualified employees. In addition, loss of key personnel could result in increased recruiting, hiring, and training expenses, resulting in lower net income.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud.

Employee errors and employee and customer misconduct could subject us to financial losses, regulatory sanctions, lawsuits and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers, or improper use of confidential information. We maintain a system of internal controls and insurance coverage to mitigate against operational risks. However, if our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, such failures could have a material adverse effect on our business, financial condition and results of operations.

We are subject to extensive regulation that may significantly affect our operations or earnings.

We are subject to significant federal and state regulation and supervision, as discussed in more detail below, which is primarily for the benefit and protection of the Bank's customers and not for the benefit of investors. As a result, various statutory provisions restrict the amount of dividends our Bank subsidiary can pay to us without regulatory approval. Our regulatory compliance is costly. We are subject to examination, supervision, and comprehensive regulation by various agencies, including the FRB, the MDF and FDIC. These regulators have broad discretion in their supervisory and enforcement activities. We are also subject to capitalization guidelines established by our regulators, as discussed under "Business – Supervision and Regulation" in Item 1 of this report, which require that we and the Bank maintain adequate capital to support our growth and the Bank's growth. To the extent our activities and/or the Bank's activities are restricted or limited by regulation or regulators' supervisory authority, our future profitability may be adversely affected.

An uncertain regulatory environment could impact our business, financial performance, and results of operations.

Many aspects of the Dodd-Frank Act are subject to continued rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us. The U.S. Congress continues to propose new legislation that could increase or change regulation of the financial services industry and impact the operations of the Bank or Company.

On February 3, 2017, President Trump signed Executive Order 13772 announcing new "Core Principles" for regulating the U.S. financial system. Among other things, the President directed the Secretary of the Treasury, in consultation with federal regulatory agencies, to review existing laws and regulations and report on the extent to which they were consistent with the Core Principles. The Trump administration has also indicated in public statements that the Dodd-Frank Act will be under scrutiny and that some of its provisions and the rules promulgated thereunder may be revised, repealed or amended. It is not clear when, or if, changes to existing statutory or regulatory requirements may be implemented.

The implementation, amendment, or repeal of federal financial services laws or regulations may impact our profitability, limit our business opportunities, impose additional costs, or otherwise adversely affect our business. Any changes may also require us to invest management attention and resources to achieve compliance. In addition, any proposed legislative or regulatory changes that could benefit our business may not occur in the timeframe proposed, may appear different in final form than proposed, or may not occur at all.

Changes in federal or state regulation may increase our costs.

The laws, regulations, policies, and interpretations that govern our industry are constantly evolving and may change significantly over time. The Dodd-Frank Act reshaped regulation of banking institutions and the numerous requirements stemming from the Dodd-Frank Act have resulted in increased compliance costs for institutions both large and small, including us and the Bank. As these regulations continue to be implemented, interpreted, and enforced, our compliance must evolve as well. The CFPB has shown that it is a proactive agency and we anticipate that the CFPB will continue to expand its supervisory and enforcement authority into new areas and to issue new rules and guidance.

We cannot predict the nature or effect of current or proposed legislative or regulatory changes on us or the Bank with any certainty. Changes in laws or regulations could impact our business practices and profitability. We also cannot predict the cost of new compliance that may be required to keep pace with industry regulatory changes.

Decreases in capital and changes to the formulas for calculating adequate capital may negatively impact us or result in increased regulatory supervision.

Federal rules require banking institutions to maintain an adequate level of regulatory capital (net assets available to absorb losses). Due to the risks associated with the industry, banking institutions are generally required to hold more capital than other businesses. Revised minimum capital adequacy requirements under the Basel III Rule became effective for us and the Bank on January 1, 2015, with additional requirements, such as the capital conservation buffer (discussed below), to be phased in over the next few years. These requirements change the definition of capital, increase minimum required risk-based capital ratios, and increase the risk-weights for certain assets. Cumulatively, the Basel III Rule is more stringent than prior requirements and requires financial institutions to hold more and better capital against their assets, decreasing the size of their balance sheets. Although the impact on us has been minimal to date, we cannot guarantee that will continue.

Financial institutions must maintain a 2.5% capital conservation buffer comprised of CET1 Capital above the minimum risk-based capital requirements. The buffer must be maintained in order to avoid limitations on capital distributions and discretionary bonus payments to executive officers. If we or the Bank dip below the capital conservation buffer, we or the Bank could be subject to increasingly strict limitations on capital distributions and bonus payments.

Federal law provides regulators with broad powers to take "prompt corrective action" to resolve capital deficiencies at insured depository institutions that do not meet minimum capital requirements. There are five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." As an institution's capital levels deteriorates and it falls below the "well capitalized" threshold, such institution faces increasing penalties. Regulator's corrective powers include, but are not limited to:

- requiring a waiver to accept brokered deposits;
- requiring submission of a capital plan;
- limiting growth or restricting activities;
- requiring the issuance of additional capital stock;
- restricting transactions with affiliates;
- prohibiting executive bonuses or raises;
- prohibiting the payment of subordinated debt; and
- appointing a receiver.

A final rule issued on September 17, 2019 by federal banking regulators provides a simpler method of measuring adequate capital ratios for community banking organizations. The community bank leverage ratio (CBLR) framework is an optional framework that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. The framework provides a simple measure of capital adequacy for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9 percent are considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rule. These institutions also must have met well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The final rule went into effect on January 1, 2020. The Company is reviewing the benefits of adopting this framework, but a final decision has not been made. The decision to adopt this framework or remain under prior measures is not expected to have a material impact on financial results of the Company.

Accordingly, we and the Bank could be subject to regulatory penalties and restrictions if capital falls below certain minimum thresholds set by federal banking regulators.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, including economic conditions specifically in our Market Area, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The effects of the monetary policies and regulations of the Federal Reserve upon our business, financial condition and results of operations in the future cannot be predicted, but have had a significant effect on the operating results of commercial banks, including our Bank, in the past.

Changes in the federal or state tax laws may negatively impact our financial performance.

We are subject to tax law changes that could increase the effective tax rate payable to the state or federal government. These changes may be retroactive to previous periods and as a result, could negatively affect our current and future financial performance. On December 22, 2017, President Trump signed into law The Tax Cuts and Jobs Act (“Tax Act”), The Company’s customers are likely to experience varying effects from changes in both the individual and business tax provisions in the Tax Act. Such changes include (i) a lower limit on the deductibility of mortgage interest on single family residential mortgage loans, (ii) limitations on interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Anti-takeover provisions could negatively impact our stockholders.

Provisions in our governing documents, the General Corporation Law of the State of Delaware (the “DGCL”) and federal regulations could delay or prevent a third party from acquiring us, despite the possible benefit to our stockholders. These provisions include, but are not limited to:

- a prohibition on voting shares of common stock beneficially owned in excess of 10% of total shares outstanding without prior Board approval;
- supermajority voting requirements for certain business combinations with any person who beneficially owns 10% or more of our outstanding common stock;
- the election of directors to staggered terms of three years;
- advance notice requirements for director nominations and for proposing matters that stockholders may act on at stockholder meetings;
- a requirement that only directors may fill a vacancy in our Board of Directors; and
- supermajority voting requirements to remove any of our directors.

In addition, because we are a bank holding company, purchasers of 10% or more of our common stock may be required to obtain approvals under the Change in Bank Control Act of 1978, as amended, or the Bank Holding Company Act of 1956, as amended (the “BHCA”), and in certain cases such approvals may be required at a lesser percentage of ownership.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

There are restrictions on our ability to pay dividends on and repurchase our common stock.

Holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Our ability to pay dividends is limited by Delaware law, as well as regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of the Bank to pay dividends to us is limited by its obligation to maintain sufficient capital and liquidity and by other general restrictions on dividends that are applicable to the Bank. If current or any future regulatory requirements are not met, the Bank will not be able to pay dividends to us, and we may be unable to pay dividends on our common stock.

The DGCL provides that dividends by a Delaware corporation may be paid only from: (1) “surplus” determined in the manner described in the DGCL, or (2) in case there is no “surplus,” net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends paid from the second source may not be paid unless the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets at current market value is intact.

Moreover, as a bank holding company, our ability to declare and pay dividends is subject to the guidelines of the Federal Reserve regarding capital adequacy and dividends. The Federal Reserve guidelines generally require us to review the effects of the cash payment of dividends on common stock and other Tier 1 capital instruments (i.e., perpetual preferred stock and trust preferred debt) in light of our earnings, capital adequacy and financial condition. As a general matter, the Federal Reserve indicates that the Board of Directors of a bank holding company should eliminate, defer or significantly reduce the dividends if:

- the company’s net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- the prospective rate of earnings retention is inconsistent with the company’s capital needs and overall current and prospective financial condition; or
- the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

In the future, if we default on certain of our outstanding debts, we will be prohibited from making dividend payments on our common stock until such payments have been brought current.

Failure to pay interest on our debt may adversely impact our ability to pay common stock dividends.

As of December 31, 2019, we had \$15.5 million of junior subordinated debentures held by two Trusts. Interest payments on the Company’s existing debentures, which totaled \$970,000 for 2019, must be paid before the Company can pay dividends on its capital stock, including its common stock. The Company has the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if it elects to defer interest payments, all deferred interest must be paid before the Company can pay dividends on its capital stock.

Although the Company expects to be able to pay all required interest on the junior subordinated debentures, there is no guarantee that it will be able to do so.

There is a limited trading market for our common stock, and you may not be able to resell your shares at or above the price you paid for them.

Although our common stock is listed for trading on the NASDAQ Global Market, it has a low average daily trading volume relative to many other stocks whose shares are also quoted on the NASDAQ Global Market. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that the volume of trading in our common stock will increase in the future.

Additionally, general market forces may have a negative effect on our stock price, independent of factors affecting our stock specifically. Factors beyond our control, including price and trading fluctuation, can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our common stock and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance. These broad market fluctuations may adversely affect the market value of our common stock.

Specifically, the following factors may cause the market price of our shares to fluctuate:

- announcements of developments related to our business model;
- economic conditions in our market area;
- fluctuations in our results from operations;
- a shortfall or excess in revenues or earnings compared to analyst' expectations;
- changes in analysts' recommendations or projections; and
- announcements of new acquisitions or projects.

The soundness of other financial institutions could negatively affect our business.

Our ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions, including the Bank, are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of the difficulties or failures of other banks, which would increase the capital we need to support our growth. There can be no assurance that we could raise the necessary capital to support our growth on terms satisfactory to us or at all.

We face legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

We could in the future become subject to lawsuits or regulatory proceedings challenging the legality of our lending or business practices. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, we are exposed to a high level of potential litigation related to our businesses and operations. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

Our reputation could be damaged by negative publicity.

Reputational risk, or the risk to us from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, unethical behavior of our employees, and from actions taken by regulators, ratings agencies and others as a result of that conduct. Damage to our reputation could impact our ability to attract new or maintain existing loan and deposit customers, employees and business relationships.

The preparation of our consolidated financial statements requires us to make estimates and judgments, which are subject to an inherent degree of uncertainty and which may differ from actual results.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles and general reporting practices within the U.S. financial services industry, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Some accounting policies, such as those pertaining to our allowance for loan losses, require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ from these estimates and judgments under different assumptions or conditions. If actual results vary significantly, there may be a material adverse effect on our financial condition or results of operations in subsequent periods.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company's corporate offices and operations center are located in Springfield, Missouri. At December 31, 2019, the Company had 16 banking centers in Southwest Missouri. Of the 16 banking centers, the Company owns eight of its locations and eight are leased for various terms ranging from one to 20 years. In addition to the banking center locations, the Company has a loan production office located in Webster County, Missouri that is leased with annual renewals. All buildings and facilities which are owned by the Company are free of encumbrances and mortgages. Management considers all properties to be in good condition and suitable for intended use. Recorded amounts of premises and equipment are included in Note 7 of the "Notes to Consolidated Financial Statements" in this Report.

Item 3. Legal Proceedings

(a) Material Legal Proceedings

The Company and the Bank, from time to time, may be parties to ordinary routine litigation, which arises in the normal course of business, such as claims to enforce liens, and condemnation proceedings, on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Company and the Bank. While the ultimate outcome of such legal proceedings cannot be predicted with certainty, after reviewing pending and threatened litigation with legal counsel, management believes at this time that the outcome of any such litigation will not have a material adverse effect on the Company's business, financial condition or results of operations.

(b) Proceedings Terminated During the Last Quarter of the Fiscal Year Covered by This Report

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The common stock of Guaranty Federal Bancshares, Inc. (the "Company") is listed for trading on the NASDAQ Global Market under the symbol "GFED".

Shareholders

As of March 1, 2020, there were approximately 1,400 record holders of shares of the Company's common stock. These numbers do not include beneficial owners whose shares are held by brokerage firms or banks.

Dividends and Common Stock Prices

The table below sets forth the cash dividends per share on the Company's common stock for the years ended December 31, 2019 and 2018.

	Year ended			Year ended		
	December 31, 2019			December 31, 2018		
	Declared	Paid	Dividend Per Share	Declared	Paid	Dividend Per Share
Quarter ended:						
March 31	3/29/2019	4/19/2019	\$ 0.13	3/30/2018	4/19/2018	\$ 0.12
June 30	6/28/2019	7/18/2019	\$ 0.13	6/29/2018	7/19/2018	\$ 0.12
September 30	9/27/2019	10/18/2019	\$ 0.13	9/28/2018	10/19/2018	\$ 0.12
December 31	12/20/2019	1/16/2020	\$ 0.15	12/21/2018	1/14/2019	\$ 0.13

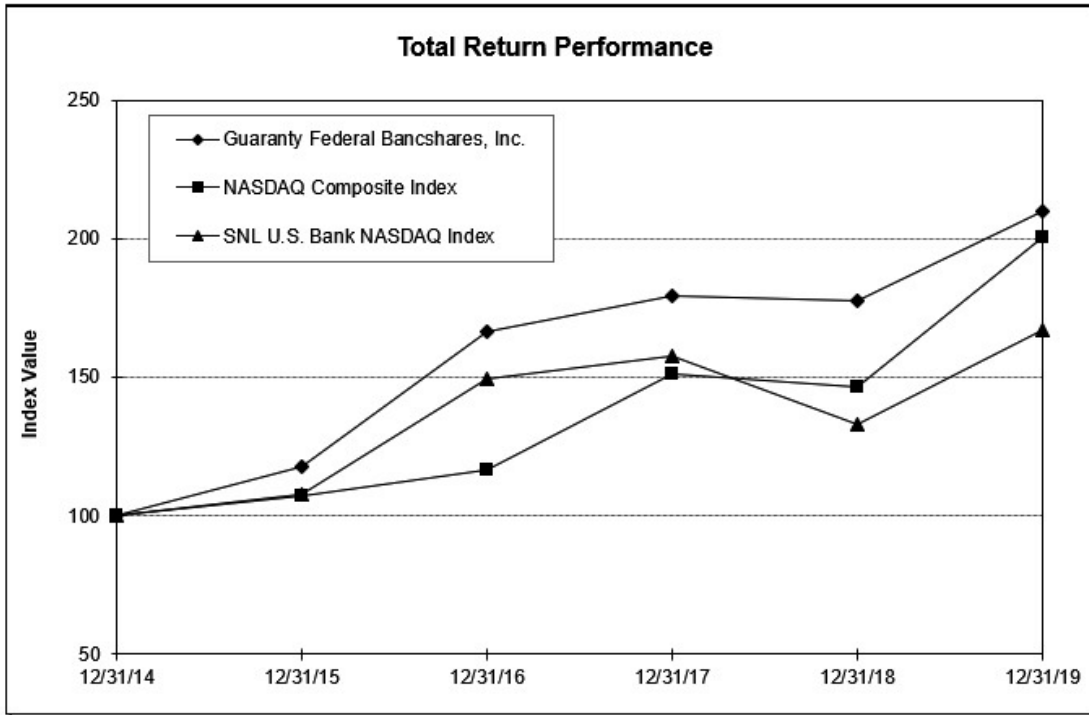
Any future dividends will be at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's results of operations, cash requirements and surplus, financial condition, regulatory limitations and other factors that the Company's Board of Directors may consider relevant.

The table below reflects the range of common stock high and low sale prices per the NASDAQ Global Market by quarter for the years ended December 31, 2019 and 2018.

	Year ended		Year ended	
	December 31, 2019		December 31, 2018	
	High	Low	High	Low
Quarter ended:				
March 31	\$ 24.00	\$ 20.98	\$ 23.50	\$ 22.10
June 30	23.94	22.37	24.45	22.13
September 30	24.75	23.19	25.69	23.26
December 31	26.93	23.90	25.51	20.11

Financial Performance

Set forth below is a stock performance graph comparing the cumulative total shareholder return on the Common Stock with (a) the cumulative total stockholder return on stocks included in the NASDAQ – Composite Index and (b) the cumulative total stockholder return on stocks included in the SNL U.S. Bank NASDAQ Index. All investment comparisons assume the investment of \$100 as of the close of business on December 31, 2014 and the hypothetical value of that investment as of the Company’s fiscal years ended December 31, 2015, 2016, 2017, 2018 and 2019, assuming that all dividends were reinvested. The graph reflects the historical performance of the Common Stock, and, as a result, may not be indicative of possible future performance of the Common Stock. The data used to compile this graph was obtained from NASDAQ.



<i>Index</i>	<i>Period Ending</i>					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Guaranty Federal Bancshares, Inc.	100.00	117.60	166.61	179.22	177.88	209.96
NASDAQ Composite Index	100.00	106.96	116.45	150.96	146.67	200.49
SNL U.S. Bank NASDAQ Index	100.00	107.95	149.68	157.58	132.82	166.75

Securities Authorized for Issuance under Equity Compensation Plans

With respect to the equity compensation plan information required by this item, see “Item 12. Security Ownership of Certain Owners and Management and Related Stockholder Matters” in this report.

Issuer Purchases of Equity Securities

The following table summarizes the repurchase activity of the Company’s Common Stock during the fiscal year ended December 31, 2019.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2019 - January 31, 2019	-	-	-	152,548
February 1, 2019 - February 28, 2019	-	-	-	152,548
March 1, 2019 - March 31, 2019	-	-	-	152,548
April 1, 2019 - April 30, 2019	-	-	-	152,548
May 1, 2019 - May 31, 2019	-	-	-	152,548
June 1, 2019 - June 30, 2019	13,608	22.99	13,608	138,940
July 1, 2019 - July 31, 2019	28,878	23.62	28,878	110,062
August 1, 2019 - August 31, 2019	36,733	23.82	36,733	73,329
September 1, 2019 - September 30, 2019	24,657	24.12	24,657	48,672
October 1, 2019 - October 31, 2019	10,817	24.31	10,817	37,855
November 1, 2019 - November 30, 2019	15,876	24.31	15,876	21,979
December 1, 2019 - December 31, 2019	19,672	24.97	19,672	2,307

- (1) The Company has a repurchase plan which was announced on August 20, 2007. This plan authorizes the purchase by the Company of up to 350,000 shares of the Company’s common stock. There is no expiration date for this plan. As of December 31, 2019, no other repurchase plans are in effect.

Item 6. Selected Financial Data

The following tables include certain information concerning the financial position and results of operations of the Company (including consolidated data from operations of the Bank) as of the dates indicated. Dollar amounts are expressed in thousands except per share.

Summary Balance Sheets

	As of December 31,				
	2019	2018	2017	2016	2015
ASSETS					
Cash and cash equivalents	\$ 92,672	\$ 34,122	\$ 37,407	\$ 9,088	\$ 18,774
Investments and interest-bearing deposits	118,495	86,528	81,495	92,427	97,336
Loans receivable, net	723,519	779,815	631,527	540,457	492,905
Accrued interest receivable	3,512	3,391	2,450	1,947	1,987
Prepays and other assets	25,034	15,446	10,950	11,234	10,121
Intangibles	3,939	4,416	-	-	-
Foreclosed assets	992	1,127	283	2,682	2,392
Premises and equipment, net	19,164	20,095	10,607	10,871	10,540
Bank owned life insurance	24,698	20,198	19,741	19,273	18,780
	<u>\$ 1,012,025</u>	<u>\$ 965,138</u>	<u>\$ 794,460</u>	<u>\$ 687,979</u>	<u>\$ 652,835</u>
LIABILITIES					
Deposits	\$ 821,407	\$ 749,619	\$ 607,364	\$ 505,363	\$ 517,386
Federal Home Loan Bank and Federal Reserve					
Bank advances	65,000	105,300	94,300	95,700	52,100
Subordinated debentures	15,465	21,761	15,465	15,465	15,465
Notes payable	11,200	5,000	-	-	-
Other liabilities	14,321	2,979	2,439	1,477	1,462
	<u>927,393</u>	<u>884,659</u>	<u>719,568</u>	<u>618,005</u>	<u>586,413</u>
STOCKHOLDERS' EQUITY	84,632	80,479	74,892	69,974	66,422
	<u>\$ 1,012,025</u>	<u>\$ 965,138</u>	<u>\$ 794,460</u>	<u>\$ 687,979</u>	<u>\$ 652,835</u>

Supplemental Data

	As of December 31,				
	2019	2018	2017	2016	2015
Number of full-service offices	16	16	11	9	9
Cash dividends per common share	\$ 0.54	\$ 0.49	\$ 0.42	\$ 0.34	\$ 0.23

Summary Statements of Income

	Years ended December 31,				
	2019	2018	2017	2016	2015
Interest income	\$ 45,226	\$ 43,246	\$ 29,441	\$ 25,389	\$ 25,190
Interest expense	13,535	9,928	6,087	4,177	4,280
Net interest income	31,691	33,318	23,354	21,212	20,910
Provision for loan losses	200	1,225	1,750	1,375	600
Net interest income after provision for loan losses	31,491	32,093	21,604	19,837	20,310
Noninterest income	7,105	6,552	5,727	4,870	4,478
Noninterest expense	27,498	29,458	19,603	17,100	16,610
Income before income taxes	11,098	9,187	7,728	7,607	8,178
Provision for income taxes	1,683	1,855	2,570	2,013	2,461
Net income	<u>\$ 9,415</u>	<u>\$ 7,332</u>	<u>\$ 5,158</u>	<u>\$ 5,594</u>	<u>\$ 5,717</u>
Basic income per common share	<u>\$ 2.14</u>	<u>\$ 1.66</u>	<u>\$ 1.18</u>	<u>\$ 1.28</u>	<u>\$ 1.32</u>
Diluted income per common share	<u>\$ 2.11</u>	<u>\$ 1.64</u>	<u>\$ 1.16</u>	<u>\$ 1.27</u>	<u>\$ 1.30</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Guaranty Federal Bancshares, Inc. (the "Company") is a Delaware corporation organized on December 30, 1997 that operates as a one-bank holding company. Guaranty Bank (the "Bank") is a wholly-owned subsidiary of the Company.

The primary activity of the Company is to oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. For this reason, unless otherwise specified, references to the Company include the operations of the Bank. The Company's principal business consists of attracting deposits from the general public and using such deposits to originate multi-family, construction, agriculture, Small Business Administration ("SBA"), commercial real estate loans, mortgage loans secured by one- to four-family residences, and consumer and business loans. The Company also uses these funds to purchase government sponsored mortgage-backed securities, US government and agency obligations, and other permissible securities. When cash outflows exceed inflows, the Company uses borrowings and brokered deposits as additional financing sources.

The Company derives revenues principally from interest earned on loans and investments and, to a lesser extent, from fees charged for services. General economic conditions and policies of the financial institution regulatory agencies, including the Missouri Division of Finance ("MDF") and the Federal Deposit Insurance Corporation ("FDIC"), significantly influence the Company's operations. Interest rates on competing investments and general market interest rates influence the Company's cost of funds. Lending activities are affected by the interest rates at which such financing may be offered. The Company intends to focus on commercial, one- to four-family residential and consumer lending throughout southwestern Missouri.

The Company acquired Carthage, Missouri-based Hometown Bancshares, Inc. ("Hometown") including its wholly owned bank subsidiary, Hometown Bank, National Association and Hometown Bancshares Statutory Trust I, a Delaware statutory trust (which has since been dissolved) on April 2, 2018. Hometown's subsidiary bank, Hometown Bank, National Association, was merged into Guaranty Bank on June 8, 2018. Including the effects of acquisition method accounting adjustments, the Company acquired approximately \$178.8 million in assets, including approximately \$143.9 million in loans (inclusive of loan discounts) and approximately \$161.2 million in deposits. Goodwill of \$1.4 million was also recorded as a result of this transaction. The acquisition strengthened the Company's position in Southwest Missouri and has allowed the Company to achieve cost savings by integrating the two companies and combining accounting, data processing and other administrative functions all of which gave rise to the goodwill recorded. The goodwill is not deductible for tax purposes.

The Company has two active wholly-owned subsidiaries other than the Bank, its principal subsidiary: (i) Guaranty Statutory Trust I, a Delaware statutory trust and (ii) Guaranty Statutory Trust II, a Delaware statutory trust. The Guaranty Trusts were formed in December 2005. The exclusive purpose of each Trust was issuing trust preferred securities to acquire junior subordinated debentures issued by the Company. The Company's banking operation conducted through the Bank is the Company's only reportable segment. See also the discussion contained in the section captioned "Segment Information" in Note 1 of the Notes to Consolidated Financial Statements in this report. A third subsidiary is a service corporation which has been inactive since February 1, 2003.

FORWARD-LOOKING STATEMENTS

The Company may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify such forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the real estate values and the local economies in which the Company conducts operations; future mergers or acquisitions; the impact of recent and potential future changes in the laws, rules, regulations, interpretations and policies relating to financial institutions, accounting, tax, monetary and fiscal matters and their application by our regulators; the effects of, and changes in, trade, monetary and fiscal policies and laws, changes in interest rates; changes in LIBOR; the impact of the possible elimination of LIBOR and resultant transition to a new benchmark; the timely development of and acceptance of new products and services of the company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); asset quality deterioration; environmental liability associated with real estate collateral; technological changes and cybersecurity risks; acquisitions; employee retention; the success of the Company at managing the risks resulting from these factors; and other factors set forth in reports and other documents filed by the Company with the SEC from time to time. For further information about these and other risks, uncertainties and factors, please review the disclosure included in Item 1A. "Risk Factors" of this report.

The Company cautions that the listed factors are not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

FINANCIAL CONDITION

From December 31, 2018 to December 31, 2019, the Company's total assets increased \$46,886,755 (5%) to \$1,012,024,625, liabilities increased \$42,733,465 (5%) to \$927,392,743, and stockholders' equity increased \$4,153,290 (5%) to \$84,631,882. The ratio of stockholders' equity to total assets was 8.4% and 8.3% at December 31, 2019 and 2018, respectively.

From December 31, 2018 to December 31, 2019, available-for-sale securities increased \$31,979,117 (37%). The Company increased investment purchases during the year to better utilize excess cash as interest rates fluctuations provided favorable buying opportunities throughout 2019. During 2019, the Company purchased \$75,518,385 of investments while having sales, calls and principal payments received of \$45,419,951. The Company had net unrealized gains of \$1,092,554 at December 31, 2019 compared to unrealized losses of \$1,836,406 at December 31, 2018.

From December 31, 2018 to December 31, 2019, net loans receivable decreased by \$57,566,204 (7%) to \$720,732,402. During the year, commercial loans decreased \$22,301,936 (7%), permanent 1-4 family loans decreased \$13,587,079 (10%), construction loans decreased \$11,245,444 (13%), commercial real estate loans decreased \$22,301,936 (7%) and consumer and other loans decreased \$2,424,832 (7%). Increased competition in our markets, expected loan paydowns on acquired loans and several large unexpected paydowns on other relationships occurred in 2019 leading to a decline in overall loan balances. The Company continues to focus its lending efforts in the commercial, one-to-four family residential, consumer lending and small business lending categories.

As of December 31, 2019, management identified loans totaling \$11,968,000 as impaired with a related allowance for loan losses of \$1,096,000. Impaired loans decreased by \$8,584,000 during 2019, compared to the balance of \$20,552,000 at December 31, 2018. The reduction is primarily due to two relationships with impaired loans paying off during the year.

From December 31, 2018 to December 31, 2019, the allowance for loan losses decreased \$387,982 (5%) to \$7,607,587. In addition to the provision for loan losses of \$200,000 recorded by the Company during the year ended December 31, 2019, loan charge-offs of specific loans (previously classified as nonperforming) exceeded recoveries by \$587,849 for the year ended December 31, 2019. The decrease in the allowance is primarily due to decreased loan balances during 2019 and reserves on a few specific problem credits. The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of December 31, 2019 and December 31, 2018 was 1.04% and 1.02%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of December 31, 2019 and December 31, 2018 was 76.1% and 61.1%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loan losses in the Bank's existing loan portfolio.

In accordance with generally accepted accounting principles for acquisition accounting, the loans acquired through the Hometown acquisition were recorded at fair value; therefore, there was no allowance associated with these loans. Management continues to evaluate the allowance need on the acquired loans factoring in the net remaining discount of \$960,451 at December 31, 2019.

Goodwill remained at \$1,434,982 and core deposit intangible decreased \$477,000 (16%) to \$2,503,910 as of December 31, 2019 due to expected amortization. These amounts are due to the Hometown acquisition and are further discussed in Note 6 to the Notes to the Consolidated Financial Statements.

Operating lease right-of-use assets (ROU) of \$9,052,941 were recorded during 2019 compared to no amounts recorded as of December 31, 2018. These amounts were recognized due to the Company's implementation of new lease accounting standards for operating leases further described in Note 8 of the Notes to the Consolidated Financial Statements. The recorded assets and liabilities will be amortized over the life of the lease term.

Bank-owned life insurance (BOLI) increased \$4,500,364 (22%) from \$20,198,074 as of December 31, 2018 to \$24,698,438 as of December 31, 2019 primarily due to \$4,000,000 in new or additional policies purchased on certain key members of management during the third quarter of 2019.

From December 31, 2018 to December 31, 2019, deposits increased \$71,787,710 (10%) to \$821,406,532. Checking and savings transaction balances increased by \$97,336,664 and certificates of deposit decreased \$25,548,954. The increase in transaction balances is primarily due to the addition of new public fund customers and increased balances from commercial depositors during 2019. Overall, brokered deposits decreased \$10,484,000 during 2019. The Company utilizes brokered certificates of deposit as a tool to manage cost of funds and to efficiently match changes in liquidity needs based on loan growth.

Federal Home Loan Bank advances decreased \$40,300,000 (38%) from \$105,300,000 as of December 31, 2018 to \$65,000,000 as of December 31, 2019. Excess funds obtained from deposit growth initiatives were utilized during the year to decrease borrowings.

Subordinated debentures decreased \$6,295,829 (29%) from \$21,760,829 to \$15,465,000 as of December 31, 2019. The decrease is due to the full redemption of the Hometown Trust I Debentures acquired as part of the Hometown acquisition in 2018.

Note payable to bank increased \$6,200,000 (124%) when compared to December 31, 2018 due to the Company increasing its existing note with another financial institution. The additional funds were used to fully redeem the Hometown Trust I Debentures discussed above. The note carries a variable interest rate tied to 30-day LIBOR (plus 250 basis points) and matures on June 30, 2024.

From December 31, 2018 to December 31, 2019, stockholders' equity (including unrealized depreciation on available-for-sale securities, net of tax) increased \$4,153,290 (5%) to \$84,631,882. Net income for the year ended December 31, 2019 exceeded dividends paid or declared by \$7,031,063. The equity portion of the Company's unrealized losses on available-for-sale securities and effects of interest rate swaps decreased by \$21,721 during 2019. On a per common share basis, stockholders' equity increased from \$18.18 as of December 31, 2018 to \$19.62 as of December 31, 2019.

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

The following table shows the balances as of December 31, 2019 of various categories of interest-earning assets and interest-bearing liabilities and the corresponding yields and costs, and, for the periods indicated: (1) the average balances of various categories of interest-earning assets and interest-bearing liabilities, (2) the total interest earned or paid thereon, and (3) the resulting weighted average yields and costs. In addition, the table shows the Company's rate spreads and net yields. Average balances are based on daily balances. Tax-free income is not material; accordingly, interest income and related average yields have not been calculated on a tax equivalent basis. Average loan balances include non-accrual loans. Dollar amounts are expressed in thousands.

	As of December 31, 2019		Year Ended December 31, 2019			Year Ended December 31, 2018			Year Ended December 31, 2017		
	Balance	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS											
Interest-earning:											
Loans.....	\$ 731,127	5.65%	\$ 762,159	\$ 41,234	5.41%	\$ 779,881	\$ 40,886	5.24%	\$ 608,439	\$ 27,454	4.51%
Investment securities.....	118,245	2.80%	99,299	2,792	2.81%	91,200	1,993	2.19%	87,389	1,792	2.05%
Other assets.....	91,566	1.60%	54,976	1,201	2.18%	14,423	367	2.54%	15,328	195	1.27%
Total interest-earning.....	940,938	4.90%	916,434	45,227	4.94%	885,504	43,246	4.88%	711,156	29,441	4.14%
Noninterest-earning.....	71,087		67,743			61,942			39,800		
	<u>\$ 1,012,025</u>		<u>\$ 984,177</u>			<u>\$ 947,446</u>			<u>\$ 750,956</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY											
Interest-bearing:											
Savings											
accounts.....	\$ 39,204	0.27%	\$ 40,325	\$ 120	0.30%	\$ 41,487	\$ 103	0.25%	\$ 29,685	\$ 58	0.20%
Transaction accounts.....	474,046	1.21%	440,790	6,144	1.39%	405,957	4,409	1.09%	340,899	2,395	0.70%
Certificates of deposit.....	206,983	2.22%	229,392	4,727	2.06%	209,668	2,511	1.20%	126,625	1,299	1.03%
FHLB											
advances.....	65,000	2.09%	53,067	1,203	2.27%	81,839	1,766	2.16%	96,774	1,704	1.76%
Subordinated debentures.....	15,465	5.03%	19,211	970	5.05%	21,580	1,018	4.72%	15,465	631	4.08%
Other borrowed funds.....	11,200	4.04%	7,933	371	4.68%	4,497	121	2.69%	-	-	0.00%
Total interest-bearing.....	811,898	1.60%	790,718	13,535	1.71%	765,028	9,928	1.30%	609,448	6,087	1.00%
Noninterest-bearing.....	115,495		109,866			104,023			67,720		
Total liabilities..	927,393		900,584			869,051			677,168		
Stockholders' equity.....											
	84,632		83,593			78,395			73,788		
	<u>\$ 1,012,025</u>		<u>\$ 984,177</u>			<u>\$ 947,446</u>			<u>\$ 750,956</u>		
Net earning balance.....											
	<u>\$ 129,040</u>		<u>\$ 125,716</u>			<u>\$ 120,476</u>			<u>\$ 101,708</u>		
Earning yield less costing rate.....											
		<u>3.29%</u>			<u>3.22%</u>			<u>3.58%</u>			<u>3.14%</u>
Net interest income, and net yield spread on interest-earning assets.....											
				<u>\$ 31,692</u>	<u>3.46%</u>		<u>\$ 33,318</u>	<u>3.76%</u>		<u>\$ 23,354</u>	<u>3.29%</u>
Ratio of interest-earning assets to interest-bearing liabilities.....											
	<u>116%</u>		<u>116%</u>			<u>116%</u>			<u>117%</u>		

The following table sets forth information regarding changes in interest income and interest expense for the periods indicated resulting from changes in average balances and average rates shown in the previous table. For each category of interest-earning assets and interest-bearing liabilities information is provided with respect to changes attributable to: (i) changes in balance (change in balance multiplied by the old rate), (ii) changes in interest rates (change in rate multiplied by the old balance); and (iii) the combined effect of changes in balance and interest rates (change in balance multiplied by change in rate). Dollar amounts are expressed in thousands.

	Year ended				Year ended			
	December 31, 2019 versus December 31, 2018				December 31, 2018 versus December 31, 2017			
	Average Balance	Interest Rate	Rate & Balance	Total	Average Balance	Interest Rate	Rate & Balance	Total
Interest income:								
Loans	\$ (929)	\$ 1,307	\$ (30)	\$ 348	\$ 7,736	\$ 4,444	\$ 1,252	\$ 13,432
Investment securities	177	571	51	799	78	118	5	201
Other assets	1,032	(52)	(146)	834	(12)	195	(11)	172
Net change in interest income	280	1,826	(125)	1,981	7,802	4,757	1,246	13,805
Interest expense:								
Savings accounts	(3)	21	(1)	17	23	16	6	45
Transaction accounts	378	1,250	107	1,735	457	1,307	250	2,014
Certificates of deposit	236	1,810	170	2,216	852	217	143	1,212
FHLB advances	(621)	89	(31)	(563)	(263)	384	(59)	62
Subordinated debentures	(112)	72	(8)	(48)	250	98	39	387
Other borrowed funds	93	89	68	250	-	-	121	121
Net change in interest expense	(29)	3,331	305	3,607	1,319	2,022	500	3,841
Change in net interest income	\$ 309	\$ (1,505)	\$ (430)	\$ (1,626)	\$ 6,483	\$ 2,735	\$ 746	\$ 9,964

RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

Interest Rates

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2019	5.28%	2.05%	2.14%
December 31, 2018	4.91%	2.91%	2.33%
Change in rates	0.37%	-0.86%	-0.19%

The Bank charges borrowers and pays depositors interest rates that are largely a function of the general level of interest rates. The above table sets forth the weekly average interest rates for the 52 weeks ending December 31, 2019 and December 31, 2018 as reported by the Federal Reserve. The Bank typically indexes its adjustable rate commercial loans to prime and its adjustable rate mortgage loans to the one-year Treasury Rate. The ten-year Treasury Rate is a proxy for 30-year fixed rate home mortgage loans.

Rates trended downward during late 2019 as the Federal Reserve Open Market Committee ("FOMC") decreased the discount rate by 25 basis points in July, September and October 2019. As of December 31, 2019, the prime rate was 4.75% which is a 75 basis point decrease from December 31, 2018.

Interest Income. Total interest income increased \$1,980,799 (5%). The increase is primarily driven by having a full year of earning assets as a result of the Hometown acquisition and increased balances in cash and investment securities. The average balance of interest-earning assets increased \$30,930,000 (3%), while the yield on average interest earning assets increased 6 basis points to 4.94%.

Interest income on loans increased \$347,267 (1%). The increase is primarily due to higher loan offering rates and a full year of interest income from loans acquired from Hometown in 2018. Offsetting these increases were decreased amounts of loan accretion income of \$2,175,000 (59%) due to acquired loans continuing to amortize and fewer loan payoff on the acquired loans occurring in 2019 compared to 2018. The average loan receivable balance decreased \$17,722,000 (2%) while the average yield increased 17 basis points to 5.41%. The Company experienced several unanticipated large loan payoffs and paydowns during 2019 along with decreased loan originations. Pricing on loans continues to be challenging due to significant competition on new and renewing credits.

Interest Expense. Total interest expense increased \$3,607,395 (36%). The increase is primarily driven by a full year of interest-bearing deposits as a result of the Hometown acquisition compared to a partial year in 2018 as well as higher rates being paid on term-driven products. The average balance of interest-bearing liabilities increased \$25,690,000 (3%), while the average cost of interest-bearing liabilities increased 41 basis points to 1.71%.

Interest expense on deposits increased \$3,968,167 (57%) during 2019 as the average balance of interest-bearing deposits increased \$53,395,000 (8%), while the average interest rate paid to depositors increased 48 basis points to 1.55%. The increase in asset growth opportunities among institutions in our market (primarily during the first half of 2019) have created significant competitive pressures on deposit rates. To fund its asset growth going forward, the Company intends to continue to utilize a cost-effective mix of retail and commercial core deposits along with non-core, wholesale funding (including brokered deposits).

Interest expense on FHLB advances decreased \$563,570 (32%) during 2019 as the average balance of advances decreased \$28,772,000 (35%), while the average interest rate paid on the advances increased 11 basis points to 2.27%. Excess funds generated from deposit growth initiatives were used during 2019 to decrease borrowings with the FHLB.

Net Interest Income. The Company's net interest income decreased \$1,626,596 (5%) primarily due to the decrease in overall average balances of loans, reduced loan accretion amounts included in income and increases in interest-bearing liabilities. Refer to the tables in the "Average Balances, Interest and Average Yields" section (pages 51 and 52) for additional information on components of net interest income.

Provision for Loan Losses. Provisions for loan losses are charged or credited to earnings to bring the total allowance for loan losses to a level considered adequate by the Company to provide for potential loan losses in the existing loan portfolio. When making its assessment, the Company considers prior loss experience, volume and type of lending, local banking trends and impaired and past due loans in the Company's loan portfolio. In addition, the Company considers general economic conditions and other factors related to collectability of the Company's loan portfolio.

Based on its internal analysis and methodology, management recorded a provision for loan losses of \$200,000 and \$1,225,000 for the years ended December 31, 2019 and 2018, respectively. The Company's decrease in the provision for loan losses was primarily due to the decreased loan balances and maintaining general portfolio reserves at a level deemed appropriate in accordance with its methodology. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management may need to increase the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. See further discussions of the allowance for loan losses under "Financial Condition" above.

Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Non-Interest Income. Non-interest income increased \$552,953 (8%) due to a few significant factors.

The Company had continued growth in SBA lending that led to increased gains on the sale of SBA loans by \$199,308 (24%). Gains on mortgage loans sold increased \$191,787 (9%), a reduction in losses on foreclosed assets by \$125,498 (35%) and increased realized gains from the sale of investment securities of \$97,655 (1,207%) were all positive impacts on non-interest income when compared to 2018.

The increases in income above were offset by reduced service charge income of \$298,088 (15%) compared to 2018.

Non-Interest Expense. Non-interest expense decreased \$1,960,199 (7%) due to a few significant factors noted below.

Merger expenses related to the Hometown acquisition decreased \$3,637,986 (99%) during 2019. The one-time costs incurred in 2018 related to legal, accounting and investment advisory fees, as well as the cost incurred for the termination of software contracts.

Salaries and employee benefits increased \$1,189,104 (8%) which was primarily due to having a full year of costs associated with Hometown employees which continued our expansion in the Joplin, Missouri market along with increases in other key areas of commercial banking, operations and technology.

The Company's occupancy expense increased \$511,234 (13%) primarily due to the Company's continued enhancements in facilities (including signage) and significant investments in new technologies. A full year of occupancy expense on facilities acquired during the Hometown acquisition in the Joplin, Missouri market also played a factor in the increased expense.

Income Taxes. The provision for income taxes decreased \$171,655 (9%) over 2018 which is primarily due to the impact of lower effective tax rates and the use of tax credits earned as part of low-income housing programs.

Cash Dividends Paid. The Company paid dividends of \$0.13 per share on April 19, 2019 to stockholders of record as of April 9, 2019, \$0.13 per share on July 18, 2019, to stockholders of record as of July 8, 2019, and \$0.13 per share on October 18, 2019, to stockholders of record as of October 8, 2019. The Company also declared a cash dividend of \$0.15 per share on December 20, 2019, which was paid on January 16, 2020, to stockholders of record on January 6, 2020. During 2019, 2018 and 2017, the Company paid \$2,313,661, \$2,132,221 and \$1,767,486 in dividends on common stock.

RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017

Interest Rates

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2018	4.91%	2.91%	2.33%
December 31, 2017	4.10%	2.33%	1.20%
Change in rates	0.81%	0.58%	1.13%

The Bank charges borrowers and pays depositors interest rates that are largely a function of the general level of interest rates. The above table sets forth the weekly average interest rates for the 52 weeks ending December 31, 2018 and December 31, 2017 as reported by the Federal Reserve. The Bank typically indexes its adjustable rate commercial loans to prime and its adjustable rate mortgage loans to the one-year Treasury Rate. The ten-year Treasury Rate is a proxy for 30-year fixed rate home mortgage loans.

Rates trended upward during 2018 as the Federal Reserve Open Market Committee (“FOMC”) increased the discount rate by 25 basis points in March, June, September and December 2018. As of December 31, 2018, the prime rate was 5.50% which is a 100 basis point increase from December 31, 2017.

Interest Income. Total interest income increased \$13,804,971 (47%). The increase was primarily driven by the addition of earning assets as a result of the Hometown acquisition. The average balance of interest-earning assets increased \$174,348,000 (25%), while the yield on average interest earning assets increased 74 basis points to 4.88%.

Interest income on loans increased \$13,432,168 (49%). The increase was primarily due to higher loan balances, loan offering rates and \$3,664,491 in loan accretion recognized on loans acquired from Hometown compared to none in 2017. During the year ended December 31, 2018, the Company had \$4,895,000 of unexpected full payoffs of certain purchased credit impaired loans and recognized \$1,780,000 of yield accretion due to these payoffs. The average loan receivable balance increased \$171,442,000 (28%) while the average yield increased 73 basis points to 5.24%. The Company experienced strong loan activity during 2018. However, pricing on loans was challenging due to significant competition on new and renewing credits.

Interest Expense. Total interest expense increased \$3,841,065 (63%). The increase was primarily driven by addition of interest-bearing deposits as a result of the Hometown acquisition. The average balance of interest-bearing liabilities increased \$155,580,000 (26%), while the average cost of interest-bearing liabilities increased 30 basis points to 1.30%.

Interest expense on deposits increased \$3,271,721 (87%) during 2018 as the average balance of interest bearing deposits increased \$159,903,000 (32%), while the average interest rate paid to depositors increased 32 basis points to 1.07%. The increase in asset growth opportunities among institutions in our market have created significant competitive pressures on deposit rates.

Net Interest Income. The Company’s net interest income increased \$9,963,906 (43%) primarily due to the increase in overall average balances of interest-earning assets and interest-bearing liabilities. Refer to the tables in the “Average Balances, Interest and Average Yields” section (pages 51 and 52) for additional information on components of net interest income.

Provision for Loan Losses. Provisions for loan losses are charged or credited to earnings to bring the total allowance for loan losses to a level considered adequate by the Company to provide for potential loan losses in the existing loan portfolio. When making its assessment, the Company considers prior loss experience, volume and type of lending, local banking trends and impaired and past due loans in the Company's loan portfolio. In addition, the Company considers general economic conditions and other factors related to collectability of the Company's loan portfolio.

Based on its internal analysis and methodology, management recorded a provision for loan losses of \$1,225,000 and \$1,750,000 for the years ended December 31, 2018 and 2017, respectively. The Company's increase in the provision was primarily due to the increased loan balances and maintaining general portfolio reserves at a level deemed appropriate in accordance with its methodology. See further discussions of the allowance for loan losses under "Financial Condition" above.

Non-Interest Income. Non-interest income increased \$824,620 (14%) due to a few significant factors.

The Company recognized an increase in service charge income of \$814,950 (69%) and debit card interchange income of \$285,753 (35%) primarily due to the Hometown acquisition. Also, the Company continued its emphasis on SBA lending that increased gains on the sale of SBA loans by \$84,002 (11%).

The increase in income above was offset by increased losses on foreclosed assets of \$542,896 (298%) compared to 2017. The Company recognized write-downs of foreclosed assets held for sale, including two properties acquired through the acquisition of Hometown. The re-measurements and write-downs were due to a lack of sales activity, further review of surrounding property values and reductions in the property's listing price (in most cases).

Non-Interest Expense. Non-interest expense increased \$9,855,247 (50%) due to a few significant factors.

One-time merger expense related to the Hometown acquisition totaled \$3,520,727. The costs related to legal, accounting and investment advisory fees, as well as the cost incurred for termination of a specific vendor core processing contract of approximately \$2 million.

Salaries and employee benefits increased \$2,878,168 (24%) which was primarily due to the addition of Hometown employees and our continued expansion in the Joplin, Missouri market and increases in other key areas of commercial banking, operations and technology.

The Company's occupancy expense increased \$1,866,791 (85%) primarily due to the Company's continued enhancements in facilities (including signage) and significant investments in new technologies. A full year of occupancy expense on our new headquarter facility and the ongoing expansion in the Joplin, Missouri market has also played a significant factor in the increase in expense.

Amortization expense of the core deposit intangible from the Hometown acquisition was \$408,571 for 2018. There was no amortization during 2017.

Professional service expenses increased \$282,581 (52%), primarily due to the Company meeting thresholds to be considered an accelerated filer with the U.S. Securities and Exchange Commission, which comes with increased auditor attestation requirements on the Company's internal controls.

The increases above were partially offset by the elimination of impairment charges on solar credit investments incurred during 2017, which totaled \$440,571.

Income Taxes. The provision for income taxes decreased \$715,936 (28%) over 2017 which is primarily due to the impact of the Tax Cuts and Jobs Act (the “Act”) signed into law on December 22, 2017. As a result of the Act, in 2017, the Company was required to revalue its deferred tax assets and deferred tax liabilities to account for the future impact of lower corporate tax rates which resulted in a one-time charge to income tax expense of approximately \$1.0 million. In 2018, the Company’s federal tax rate was reduced from 34% to 21% as a result of the Act.

Cash Dividends Paid. The Company paid dividends of \$0.12 per share on April 19, 2018 to stockholders of record as of April 9, 2018, \$0.12 per share on July 19, 2018, to stockholders of record as of July 9, 2018, and \$.12 per share on October 19, 2018, to stockholders of record as of October 9, 2018. The Company also declared a cash dividend of \$0.13 per share on December 21, 2018, which was paid on January 14, 2019, to stockholders of record on January 4, 2019. During 2018, 2017 and 2016, the Company paid \$2,132,221, \$1,767,486 and \$1,415,180 in dividends on common stock.

LIQUIDITY

Liquidity refers to the ability to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company’s primary sources of liquidity include cash and cash equivalents, available-for-sale securities, customer deposits and FHLB borrowings. The Company also has established a borrowing line with the Federal Reserve Bank which is considered a secondary source of funds.

The Company’s most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, and certificates of deposit with other financial institutions that have an original maturity of three months or less. The levels of such assets are dependent on the Bank’s operating, financing, and investment activities at any given time. The Company’s cash and cash equivalents totaled \$92,671,909 as of December 31, 2019 and \$34,121,642 as of December 31, 2018, representing an increase of \$58,550,267. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors. The Bank has \$96,878,058 in certificates of deposit that are scheduled to mature in one year or less. Management anticipates that the majority of these certificates will renew in the normal course of operations. Based on existing collateral as well as the FHLB’s limitation of advances to 35% of assets, the Bank has the ability to borrow an additional \$133,314,000 from the FHLB, as of December 31, 2019. Based on existing collateral, the Bank has the ability to borrow \$57,300,000 from the Federal Reserve Bank as of December 31, 2019. The Bank plans to maintain its FHLB and Federal Reserve Bank borrowings at a level that will provide a borrowing capacity sufficient to provide for contingencies. Management has many policies and controls in place to attempt to manage the appropriate level of liquidity.

CAPITAL REQUIREMENTS

The Company meets the eligibility criteria of a small bank holding company in accordance with the Federal Reserve's Small Bank Holding Company Policy Statement issued in February 2015, and is no longer obligated to report consolidated regulatory capital. The Bank continues to be subject to various capital requirements administered by banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and discretionary actions by regulators that could have a direct material effect on the Company's financial statements. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

In July 2013, the Federal Reserve issued a final rule that revised its risk-based and leverage capital requirements for banking organizations to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act (“Basel III Rule”). The Basel III Rule implemented a revised definition of regulatory capital, a new common equity tier 1 (“CET1”) minimum capital requirement, and a higher minimum tier 1 capital requirement. The final rules also made changes to the prompt corrective action framework for depository institutions by incorporating the new minimum capital ratios into the framework, introducing the CET1 capital measure, and aligning the definition of tangible equity for purposes of the critically undercapitalized prompt corrective action category with the definition of tier 1 capital. Under the Basel III Rule, the following three components comprise a banking organization’s “regulatory capital”: (i) “CET1 capital,” which is predominantly comprised of retained earnings and common stock instruments that meet certain criteria and related surplus (net of any treasury stock), AOCI (for organizations that do not make opt-out elections), and CET1 minority interest, which are subject to certain restrictions; (ii) “Additional Tier 1 Capital,” which consists of non-cumulative perpetual preferred stock and similar instruments meeting specified eligibility criteria and related surplus, Tier 1 minority interests not included in CET1 capital, and “TARP” preferred stock and other instruments issued under the Emergency Economic Stabilization Act of 2008; and (iii) “Tier 2 Capital,” which includes instruments such as subordinated debt that has a minimum original maturity of at least five years and is subordinated to the claims of depositors and general creditors, total capital minority interest not included in Tier 1 capital and limited amounts of a banking organization’s allowance for loan and lease losses (ALLL), less applicable regulatory adjustments and deductions.

Effective January 1, 2015, the final rule requires the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). When fully phased in on January 1, 2019, the Basel III Rule will require the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0% upon full implementation); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

Beginning January 1, 2016, the capital conservation buffer requirement was phased in at 0.625% of risk-weighted assets, increasing by the same amount each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The Bank is classified as “well capitalized” under current regulatory guidelines. See also additional information provided under the caption “Regulatory Matters” in Note 1 of the Notes to Consolidated Financial Statements. The final CBLR rule went into effect on January 1, 2020. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio greater than 9 percent are considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rule. The Company is reviewing the benefits of adopting this framework, but a final decision has not been made. The decision to adopt this framework or remain under prior measures is not expected to have a material impact on financial results of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

Various commitments and contingent liabilities arise in the normal course of business, which are not required to be recorded on the balance sheet. The most significant of these are loan commitments, lines of credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. As of December 31, 2019 and 2018, the Bank had outstanding commitments to originate loans of approximately \$6,690,000 and \$5,600,000, respectively. Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. As of December 31, 2019 and 2018, unused lines of credit to borrowers aggregated approximately \$108,257,000 and \$104,570,000, respectively, for commercial lines and \$24,373,000 and \$22,254,000, respectively, for open-end consumer lines. Since a portion of the loan commitment and line of credit may expire without being drawn upon, the total unused commitments and lines do not necessarily represent future cash requirements.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Bank had total outstanding standby letters of credit amounting to \$5,446,000 and \$12,218,000 as of December 31, 2019 and 2018, respectively. The commitments extend over varying periods of time.

In connection with the Company's issuance and acquisition of the Trust Preferred Securities and pursuant to two remaining guarantee agreements by and between the Company and Wilmington Trust Company, the Company issued a limited, irrevocable guarantee of the obligations of each Trust under the Trust Preferred Securities whereby the Company has guaranteed any and all payment obligations of the Trusts related to the Trust Preferred Securities including distributions on, and the liquidation or redemption price of, the Trust Preferred Securities to the extent each Trust does not have funds available.

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's fixed and determinable contractual obligations by payment date as of December 31, 2019. Dollar amounts are expressed in thousands.

Contractual Obligations	Payments Due By Period				
	Total	One Year or less	One to Three Years	Three to Five Years	More than Five Years
Deposits without stated maturity	\$ 614,424	\$ 614,424	\$ -	\$ -	\$ -
Time and brokered certificates of deposit	206,983	96,878	107,758	2,298	49
Other borrowings.....	11,200	-	11,200	-	-
FHLB and Federal Reserve advances.....	65,000	65,000	-	-	-
Subordinated debentures	15,465	-	-	-	15,465
Leases	14,396	1,194	2,290	1,933	8,980
Purchase obligations.....	-	-	-	-	-
Other long term obligations.....	699	699	-	-	-
Total	<u>\$ 928,167</u>	<u>\$ 778,195</u>	<u>\$ 121,248</u>	<u>\$ 4,231</u>	<u>\$ 24,494</u>

IMPACT OF INFLATION AND CHANGING PRICES

The Company prepared the consolidated financial statements and related data presented herein in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most companies, the assets and liabilities of a financial institution are primarily monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation. In the current interest rate environment, liquidity and the maturity structure of the Bank's assets and liabilities are critical to the maintenance of acceptable performance levels.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. On an on-going basis, management evaluates its estimates and judgments.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates. If actual results are different than management's judgments and estimates, the Company's financial results could change, and such change could be material to the Company.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of loans acquired with the possibility of impairment and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Goodwill and intangible assets that have indefinite useful lives are subject to periodic impairment testing. This testing is to be performed annually, or more frequently if events occur that lead to the possibility that the valuation of such assets could be considered unrecoverable.

The Company has identified the accounting policies for the allowance for loan losses, goodwill and intangible assets, related significant estimates and judgments as critical to its business operations and the understanding of its results of operations. For a detailed discussion on the application of these significant estimates and judgments and our accounting policies, also see Note 1 of the "Notes to Consolidated Financial Statements" in this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

ASSET / LIABILITY MANAGEMENT

The responsibility of managing and executing the Bank's Asset Liability Policy falls to the Bank's Asset/Liability Committee (ALCO). ALCO seeks to manage interest rate risk through changing interest rate environments. Management attempts to position the Bank's instrument repricing characteristics in line with probable rate movements in order to minimize the impact of changing interest rates on the Bank's net interest income. Since the relative spread between financial assets and liabilities is constantly changing, the Bank's current net interest income may not be an indication of future net interest income.

The Bank continues to focus its lending efforts in the commercial, one-to-four family residential, consumer lending and small business lending categories while originating fixed-rate, one- to four-family residential loans primarily for immediate resale in the secondary market. Management continually monitors the loan portfolio for the purpose of product diversification and over concentration.

The Bank constantly monitors its deposits in an effort to prohibit them from adversely impacting the Bank's interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank's asset/liability management objectives and spread requirements. As of December 31, 2019 and 2018, the Bank's savings accounts, checking accounts, and money market deposit accounts totaled \$614,424,026 or 75% of its total deposits and \$517,087,362 or 69% of total deposits, respectively. The weighted average rate paid on these accounts decreased 14 basis points from 0.89% on December 31, 2018 to 0.75% on December 31, 2019 primarily due to declines in Treasury rates during the year impacting our variable rate deposit accounts.

INTEREST RATE SENSITIVITY ANALYSIS

The following tables set forth as of December 31, 2019 and 2018, management's estimates of the projected changes in Economic Value of Equity ("EVE") in the event of instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.

12/31/2019

BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	% Change
+200	\$ 130,184	\$ 16,682	15%	13.22%	1.90%
+100	123,436	9,934	9%	12.41%	1.09%
NC.....	113,502	-	0%	11.31%	0.00%
-100	96,640	(16,862)	-15%	9.57%	-1.74%
-200	90,053	(23,449)	-21%	8.88%	-2.43%

12/31/2018

BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+200	\$ 139,407	\$ 12,371	10%	14.79%	1.58%
+100	134,870	7,834	6%	14.16%	0.94%
NC.....	127,036	-	0%	13.22%	0.00%
-100	119,637	(7,399)	-6%	12.36%	-0.86%
-200	104,990	(22,046)	-17%	10.48%	-2.42%

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. All EVE and earnings projections are based on a point in time static balance sheet.

Management cannot predict future interest rates or their effect on the Bank's EVE in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of EVE. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as floating-rate loans, which represent the Bank's primary loan product, have an initial fixed rate period typically from one to five years and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's loan portfolio could decrease in future periods due to refinancing activity if market interest rates remain constant or decrease in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors is responsible for reviewing the Bank's asset and liability policies. The Bank's management is responsible for administering the policies and determinations of the Board of Directors with respect to the Bank's asset and liability goals and strategies. Management expects that the Bank's asset and liability policies and strategies will continue as described above so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

Item 8. Financial Statements and Supplementary Data

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 and 2018

	<u>December 31,</u> 2019	<u>December 31,</u> 2018
ASSETS		
Cash and due from banks	\$ 5,114,067	\$ 5,818,955
Interest-bearing demand deposits in other financial institutions	87,557,842	28,302,687
Cash and cash equivalents	92,671,909	34,121,642
Interest-bearing time deposits at other financial institutions	250,000	250,000
Available-for-sale securities	118,245,314	86,266,197
Stock in Federal Home Loan Bank, at cost	3,757,500	5,387,200
Mortgage loans held for sale	2,786,564	1,516,849
Loans receivable, net of allowance for loan losses of December 31, 2019 and 2018 - \$7,607,587 and \$7,995,569, respectively	720,732,402	778,298,606
Accrued interest receivable	3,511,875	3,390,944
Prepaid expenses and other assets	8,862,954	6,261,159
Goodwill	1,434,982	1,434,982
Core deposit intangible	2,503,910	2,980,910
Foreclosed assets held for sale	991,885	1,126,963
Premises and equipment, net	19,164,496	20,095,161
Operating lease right-of-use asset	9,052,941	-
Bank owned life insurance	24,698,438	20,198,074
Deferred and receivable income taxes	3,359,455	3,809,183
	<u>\$ 1,012,024,625</u>	<u>\$ 965,137,870</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$ 821,406,532	\$ 749,618,822
Federal Home Loan Bank advances	65,000,000	105,300,000
Subordinated debentures	15,465,000	21,760,829
Note payable to bank	11,200,000	5,000,000
Advances from borrowers for taxes and insurance	268,200	289,808
Accrued expenses and other liabilities	4,153,762	1,868,008
Operating lease liabilities	9,105,503	-
Accrued interest payable	793,746	821,811
	<u>927,392,743</u>	<u>884,659,278</u>
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued December 31, 2019 and 2018 - 6,919,503 and 6,902,003 shares; respectively	691,950	690,200
Additional paid-in capital	51,908,867	51,382,585
Retained earnings, substantially restricted	72,860,750	65,829,687
Accumulated other comprehensive loss	(431,035)	(452,756)
	<u>125,030,532</u>	<u>117,449,716</u>
Treasury stock, at cost; December 31, 2019 and 2018 - 2,582,041 and 2,443,522 shares, respectively	(40,398,650)	(36,971,124)
	<u>84,631,882</u>	<u>80,478,592</u>
	<u>\$ 1,012,024,625</u>	<u>\$ 965,137,870</u>

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Income
Years Ended December 31, 2019, 2018 and 2017

	2019	2018	2017
Interest Income			
Loans	\$ 41,233,524	\$ 40,886,257	\$ 27,454,089
Investment securities	2,791,612	1,992,442	1,791,921
Other	1,201,367	367,005	194,723
	45,226,503	43,245,704	29,440,733
Interest Expense			
Deposits	10,991,453	7,023,286	3,751,565
Federal Home Loan Bank advances	1,202,708	1,766,278	1,703,787
Subordinated debentures.....	970,269	1,017,552	631,202
Other	370,584	120,503	-
	13,535,014	9,927,619	6,086,554
Net Interest Income	31,691,489	33,318,085	23,354,179
Provision for Loan Losses	200,000	1,225,000	1,750,000
Net Interest Income After			
Provision for Loan Losses	31,491,489	32,093,085	21,604,179
Noninterest Income			
Service charges	1,706,437	2,004,525	1,189,575
Net gain (loss) on sale of investment securities	89,564	(8,091)	46,329
Gain on sale of mortgage loans held for sale	2,222,533	2,030,746	2,021,208
Gain on sale of Small Business Administration loans	1,029,949	830,641	746,639
Net gain (loss) on foreclosed assets	(235,394)	(360,892)	182,004
Other income	2,291,804	2,055,011	1,541,565
	7,104,893	6,551,940	5,727,320
Noninterest Expense			
Salaries and employee benefits	16,107,800	14,918,696	12,040,528
Occupancy	4,582,433	4,071,199	2,204,408
FDIC deposit insurance premiums.....	297,628	437,602	245,115
Data processing.....	1,694,459	1,477,034	987,193
Advertising	499,998	534,650	525,000
Impairment on investment tax credits.....	-	-	587,428
Merger costs	34,011	3,671,997	151,270
Amortization of core deposit intangible	477,000	408,571	-
Other expense	3,804,805	3,938,584	2,862,144
	27,498,134	29,458,333	19,603,086
Income Before Income Taxes	11,098,248	9,186,692	7,728,413
Provision for Income Taxes	1,683,158	1,854,813	2,570,749
Net Income Available to Common Shareholders	\$ 9,415,090	\$ 7,331,879	\$ 5,157,664
Basic Income Per Common Share	\$ 2.14	\$ 1.66	\$ 1.18
Diluted Income Per Common Share	\$ 2.11	\$ 1.64	\$ 1.16

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019, 2018 and 2017

	2019	2018	2017
NET INCOME	<u>\$ 9,415,090</u>	<u>\$ 7,331,879</u>	<u>\$ 5,157,664</u>
OTHER ITEMS OF COMPREHENSIVE INCOME:			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes.....	3,018,580	(1,130,514)	1,182,895
Change in unrealized gain (loss) on interest rate swaps, before income taxes.....	(2,899,860)	791,465	632,990
Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes	(89,564)	8,091	(46,329)
Total other items of comprehensive income (loss)	<u>29,156</u>	<u>(330,958)</u>	<u>1,769,556</u>
Income tax expense (benefit) related to other items of comprehensive income	7,435	(84,395)	666,508
Other comprehensive income (loss).....	<u>21,721</u>	<u>(246,563)</u>	<u>1,103,048</u>
TOTAL COMPREHENSIVE INCOME	<u><u>\$ 9,436,811</u></u>	<u><u>\$ 7,085,316</u></u>	<u><u>\$ 6,260,712</u></u>

See Notes to Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 9,415,090	\$ 7,331,879	\$ 5,157,664
Items not requiring (providing) cash:			
Deferred income taxes	224,142	624,386	1,080,452
Depreciation and amortization	1,970,442	1,593,974	1,155,642
Provision for loan losses	200,000	1,225,000	1,750,000
Gain on sale of Small Business Administration loans	(1,029,949)	(830,641)	(746,639)
Gain on sale of mortgage loans held for sale and investment securities	(2,312,097)	(2,022,656)	(2,067,537)
Loss (gain) on sale of foreclosed assets	(164,636)	315,108	(249,349)
Loss (gain) on sale of premises, equipment and other assets	(6,069)	(4,652)	95,863
Amortization of deferred income, premiums and discounts, net ...	349,442	481,189	840,340
Amortization of intangible assets	477,000	408,571	-
Stock award plan expense	615,385	517,053	466,469
Accretion of purchase accounting adjustments	(1,629,721)	(3,407,340)	-
Origination of loans held for sale	(80,689,007)	(72,116,229)	(70,835,359)
Proceeds from sale of loans held for sale	81,641,824	74,551,946	73,118,381
Increase in cash surrender value of bank owned life insurance	(500,364)	(457,451)	(467,730)
Changes in:			
Accrued interest receivable	(120,931)	(941,097)	(502,784)
Prepaid expenses and other assets	(1,520,250)	6,056,391	1,097,510
Accounts payable and accrued expenses	1,188,354	(1,620,868)	883,209
Income taxes receivable/payable	218,151	620,293	(494,295)
Net cash provided by operating activities	<u>8,326,806</u>	<u>12,324,856</u>	<u>10,281,837</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in loans	49,550,984	(14,645,559)	(119,195,775)
Proceeds from sale of loans receivable	9,317,249	12,997,662	26,781,419
Principal payments on available-for-sale securities	7,564,694	13,358,321	6,649,871
Principal payments on held-to-maturity securities	11,772	4,663	11,071
Proceeds from maturities of available-for-sale securities	750,000	-	-
Purchase of premises and equipment	(981,146)	(3,436,389)	(3,684,707)
Net cash received for acquisition	-	2,455,964	-
Purchase of available-for-sale securities	(75,518,385)	(26,151,079)	(15,975,995)
Proceeds from sale of available-for-sale securities	37,855,257	13,602,508	20,869,621
Purchase of bank owned life insurance	(4,000,000)	-	-
Redemption (purchase) of FHLB stock	1,629,700	(789,700)	13,500
Proceeds from sale of premises and equipment	-	2,425,000	2,697,147
Purchase of tax credit investments	(3,168,435)	(3,930,176)	(1,415,156)
Proceeds from sale of foreclosed assets held for sale	1,343,072	292,003	2,448,163
Net cash provided by (used in) investing activities	<u>24,354,762</u>	<u>(3,816,782)</u>	<u>(80,800,841)</u>

See Notes to Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase (decrease) in demand deposits, NOW accounts and savings accounts	97,367,801	(40,855,842)	58,424,702
Net increase (decrease) in certificates of deposit	(25,548,954)	22,077,932	43,576,898
Net decrease of securities sold under agreements to repurchase	-	(2,159,000)	-
Proceeds from FHLB advances	115,815,000	609,971,000	761,600,000
Repayments of FHLB advances	(156,115,000)	(600,971,000)	(763,000,000)
Proceeds from issuance of notes payable	7,450,000	5,000,000	-
Repayments of notes payable	(1,250,000)	(3,000,000)	-
Repayment of Hometown Bancshares subordinated debentures	(6,000,000)	-	-
Advances from (repayments to) borrowers for taxes and insurance...	(21,608)	109,539	(12,191)
Stock options exercised	90,000	166,230	15,570
Cash dividends paid	(2,313,661)	(2,132,221)	(1,767,486)
Treasury stock purchased	(3,604,879)	-	-
Net cash provided by (used in) financing activities	<u>25,868,699</u>	<u>(11,793,362)</u>	<u>98,837,493</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,550,267	(3,285,288)	28,318,489
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,121,642	37,406,930	9,088,441
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 92,671,909</u>	<u>\$ 34,121,642</u>	<u>\$ 37,406,930</u>

Supplemental Cash Flows Information

Foreclosed assets acquired in settlement of loans	\$ 1,664,258	\$ 368,878	\$ 1,209,279
Interest paid	\$ 13,563,079	\$ 9,401,351	\$ 5,998,844
Income taxes paid	\$ 199,000	\$ -	\$ 1,138,000
Sale and financing of foreclosed assets held for sale	\$ 620,900	\$ 181,300	\$ 1,588,921

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2019, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	687,550	50,552,077	(37,303,288)	57,347,282	(1,309,241)	69,974,380
Net income	-	-	-	5,157,664	-	5,157,664
Other comprehensive income	-	-	-	-	1,103,048	1,103,048
Reclassification of amounts within AOCI to retained earnings due to tax reform	-	-	-	31,818	-	31,818
Dividends on common stock (\$0.42 per share)	-	-	-	(1,857,456)	-	(1,857,456)
Stock award plans	-	288,722	177,747	-	-	466,469
Stock options exercised	300	15,270	-	-	-	15,570
Balance, December 31, 2017	687,850	50,856,069	(37,125,541)	60,679,308	(206,193)	74,891,493
Net income	-	-	-	7,331,879	-	7,331,879
Other comprehensive loss	-	-	-	-	(246,563)	(246,563)
Dividends on common stock (\$0.49 per share)	-	-	-	(2,181,500)	-	(2,181,500)
Stock award plans	-	362,636	154,417	-	-	517,053
Stock options exercised	2,350	163,880	-	-	-	166,230
Balance, December 31, 2018	690,200	51,382,585	(36,971,124)	65,829,687	(452,756)	80,478,592
Net income	-	-	-	9,415,090	-	9,415,090
Other comprehensive income	-	-	-	-	21,721	21,721
Dividends on common stock (\$0.54 per share)	-	-	-	(2,384,027)	-	(2,384,027)
Treasury stock purchased	-	-	(3,604,879)	-	-	(3,604,879)
Stock award plans	-	438,032	177,353	-	-	615,385
Stock options exercised	1,750	88,250	-	-	-	90,000
Balance, December 31, 2019	<u>\$ 691,950</u>	<u>\$ 51,908,867</u>	<u>\$ (40,398,650)</u>	<u>\$ 72,860,750</u>	<u>\$ (431,035)</u>	<u>\$ 84,631,882</u>

See Notes to Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company operates as a one-bank holding company. The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southwest Missouri. The Bank is subject to competition from other financial institutions. The Company and the Bank are also subject to the regulation of certain federal and state agencies and receive periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany profits, transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of loans acquired with the possibility of impairment and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Goodwill and intangible assets are subject to periodic impairment testing. This testing is to be performed annually, or more frequently if events occur that lead to the possibility that the valuation of such assets could be considered unrecoverable. The valuation of goodwill and intangible assets involves many factors that are judgmental and highly complex.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available-for-sale” and are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below carrying value, when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before a recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Company’s consolidated statements of income reflect the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time a decline in value occurs. Forward commitments to sell mortgage loans are sometimes acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amounts of the loans sold, and are recorded in noninterest income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans acquired without the evidence of credit impairment and for which obligated principal and interest cash flows are expected to be received are accounted for under the accounting guidance for receivables - non refundable fees and other costs (ASC 310-20). Additionally, any difference between the initial investment and the principal amount of a purchased loan or debt security will be recorded as an adjustment of yield over the contractual life of the instrument. Loans acquired with evidence of deterioration of credit quality since origination are considered credit impaired. Evidence of credit quality deterioration may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Such loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Bank’s internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group’s historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Acquired loans determined to be deteriorated in quality do not have an allowance for credit loss associated with them when recorded by the Bank. Estimates based on cash flows expected to be collected using internal risk models, which incorporate the estimates of current key assumptions, such as default rates, severity and prepayment speeds are used to determine the amount of impairment. As these loans are paid the pre-established amount of impairment is proportionally then included in income.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Goodwill and Intangible Assets

An annual assessment is performed to determine whether it is more likely than not the fair value of goodwill is less than the carrying amount. If, based on the assessment, it is determined that there is an impairment, goodwill would be written down to its implied fair value. Any subsequent increases in goodwill fair value are not recognized in the financial statements. As a result of the 2018 acquisition of Hometown, a goodwill amount of \$1,434,982 is presented in the balance sheet as of December 31, 2019 and 2018.

Core deposit intangible assets are being amortized on the straight-line basis over a period of seven years. Such assets are periodically evaluated as to the recoverability of their carrying value. A core deposit intangible of \$3,520,000 was calculated at the time of the Hometown acquisition. At December 31, 2019 and 2018, the amount remaining to be amortized is \$2,503,910 and \$2,980,910, respectively.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

	Years
Buildings and improvements.....	35 - 40
Furniture and fixtures and vehicles	3 - 10

Bank Owned Life Insurance

Bank owned life insurance policies are carried at their cash surrender value. The Company recognizes tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2016.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018 cash equivalents consisted of interest-bearing deposits and money market accounts.

Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The Company's required reserve on December 31, 2019 was \$1,920,000.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gain (loss) on available-for-sale securities, unrealized gain (loss) on securities for which a portion of an other-than-temporary impairment has been recognized in income and unrealized gain (loss) on interest rate swap agreements designated as cash flow hedges.

Interest Rate Swap Agreements Designated as Cash Flow Hedges

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company uses interest rate swaps to manage overall cash flow changes related to interest rate risk exposure on benchmark interest rate loans. The effective portion of the gain or loss related to the derivative instrument is recognized as a component of other comprehensive income and subsequently reclassified into interest income when the forecasted transaction affects income. The ineffective portion of the gain or loss is recognized immediately as noninterest income. The Company assesses the effectiveness of the hedging derivative by comparing the change in fair value of the respective derivative instrument and the change in fair value of an effective hypothetical derivative instrument.

Revenue from Contracts with Customers

Descriptions of our significant revenue-generating transactions that are within the scope of Topic 606, which are presented in the consolidated statements of comprehensive income as components of non-interest income, are as follows:

- *Service Charges on Deposit Accounts* – Services charges on deposit accounts include general service fees for monthly account maintenance, account analysis fees, non-sufficient funds fees, wire transfer fees and other deposit account related fees. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for service charges on deposit accounts is received immediately or in the following month through a direct charge to customers' accounts.
- *Gains/Losses on Sales of OREO* – Gains/Losses on sales of OREO are recorded from the sale when control of the property transfers to the buyer, which generally occurs at the time of an executed deed.

Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2019 and 2018, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent notification from the Missouri Division of Finance and the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage and Common Equity Tier 1 risk-based ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk. Dollar amounts are expressed in thousands.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Tier 1 (core) capital, and ratio to adjusted total assets Bank	\$ 104,480	10.5%	\$ 40,083	4.0%	\$ 50,103	5.0%
Tier 1 (core) capital, and ratio to risk-weighted assets Bank.....	\$ 104,480	12.4%	\$ 50,727	6.0%	\$ 67,636	8.0%
Total risk-based capital, and ratio to risk-weighted assets Bank.....	\$ 112,088	13.3%	\$ 67,636	8.0%	\$ 84,545	10.0%
Common equity tier 1 capital ratio to risk-weighted assets Bank.....	\$ 104,480	12.4%	\$ 38,045	4.5%	\$ 54,954	6.5%
As of December 31, 2018						
Tier 1 (core) capital, and ratio to adjusted total assets Bank	\$ 99,540	10.6%	\$ 37,966	4.0%	\$ 47,458	5.0%
Tier 1 (core) capital, and ratio to risk-weighted assets Bank.....	\$ 99,540	11.7%	\$ 51,041	6.0%	\$ 68,055	8.0%
Total risk-based capital, and ratio to risk-weighted assets Bank.....	\$ 107,535	12.6%	\$ 68,055	8.0%	\$ 85,068	10.0%
Common equity tier 1 capital ratio to risk-weighted assets Bank.....	\$ 99,540	11.7%	\$ 38,281	4.5%	\$ 55,294	6.5%

The above minimum capital requirements exclude the capital conversion buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conversion buffer was 2.50% at December 31, 2019 and 1.875% at December 31, 2018. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The final CBLR rule went into effect on January 1, 2020. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio greater than 9 percent are considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rule.

The amount of dividends that the Bank may pay is subject to various regulatory limitations. As of December 31, 2019 and 2018 the Bank exceeded the minimum capital requirements. The Bank may not pay dividends which would reduce capital below the minimum requirements shown above.

Segment Information

The principal business of the Company is overseeing the business of the Bank. The Company has no significant assets other than its investment in the Bank. The banking operation is the Company's only reportable segment. The banking segment is principally engaged in the business of originating mortgage loans secured by one-to-four family residences, multi-family, construction, commercial and consumer loans. These loans are funded primarily through the attraction of deposits from the general public, borrowings from the Federal Home Loan Bank and brokered deposits. Selected information is not presented separately for the Company's reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

General Litigation

The Company and the Bank, from time to time, may be parties to ordinary routine litigation, which arises in the normal course of business, such as claims to enforce liens, and condemnation proceedings, on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Company and the Bank. After reviewing pending and threatened litigation with legal counsel, management believes that as of December 31, 2019, the outcome of any such litigation will not have a material adverse effect on the Company's financial position or results of operations.

Earnings Per Common Share

The computation for earnings per common share for the years ended December 31, 2019, 2018 and 2017 is as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Net income available to common shareholders.....	\$ 9,415,090	\$ 7,331,879	\$ 5,157,664
Weighted average common shares outstanding.....	4,405,575	4,410,422	4,372,262
Effect of dilutive securities.....	57,984	72,261	68,685
Weighted average diluted shares outstanding	4,463,559	4,482,683	4,440,947
Basic income per common share.....	\$ 2.14	\$ 1.66	\$ 1.18
Diluted income per common share.....	\$ 2.11	\$ 1.64	\$ 1.16

For the years ended December 31, 2019 and 2018, all outstanding stock options were included in the above computation because their exercise price was less than the average market price. Stock options to purchase 30,000 shares of common stock were outstanding during the year ended December 31, 2017, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

NOTE 2: ACQUISITION

On April 2, 2018, the Company completed the acquisition of Carthage, Missouri-based Hometown Bancshares, Inc. (“Hometown”) including its wholly owned bank subsidiary, Hometown Bank, National Association and Hometown Bancshares Statutory Trust I, a Delaware statutory trust. Under the terms of the Agreement and Plan of Merger, each share of Hometown common stock was exchanged for \$20.00 in cash and the transaction was valued at approximately \$4.6 million. Hometown’s subsidiary bank, Hometown Bank, National Association, was merged into Guaranty Bank on June 8, 2018.

Including the effects of the acquisition method accounting adjustments, the Company acquired approximately \$180.0 million in assets, including approximately \$143.9 million in loans (inclusive of loan discounts) and approximately \$161.2 million in deposits. Goodwill of \$1.4 million was recorded as a result of the transaction. The merger strengthened the Company’s position in Southwest Missouri and the Company believes it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

In accordance with generally accepted accounting principles for acquisition accounting, the loans acquired through the acquisition of Hometown were recorded at fair value; therefore, there was no allowance associated with Hometown’s loans at acquisition. Management continues to evaluate the allowance needed on the acquired Hometown loans factoring in the net remaining discount of \$960,451 at December 31, 2019.

A summary, at fair value, of the assets acquired and liabilities assumed in the Hometown transaction, as of acquisition date, is as follows:

Guaranty Federal Bancshares, Inc.
Net Assets Acquired from Hometown
April 2, 2018
(In Thousands)

	<u>Acquired from Hometown</u>	<u>Fair Value Adjustments</u>	<u>Fair Value</u>
Assets Acquired			
Cash and Due From Banks.....	\$ 7,083	\$ -	\$ 7,083
Investment Securities	7,521	-	7,521
Loans	150,390	(6,471)	143,919
Allowance for Loan Losses.....	(2,348)	2,348	-
Net Loans.....	148,042	(4,123)	143,919
Fixed Assets	9,268	798	10,066
Foreclosed Assets held for sale	1,647	(400)	1,247
Core Deposit Intangible.....	-	3,520	3,520
Other Assets	4,146	2,463	6,609
Total Assets Acquired.....	<u>\$ 177,707</u>	<u>\$ 2,258</u>	<u>\$ 179,965</u>
Liabilities Assumed			
Deposits.....	161,001	247	161,248
Federal Home Loan Bank advances	2,000	-	2,000
Securities Sold Under Agreements to Repurchase	2,159	-	2,159
Other borrowings.....	3,000	-	3,000
Subordinated debentures	6,186	176	6,362
Other Liabilities.....	2,003	-	2,003
Total Liabilities Assumed	<u>176,349</u>	<u>\$ 423</u>	<u>176,772</u>
Stockholders' Equity			
Common Stock.....	231	(231)	-
Capital Surplus	18,936	(18,936)	-
Retained Earnings	(17,587)	17,587	-
Accumulated Other Comprehensive Loss	(222)	222	-
Treasury Stock.....	-	-	-
Total Stockholders' Equity Assumed	<u>1,358</u>	<u>\$ (1,358)</u>	<u>-</u>
Total Liabilities and Stockholders' Equity Assumed.....	<u>\$ 177,707</u>	<u>\$ (935)</u>	<u>\$ 176,772</u>
			\$ 3,193
Net Assets Acquired			4,628
Purchase Price			<u>1,435</u>
Goodwill			<u>\$ 1,435</u>

During the fourth quarter of 2018, management recorded an adjustment to goodwill for additional deferred income taxes related to the final book versus tax differences on Hometown's fixed assets upon completion of its final consolidated income tax returns.

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented in the acquisitions above.

Cash and due from banks – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – Investment securities were acquired with an adjustment to fair value based upon quoted market prices if material. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Fixed assets – Fixed assets were acquired with an adjustment to fair value, which represents the difference between the Company's current analysis of property and equipment values completed in connection with the acquisition and book value acquired.

Foreclosed assets held for sale – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

Core deposit intangible – This intangible asset represents the value of the relationships that Hometown had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits.

Other assets – The fair value adjustment results from recording additional deferred tax assets related to the transaction. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and recorded a fair value adjustment for the difference when material.

Federal Home Loan Bank advances and Other borrowings – The fair value of Federal Home Loan Bank advances and other borrowings are estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Securities sold under agreement to repurchase – The carrying amount of securities sold under agreement to repurchase is a reasonable estimate of fair value based on the short-term nature of these liabilities.

Subordinated debentures – The fair value of subordinated debentures is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Other liabilities – The carrying amount of these other liabilities was deemed to be reasonable estimate of fair value.

NOTE 3: SECURITIES

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2019				
Debt Securities:				
U. S. government agencies	\$ 2,499,755	\$ -	\$ (11,962)	2,487,793
Municipals	35,625,038	675,382	(125,693)	36,174,727
Corporates.....	15,395,190	154,942	(14,945)	15,535,187
Mortgage-backed securities - private label.....	13,788,728	52,035	(29,392)	13,811,371
Government sponsored mortgage-backed securities and SBA loan pools	49,844,049	585,641	(193,454)	50,236,236
	<u>\$117,152,760</u>	<u>\$ 1,468,000</u>	<u>\$ (375,446)</u>	<u>\$118,245,314</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2018				
Debt Securities:				
Municipals	\$34,470,648	\$ 10,581	\$ (710,709)	\$ 33,770,520
Corporates.....	3,000,000	18,927	-	3,018,927
Government sponsored mortgage-backed securities and SBA loan pools	50,632,011	81,999	(1,237,260)	49,476,750
	<u>\$88,102,659</u>	<u>\$ 111,507</u>	<u>\$ (1,947,969)</u>	<u>\$ 86,266,197</u>

Maturities of available-for-sale debt securities as of December 31, 2019:

	Amortized Cost	Approximate Fair Value
1-5 years.....	\$ 385,947	\$ 391,254
5-10 years	18,704,471	18,877,281
After ten years	34,429,565	34,929,172
Mortgage-backed securities - private label not due on a single maturity date.....	13,788,728	13,811,371
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date.....	49,844,049	50,236,236
	<u>\$ 117,152,760</u>	<u>\$ 118,245,314</u>

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$5,358,929 and \$24,374,187 as of December 31, 2019 and 2018, respectively.

Gross gains of \$244,777, \$48,931 and \$165,237 and gross losses of \$155,213, \$57,022 and \$118,908 resulting from sale of available-for-sale securities were realized for the years ended December 31, 2019, 2018 and 2017, respectively. The tax effect of these net gains (losses) was \$18,809, (\$2,063) and \$17,142 in 2019, 2018 and 2017, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

No securities were written down for other-than-temporary impairment during the years ended December 31, 2019, 2018 and 2017.

Certain other investments in debt and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2019 and 2018, was \$42,570,363 and \$70,434,596, respectively, which is approximately 36% and 82% of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018.

Description of Securities	Less than 12 Months		December 31, 2019 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 2,487,795	\$ (11,962)	\$ -	\$ -	\$ 2,487,795	\$ (11,962)
Municipals.....	7,083,208	(125,693)	-	-	7,083,208	(125,693)
Corporates	2,452,005	(14,945)	-	-	2,452,005	(14,945)
Mortgage-backed securities - private label	9,416,669	(29,392)	-	-	9,416,669	(29,392)
Government sponsored mortgage- backed securities and SBA loan pools	18,112,148	(125,906)	3,018,538	(67,548)	21,130,686	(193,454)
	<u>\$39,551,825</u>	<u>\$ (307,898)</u>	<u>\$ 3,018,538</u>	<u>\$ (67,548)</u>	<u>\$42,570,363</u>	<u>\$ (375,446)</u>

Description of Securities	Less than 12 Months		December 31, 2018 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals.....	\$ 6,324,750	\$ (67,774)	\$23,223,221	\$ (642,935)	\$29,547,971	\$ (710,709)
Government sponsored mortgage- backed securities and SBA loan pools	7,127,597	(112,282)	33,759,028	(1,124,978)	40,886,625	(1,237,260)
	<u>\$13,452,347</u>	<u>\$ (180,056)</u>	<u>\$56,982,249</u>	<u>\$ (1,767,913)</u>	<u>\$70,434,596</u>	<u>\$ (1,947,969)</u>

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2019 and 2018 include:

	December 31,	
	2019	2018
Real estate - residential mortgage:		
One to four family units.....	\$ 118,823,731	\$ 132,410,810
Multi-family	87,448,418	90,548,265
Real estate – construction.....	77,308,551	88,553,995
Real estate – commercial.....	300,619,387	322,921,323
Commercial loans.....	114,047,753	119,369,484
Consumer and other loans	30,666,185	33,091,017
Total loans.....	<u>728,914,025</u>	<u>786,894,894</u>
Less:		
Allowance for loan losses	(7,607,587)	(7,995,569)
Deferred loan fees/costs, net	(574,036)	(600,719)
Net loans	<u>\$ 720,732,402</u>	<u>\$ 778,298,606</u>

Classes of loans by aging at December 31, 2019 and 2018 were as follows:

As of December 31, 2019

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	<i>(In Thousands)</i>						
Real estate - residential mortgage:							
One to four family units.....	\$ 83	\$ 437	\$ 125	\$ 645	\$ 118,179	\$ 118,824	\$ -
Multi-family.....	-	-	-	-	87,448	87,448	-
Real estate – construction.....	338	-	-	338	76,971	77,309	-
Real estate – commercial.....	-	-	43	43	300,576	300,619	-
Commercial loans.....	134	105	17	256	113,792	114,048	-
Consumer and other loans	48	26	-	74	30,592	30,666	-
Total.....	<u>\$ 603</u>	<u>\$ 568</u>	<u>\$ 185</u>	<u>\$ 1,356</u>	<u>\$ 727,558</u>	<u>\$ 728,914</u>	<u>\$ -</u>

As of December 31, 2018

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	<i>(In Thousands)</i>						
Real estate - residential mortgage:							
One to four family units.....	\$ 177	\$ 329	\$ 2,164	\$ 2,670	\$ 129,741	\$ 132,411	\$ -
Multi-family.....	5,952	-	-	5,952	84,596	90,548	-
Real estate – construction.....	-	-	-	-	88,554	88,554	-
Real estate – commercial.....	1,000	81	-	1,081	321,840	322,921	-
Commercial loans.....	228	433	71	732	118,638	119,370	-
Consumer and other loans	107	12	-	119	32,972	33,091	-
Total.....	<u>\$ 7,464</u>	<u>\$ 855</u>	<u>\$ 2,235</u>	<u>\$ 10,554</u>	<u>\$ 776,341</u>	<u>\$ 786,895</u>	<u>\$ -</u>

Nonaccruing loans are summarized as follows:

	December 31,	
	2019	2018
Real estate - residential mortgage:		
One to four family units	\$ 2,398,379	\$ 4,136,342
Multi-family	-	-
Real estate – construction	3,738,410	4,088,409
Real estate – commercial	2,941,143	3,592,476
Commercial loans	855,761	1,262,910
Consumer and other loans	69,784	1,542
Total	<u>\$ 10,003,477</u>	<u>\$ 13,081,679</u>

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of and for the years ended December 31, 2019, 2018 and 2017:

As of December 31, 2019

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							
Allowance for loan losses:								
Balance, beginning of year	\$ 2,306	\$ 2,093	\$ 1,297	\$ 641	\$ 1,160	\$ 373	\$ 126	\$ 7,996
Provision charged to expense	(809)	265	(32)	105	225	299	147	\$ 200
Losses charged off	-	(122)	(272)	-	(381)	(280)	-	\$ (1,055)
Recoveries	252	31	8	-	125	51	-	\$ 467
Balance, end of year	<u>\$ 1,749</u>	<u>\$ 2,267</u>	<u>\$ 1,001</u>	<u>\$ 746</u>	<u>\$ 1,129</u>	<u>\$ 443</u>	<u>\$ 273</u>	<u>\$ 7,608</u>
Ending balance: individually evaluated for impairment	<u>\$ 553</u>	<u>\$ 24</u>	<u>\$ 197</u>	<u>\$ -</u>	<u>\$ 299</u>	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ 1,094</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,196</u>	<u>\$ 2,243</u>	<u>\$ 804</u>	<u>\$ 746</u>	<u>\$ 830</u>	<u>\$ 422</u>	<u>\$ 273</u>	<u>\$ 6,514</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans:								
Ending balance: individually evaluated for impairment	<u>\$ 4,742</u>	<u>\$ 650</u>	<u>\$ 2,613</u>	<u>\$ -</u>	<u>\$ 908</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ 9,133</u>
Ending balance: collectively evaluated for impairment	<u>\$ 72,567</u>	<u>\$ 297,318</u>	<u>\$ 116,211</u>	<u>\$ 87,448</u>	<u>\$ 112,956</u>	<u>\$ 30,446</u>	<u>\$ -</u>	<u>\$ 716,946</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ 2,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,835</u>

As of December 31, 2018

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							
Allowance for loan losses:								
Balance, beginning of year.....	\$ 2,244	\$ 1,789	\$ 946	\$ 464	\$ 1,031	\$ 454	\$ 179	\$ 7,107
Provision charged to expense	(35)	339	327	177	222	248	(53)	\$ 1,225
Losses charged off	-	(37)	(8)	-	(110)	(382)	-	\$ (537)
Recoveries	97	2	32	-	17	53	-	\$ 201
Balance, end of year	<u>\$ 2,306</u>	<u>\$ 2,093</u>	<u>\$ 1,297</u>	<u>\$ 641</u>	<u>\$ 1,160</u>	<u>\$ 373</u>	<u>\$ 126</u>	<u>\$ 7,996</u>
Ending balance: individually evaluated for impairment.....	<u>\$ 552</u>	<u>\$ 106</u>	<u>\$ 573</u>	<u>\$ -</u>	<u>\$ 363</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 1,612</u>
Ending balance: collectively evaluated for impairment.....	<u>\$ 1,754</u>	<u>\$ 1,987</u>	<u>\$ 724</u>	<u>\$ 641</u>	<u>\$ 797</u>	<u>\$ 355</u>	<u>\$ 126</u>	<u>\$ 6,384</u>
Ending balance: loans acquired with deteriorated credit quality.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans:								
Ending balance: individually evaluated for impairment.....	<u>\$ 4,088</u>	<u>\$ 1,588</u>	<u>\$ 4,520</u>	<u>\$ 5,952</u>	<u>\$ 1,062</u>	<u>\$ 169</u>	<u>\$ -</u>	<u>\$ 17,379</u>
Ending balance: collectively evaluated for impairment.....	<u>\$ 84,507</u>	<u>\$ 317,488</u>	<u>\$ 128,258</u>	<u>\$ 84,663</u>	<u>\$ 118,459</u>	<u>\$ 32,968</u>	<u>\$ -</u>	<u>\$ 766,343</u>
Ending balance: loans acquired with deteriorated credit quality.....	<u>\$ -</u>	<u>\$ 2,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ 3,173</u>

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As of December 31, 2017

	<u>Construction</u>	<u>Commercial Real Estate</u>	<u>One to four family</u>	<u>Multi-family</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>Total</u>
	<i>(In Thousands)</i>							
Allowance for loan losses:								
Balance, beginning of year.....	\$ 1,377	\$ 1,687	\$ 856	\$ 206	\$ 1,168	\$ 337	\$ 111	\$ 5,742
Provision charged to expense	793	174	82	258	91	284	68	\$ 1,750
Losses charged off	-	(72)	(11)	-	(240)	(213)	-	\$ (536)
Recoveries	74	-	19	-	12	46	-	\$ 151
Balance, end of year	<u>\$ 2,244</u>	<u>\$ 1,789</u>	<u>\$ 946</u>	<u>\$ 464</u>	<u>\$ 1,031</u>	<u>\$ 454</u>	<u>\$ 179</u>	<u>\$ 7,107</u>
Ending balance: individually evaluated for impairment.....	<u>\$ 738</u>	<u>\$ -</u>	<u>\$ 127</u>	<u>\$ -</u>	<u>\$ 246</u>	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ 1,249</u>
Ending balance: collectively evaluated for impairment.....	<u>\$ 1,506</u>	<u>\$ 1,789</u>	<u>\$ 819</u>	<u>\$ 464</u>	<u>\$ 785</u>	<u>\$ 316</u>	<u>\$ 179</u>	<u>\$ 5,858</u>
Loans:								
Ending balance: individually evaluated for impairment.....	<u>\$ 4,452</u>	<u>\$ 161</u>	<u>\$ 4,424</u>	<u>\$ 775</u>	<u>\$ 739</u>	<u>\$ 276</u>	<u>\$ -</u>	<u>\$ 10,827</u>
Ending balance: collectively evaluated for impairment.....	<u>\$ 60,292</u>	<u>\$ 261,705</u>	<u>\$ 101,877</u>	<u>\$ 84,450</u>	<u>\$ 93,784</u>	<u>\$ 24,440</u>	<u>\$ -</u>	<u>\$ 626,548</u>

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC-310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following summarizes impaired loans as of and for the years ended December 31, 2019 and 2018:

As of December 31, 2019

	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
			<i>(In Thousands)</i>		
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units.....	\$ 1,392	\$ 1,392	\$ -	\$ 1,075	\$ 1
Multi-family.....	-	-	-	5,438	-
Real estate – construction.....	-	-	-	-	-
Real estate – commercial.....	3,199	3,199	-	3,274	4
Commercial loans.....	33	33	-	127	-
Consumer and other loans.....	70	70	-	230	2
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units.....	\$ 1,221	\$ 1,221	\$ 197	\$ 1,781	\$ -
Multi-family.....	-	-	-	-	-
Real estate – construction.....	4,742	5,975	553	3,924	-
Real estate – commercial.....	162	162	24	533	-
Commercial loans.....	999	999	301	756	-
Consumer and other loans.....	150	150	21	153	-
Total					
Real estate - residential mortgage:					
One to four family units.....	\$ 2,613	\$ 2,613	\$ 197	\$ 2,856	\$ 1
Multi-family.....	-	-	-	5,438	-
Real estate – construction.....	4,742	5,975	553	3,924	-
Real estate – commercial.....	3,361	3,361	24	3,807	4
Commercial loans.....	1,032	1,032	301	883	-
Consumer and other loans.....	220	220	21	383	2
Total.....	<u>\$ 11,968</u>	<u>\$ 13,201</u>	<u>\$ 1,096</u>	<u>\$ 17,291</u>	<u>\$ 7</u>

As of December 31, 2018

	Recorded Balance	Unpaid Principal Balance	Specific Allowance <i>(In Thousands)</i>	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units.....	\$ 2	\$ 2	\$ -	\$ 1,429	\$ 1
Multi-family.....	5,952	5,952	-	2,246	75
Real estate – construction.....	-	-	-	1,144	-
Real estate – commercial.....	3,138	3,138	-	3,764	46
Commercial loans.....	216	216	-	596	-
Consumer and other loans.....	225	225	-	316	-
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units.....	\$ 4,518	\$ 4,518	\$ 573	\$ 2,858	\$ -
Multi-family.....	-	-	-	499	-
Real estate – construction.....	4,088	5,321	552	3,009	-
Real estate – commercial.....	1,232	1,317	106	154	-
Commercial loans.....	1,062	1,062	363	522	-
Consumer and other loans.....	119	119	18	121	-
Total					
Real estate - residential mortgage:					
One to four family units.....	\$ 4,520	\$ 4,520	\$ 573	\$ 4,287	\$ 1
Multi-family.....	5,952	5,952	-	2,745	75
Real estate – construction.....	4,088	5,321	552	4,153	-
Real estate – commercial.....	4,370	4,455	106	3,918	46
Commercial loans.....	1,278	1,278	363	1,118	-
Consumer and other loans.....	344	344	18	437	-
Total.....	\$ 20,552	\$ 21,870	\$ 1,612	\$ 16,658	\$ 122

At December 31, 2019, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy the contractual payments due under the original terms of the loan without a modification.

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction of the face amount or maturity amount of the debt as stated in the original loan, (iv) a temporary period of interest-only payments, (v) a reduction in accrued interest, and (vi) an extension of amortization.

The following summarizes information regarding new troubled debt restructurings by class as of and for the years ended December 31, 2019 and 2018:

	2019		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	\$ -	\$ -
Multi-family	-	-	-
Real estate – construction	-	-	-
Real estate – commercial	-	-	-
Commercial loans	1	193,437	193,437
Consumer and other loans	-	-	-
Total	<u>1</u>	<u>\$ 193,437</u>	<u>\$ 193,437</u>

	2018		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	\$ -	\$ -
Multi-family	-	-	-
Real estate – construction	-	-	-
Real estate – commercial	-	-	-
Commercial loans	3	540,550	444,645
Consumer and other loans	-	-	-
Total	<u>3</u>	<u>\$ 540,550</u>	<u>\$ 444,645</u>

The troubled debt restructurings described above increased the allowance for loan losses by \$37,379 and \$171,745 and resulted in charge offs of \$0 and \$0 during the years ended December 31, 2019 and 2018, respectively.

The following presents the troubled debt restructurings by type of modification:

	2019			
	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units	\$ -	\$ -	\$ -	\$ -
Multi-family	-	-	-	-
Real estate – construction	-	-	-	-
Real estate – commercial	-	-	-	-
Commercial loans	-	193,437	-	193,437
Consumer and other loans	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 193,437</u>	<u>\$ -</u>	<u>\$ 193,437</u>

	2018			
	<u>Interest Rate</u>	<u>Term</u>	<u>Combination</u>	<u>Total Modification</u>
Real estate - residential mortgage:				
One to four family units	\$ -	\$ -	\$ -	\$ -
Multi-family	-	-	-	-
Real estate – construction	-	-	-	-
Real estate – commercial	-	-	-	-
Commercial loans	-	30,130	414,515	444,645
Consumer and other loans	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 30,130</u>	<u>\$ 414,515</u>	<u>\$ 444,645</u>

As part of the on-going monitoring of the credit quality of the Bank’s loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower’s financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank’s safety and soundness. The following are the internally assigned ratings:

Pass-This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention-This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard-This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful-This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank’s market areas that might impact either property values or a borrower’s personal income.

Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank’s market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following table provides information about the credit quality of the loan portfolio using the Bank's internal rating system as of December 31, 2019 and 2018:

As of December 31, 2019

	<u>Construction</u>	<u>Commercial Real Estate</u>	<u>One to four family</u>	<u>Multi- family</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
	<i>(In Thousands)</i>						
Rating:							
Pass	\$ 73,489	\$ 292,674	\$115,622	\$ 87,448	\$ 100,658	\$ 29,666	\$699,557
Special Mention	-	1,476	535	-	8,793	-	10,804
Substandard	3,820	6,469	2,667	-	4,597	1,000	18,553
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 77,309</u>	<u>\$ 300,619</u>	<u>\$118,824</u>	<u>\$ 87,448</u>	<u>\$ 114,048</u>	<u>\$ 30,666</u>	<u>\$728,914</u>

As of December 31, 2018

	<u>Construction</u>	<u>Commercial Real Estate</u>	<u>One to four family</u>	<u>Multi- family</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
	<i>(In Thousands)</i>						
Rating:							
Pass	\$ 84,375	\$ 310,486	\$126,586	\$ 84,596	\$ 114,525	\$ 32,686	\$753,254
Special Mention	-	5,524	372	-	3,031	-	8,927
Substandard	4,179	6,911	5,453	5,952	1,814	405	24,714
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 88,554</u>	<u>\$ 322,921</u>	<u>\$132,411</u>	<u>\$ 90,548</u>	<u>\$ 119,370</u>	<u>\$ 33,091</u>	<u>\$786,895</u>

The above amounts include purchased credit impaired loans. At December 31, 2019 and 2018, purchased credit impaired loans rated as "Substandard" were \$3.2 and \$3.0 million, respectively.

The weighted average interest rate on loans as of December 31, 2019 and 2018 was 5.65% and 5.80%, respectively.

The Bank serviced mortgage loans for others amounting to \$29,222 and \$37,350 as of December 31, 2019 and 2018, respectively. The Bank serviced commercial loans for others amounting to \$51,381,794 and \$47,206,950 as of December 31, 2019 and 2018, respectively.

NOTE 5: ACCOUNTING FOR CERTAIN LOANS ACQUIRED

The Company acquired loans during the quarter ended June 30, 2018 as part of the acquisition of Hometown. At acquisition, certain acquired loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with the evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores or recent loan to value percentages. Purchased credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds. Loan accretion income recognized during the years ended December 31, 2019 and 2018 were \$1.49 million and \$3.67 million, respectively.

The carrying amount of remaining purchased credit impaired loans are included in the balance sheet amounts of loans receivable at December 31, 2019 and 2018. The amount of these loans is shown below:

	December 31, 2019
	<u>(In Thousands)</u>
Real estate – commercial.....	\$ 3,069
Commercial loans.....	242
Consumer and other loans.....	-
Outstanding balance.....	<u>\$ 3,311</u>
Carrying amount, net of fair value adjustment of \$476 at December 31, 2019.....	<u>\$ 2,835</u>
	December 31, 2018
	<u>(In Thousands)</u>
Real estate – commercial.....	\$ 3,358
Commercial loans.....	296
Consumer and other loans.....	329
Outstanding balance.....	<u>\$ 3,983</u>
Carrying amount, net of fair value adjustment of \$810 at December 31, 2018.....	<u>\$ 3,173</u>

Changes in the carrying amount of the accretible yield for all purchased credit impaired loans were as follows for years ended December 31, 2019 and 2018:

	Year ended December 31, 2019
	<i>(In Thousands)</i>
Balance at beginning of period.....	\$ 265
Additions	-
Reclassification from nonaccretable difference	-
Accretion	(334)
Disposals.....	-
Balance at end of period.....	<u>\$ (69)</u>
	Year ended December 31, 2018
	<i>(In Thousands)</i>
Balance at beginning of period.....	\$ -
Additions	238
Reclassification from nonaccretable difference	1,834
Accretion	(1,807)
Disposals.....	-
Balance at end of period.....	<u>\$ 265</u>

During the years ended December 31, 2019 and 2018, the Company did not increase or reverse any allowance for loan losses related to these purchased credit impaired loans.

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

The Company recorded \$1.4 million of goodwill as a result of its 2018 Hometown acquisition and the goodwill is not deductible for tax purposes. Goodwill is assessed annually, or more often if warranted, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied value. Goodwill impairment was neither indicated nor recorded during 2019. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled \$1.4 million as of December 31, 2019 and 2018, respectively.

Core deposit intangible premiums are amortized over a seven-year period and are periodically evaluated, at least annually, as to the recoverability of their carrying value. Core deposit premiums of \$3.5 million were recorded during the second quarter of 2018 as part of the Hometown acquisition.

The Company's goodwill and other intangibles (carrying basis and accumulated amortization) at December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
	<u>(in Thousands)</u>	<u>(in Thousands)</u>
Goodwill.....	\$ 1,435	\$ 1,435
Core deposit intangible		
Gross carrying amount.....	3,520	3,520
Accumulated amortization.....	<u>(1,016)</u>	<u>(539)</u>
Core deposit intangible, net.....	2,504	2,981
Remaining balance.....	<u>\$ 3,939</u>	<u>\$ 4,416</u>

The Company's estimated remaining amortization expense on intangibles as of December 31, 2019 is as follows:

	<u>Amortization Expense</u>	
	<u>(in Thousands)</u>	
Remainder of:.....	2020	\$ 477
	2021	477
	2022	477
	2023	477
	2024	477
	Thereafter	<u>119</u>
	Total	<u>\$ 2,504</u>

NOTE 7: PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	December 31, 2019	December 31, 2018
Land.....	\$ 4,360,353	\$ 4,575,352
Buildings and Improvements.....	11,907,331	11,985,118
Automobile.....	52,404	52,404
Furniture, Fixtures and Equipment.....	13,485,163	12,861,570
Leasehold Improvements.....	<u>2,394,953</u>	<u>2,525,858</u>
	32,200,204	32,000,302
Less accumulated depreciation.....	<u>(13,035,708)</u>	<u>(11,905,141)</u>
Net premises and equipment.....	<u>\$ 19,164,496</u>	<u>\$ 20,095,161</u>

NOTE 8: LEASES

As discussed in Note 18, on January 1, 2019, the Company adopted ASU 2016-02, "Leases". The Company recorded initial balances during the quarter ending March 31, 2019 for operating Right of Use ("ROU") assets and liabilities of \$9,655,304. Additionally, the Company recorded initial balances for financing ROU assets and liabilities of \$481,830. As of December 31, 2019, operating lease liability balances were \$9,105,503 and financing lease liability amounts were \$438,580. We maintain operating leases on land and buildings for certain branch facilities and our headquarters. Financing leases are primarily for equipment used at banking facilities. Most leases include options to renew, with renewal terms extending between one to twenty years. The exercise of renewal options is based on judgement of management as to whether or not the renewal option is reasonably certain to be exercised. Factors in determining whether or not the renewal option is reasonably certain to be exercised include, but are not limited to, the value of the leasehold improvements, the value of the renewal rate compared to market rates and the presence of factors that would cause significant economic penalty to the Company if the option is not exercised.

Expenses for finance leases are included in other interest expense and occupancy expense line items, whereas, operating leases are expensed entirely in the occupancy expense line item. Leases with a term of less than twelve months are not recorded on the balance sheet and are expensed on a straight-line basis over the lease term. Discount rates used for the purpose of valuing the leases were based on rates available to the Company on fixed rate borrowings for similar lease terms.

The components of lease expense and their impact on the statement of income as of December 31, 2019 and 2018 is as follows:

	Year ended December 31,	
	2019	2018
	<u>(In Thousands)</u>	
Finance lease cost:		
Amortization of right-of-use assets.....	\$ 111,559	\$ -
Interest on lease liabilities.....	8,346	-
Operating lease cost	1,080,226	1,049,523
Sublease income	<u>(45,200)</u>	<u>-</u>
Total lease costs	<u>\$ 1,154,931</u>	<u>\$ 1,049,523</u>
Additional lease information:		
Weighted-average remaining lease term - financing leases (in years).....		3.5
Weighted-average remaining lease term - operating leases (in years).....		15.2
Weighted-average discount rate - financing leases.....		1.96%
Weighted-average discount rate - operating leases.....		5.60%

The following table sets forth the future minimum lease cash payments and a reconciliation of the undiscounted cash flows to the lease liability as of December 31, 2019:

	Financing	Operating <i>(In Thousands)</i>	Total
2020	\$ 132	\$ 1,043	\$ 1,175
2021	132	1,020	1,152
2022	126	1,011	1,137
2023	53	1,014	1,067
2024	10	856	866
Thereafter	-	8,980	8,980
Total undiscounted future minimum lease cash payments	\$ 453	\$ 13,924	\$ 14,377
Present value discount	(14)	(4,818)	(4,832)
Lease liability	<u>\$ 439</u>	<u>\$ 9,106</u>	<u>\$ 9,545</u>

Future minimum lease cash payments under non-cancelable operating leases as of December 31, 2018, prior to adoption of ASU 2016-02, were as follows:

	December 31, 2018 <i>(In Thousands)</i>
2019	\$ 1,032
2020	993
2021	964
2022	962
2023	956
Thereafter	3,573
	<u>\$ 8,480</u>

NOTE 9: BANK OWNED LIFE INSURANCE

The Company has purchased Bank owned life insurance on certain key members of management. Such policies are recorded at their cash surrender value, or the amount that can be realized. The increase in cash surrender value in excess of the single premium paid is reported as other noninterest income. The balance at December 31, 2019 and 2018 was \$24,698,438 and \$20,198,074, respectively.

NOTE 10: INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Company has purchased investments in limited partnerships that were formed to operate low-income housing apartment complexes and single-family housing units throughout Missouri. Effective January 2015, the investments are accounted for under the proportional amortization method if certain conditions are met. The Company does not have the ability to exert significant influence over the partnerships. For a minimum fifteen-year compliance period, each partnership must adhere to affordable housing regulatory requirements in order to maintain the utilization of the tax credits. At December 31, 2019 and 2018, the net carrying values of the Company's investments in these entities was \$6,663,662 and \$4,550,896, respectively, and are included in other assets on the Company's Consolidated Balance Sheets.

The Company received total income tax credits of \$1,183,140, \$1,324,581 and \$1,871,058 during 2019, 2018 and 2017, respectively. Amortization of the investment costs was \$1,041,863, \$1,120,363 and \$1,531,527 during each of the fiscal years 2019, 2018 and 2017, respectively.

NOTE 11: DEPOSITS

Deposits are comprised of the following at December 31, 2019 and 2018:

	December 31, 2019			December 31, 2018		
	Weighted Average Rate	Balance	Percentage of Deposits	Weighted Average Rate	Balance	Percentage of Deposits
Non-interest bearing transaction.....	0.00%	\$ 87,598,281	10.7%	0.00%	\$ 88,907,804	11.9%
Interest bearing transaction	0.93%	487,621,927	59.3%	1.16%	388,515,712	51.8%
Savings	0.28%	39,203,818	4.8%	0.30%	39,663,846	5.3%
	0.76%	<u>614,424,026</u>	<u>74.8%</u>	0.89%	<u>517,087,362</u>	<u>69.0%</u>
Certificates:						
0.00%-0.99%	0.65%	30,075,341	3.7%	0.69%	46,485,328	6.2%
1.00%-1.99%	1.65%	29,828,669	3.6%	1.45%	71,697,342	9.6%
2.00%-3.99%	2.49%	147,078,496	17.9%	2.46%	114,348,790	15.2%
	2.10%	<u>206,982,506</u>	<u>25.2%</u>	1.79%	<u>232,531,460</u>	<u>31.0%</u>
Total Deposits	1.10%	<u>\$ 821,406,532</u>	<u>100.0%</u>	1.17%	<u>\$ 749,618,822</u>	<u>100.0%</u>

The aggregate amount of certificates of deposit with a minimum balance of \$100,000 was approximately \$123,765,000 and \$154,957,000 as of December 31, 2019 and 2018, respectively. The aggregate amount of certificates of deposit with a minimum balance of \$250,000 was approximately \$54,654,000 and \$89,187,000, as of December 31, 2019 and 2018, respectively.

A summary of certificates of deposit by maturity as of December 31, 2019, is as follows:

2020.....	\$ 96,878,058
2021.....	89,261,262
2022.....	18,496,812
2023.....	1,032,949
2024.....	1,264,550
Thereafter	48,875
	<u>\$ 206,982,506</u>

A summary of interest expense on deposits is as follows:

	Years ended December 31,		
	2019	2018	2017
Transaction accounts	\$ 6,144,802	\$ 4,427,407	\$ 2,394,549
Savings accounts	119,730	105,592	58,384
Certificate accounts	4,754,944	2,524,098	1,309,629
Early withdrawal penalties	(28,023)	(33,811)	(10,997)
	<u>\$ 10,991,453</u>	<u>\$ 7,023,286</u>	<u>\$ 3,751,565</u>

The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$53,548,000 and \$64,032,000 as of December 31, 2019 and 2018, respectively.

NOTE 12: BORROWINGS

Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of the following:

December 31, 2019			December 31, 2018		
<u>Maturity Date</u>	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
2020	65,000,000	1.83%	2019	105,300,000	2.69%

The FHLB requires the Bank to maintain collateral in relation to outstanding balances of advances. For collateral purposes, the FHLB values mortgage loans free of other pledges, liens and encumbrances at 80% of their fair value, and investment securities free of other pledges, liens and encumbrances at 95% of their fair value. Based on existing collateral as well as the FHLB's limitation of advances to 35% of assets, the Bank has the ability to borrow an additional \$133.3 million from the FHLB, as of December 31, 2019.

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with the Federal Reserve Bank. The Bank has the ability to borrow \$57.3 million as of December 31, 2019. The Federal Reserve Bank requires the Bank to maintain collateral in relation to borrowings outstanding. The Bank had no borrowings outstanding on this line as of December 31, 2019 and 2018.

Note Payable to Bank

During 2019, The Company increased an established note payable from \$5.0 million to \$11.2 million with another financial institution. The Bank has borrowed \$11.2 million on this note as of December 31, 2019. The funds were used to provide additional capital for funding Bank asset growth and to redeem Hometown Bancshares subordinated debentures discussed in Note 13. The note carries a variable interest rate tied to 30-day LIBOR plus 250 basis points (4.24% at December 31, 2019) and matures on June 30, 2024.

Line of Credit to Bank

During 2019, The Company established a \$3.0 million revolving line of credit with another financial institution. No amounts were borrowed on this line as of December 31, 2019. The funds, if used, will be to provide additional capital for funding Bank asset growth or repurchasing outstanding common shares of stock. The note carries a variable interest rate tied to 30-day LIBOR plus 250 basis points and matures on June 28, 2021.

NOTE 13: SUBORDINATED DEBENTURES

During 2005, the Company formed two wholly owned grantor trust subsidiaries, Guaranty Statutory Trust I and Guaranty Statutory Trust II, to issue preferred securities representing undivided beneficial interests in the assets of the trusts and to invest the gross proceeds of the preferred securities in notes of the Company. Trust I issued \$5,000,000 of preferred securities and Trust II issued \$10,000,000 of preferred securities. The sole assets of Trust I were originally \$5,155,000 aggregate principal amount of the Company's fixed rate subordinated debenture notes due 2036, which were redeemable beginning in 2011. The sole assets of Trust II were originally \$10,310,000 aggregate principal amount of the Company's fixed/variable rate subordinated debenture notes due 2036, which were redeemable beginning in 2011. Trust II subordinated debenture notes bear interest at a fixed rate for five years and thereafter at a floating rate based on LIBOR. The preferred securities qualify as either Tier I or Tier II capital for regulatory purposes, subject to certain limitations.

As part of the April 2, 2018 acquisition of Hometown Bancshares, Inc., and pursuant to a Second Supplemental Indenture by and among the Company, Hometown and Wilmington Trust Company, as Trustee, the Company assumed Hometown's rights, duties and obligations under the original Indenture of a wholly owned subsidiary, Hometown Bancshares Capital Trust I, a Delaware statutory trust formed on October 29, 2002. This Trust was formed for the purposes of issuing \$6.0 million of Trust Preferred Securities. Hometown issued 30-year junior subordinated deferrable interest debentures to the Trust in the principal amount of \$6,186,000 ("Hometown Trust I Debentures") pursuant to the terms of Indentures dated October 29, 2002 by and between the Company and Wilmington Trust Company, as trustee. These debentures bore interest at a floating rate equal to the three-month LIBOR plus 5.00%, payable quarterly, until May 2019. The rate from May 2019 until maturity in 2032 was a floating rate equal to the three-month LIBOR plus 6.00%, payable quarterly, with a maximum interest rate of 12.5%. The interest payments by the Company to the Trust was used to pay the dividends payable by the Trust to the holders of the Trust Preferred Securities.

The Hometown Trust I Debentures had an original maturity date of November 7, 2032, however, the Company fully redeemed the debentures on July 5, 2019 at 100% of principal amount plus accrued interest after receiving all necessary approvals by the Federal Reserve Board.

NOTE 14: INCOME TAXES

As of December 31, 2019 and 2018, retained earnings included approximately \$5,075,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$1,218,000 as of December 31, 2019.

The provision for income taxes consists of:

	2019	Years Ended December 31, 2018	2017
Taxes currently payable.....	\$ 1,459,016	\$ 1,230,427	\$ 1,490,297
Deferred income taxes.....	224,142	624,386	68,340
Deferred income taxes related to 2017 Tax Act.....	-	-	1,012,112
	<u>\$ 1,683,158</u>	<u>\$ 1,854,813</u>	<u>\$ 2,570,749</u>

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2019 and 2018 balance sheets are:

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Allowances for loan losses	\$ 1,825,853	\$ 1,679,069
Writedowns on foreclosed assets held for sale	409,031	208,434
Unrealized loss on interest rate swaps	390,804	-
Deferred loan fees/costs.....	96,700	130,011
Unrealized loss on available-for-sale securities.....	-	468,298
Other purchase accounting adjustments.....	690,341	692,849
Tax credit partnerships and related tax credit carryforwards.....	1,354,315	1,543,723
Other	284,925	75,714
	<u>5,051,969</u>	<u>4,798,098</u>
Deferred tax liabilities:		
FHLB stock dividends	(30,062)	(31,941)
Unrealized gain on interest rate swaps.....	-	(324,242)
Unrealized gain on available-for-sale securities	(262,217)	-
Accumulated depreciation	(598,785)	(704,543)
Other	(749,964)	(86,819)
	<u>(1,641,028)</u>	<u>(1,147,545)</u>
Net deferred tax asset	<u>\$ 3,410,941</u>	<u>\$ 3,650,553</u>

A reconciliation of income tax expense at the statutory rate to income tax expense at the Company's effective rate is shown below:

	Years ended		
	2019	December 31, 2018	2017
Computed at statutory rate	21.0%	21.0%	34.0%
Increase (reduction) in taxes resulting from:			
State financial institution tax and credits	(2.3%)	(1.3%)	(10.2%)
Cash surrender value of life insurance	(1.0%)	(1.1%)	(2.1%)
Tax exempt interest	(1.1%)	(1.4%)	(3.0%)
Non-deductible merger costs	-	1.0%	-
Impact of 2017 Tax Act	-	-	13.1%
Other	(1.4%)	2.0%	1.5%
Actual effective rate	<u>15.2%</u>	<u>20.2%</u>	<u>33.3%</u>

The Tax Cuts and Jobs Act ("Tax Act") was signed into law on December 22, 2017, making several changes to U. S. corporate income tax laws, including reducing the corporate Federal income tax rate from 35% to 21% effective January 1, 2018. U. S. GAAP requires that the impact of the provisions of the Tax Act be accounted for in the period of enactment and the Company recognized the income tax effects of the Tax Act in its 2017 financial statements.

As part of the acquisition of Hometown, the Company acquired net operating loss (NOL) carryforwards that Hometown had accumulated through acquisition date. The Company estimates the amount of NOL that it expects to utilize in the future will be approximately \$1,900,000 and has recorded a deferred tax asset related to the NOL, which is included in the purchase accounting adjustments above.

NOTE 15: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-sale securities: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agencies, municipals, U.S. corporate and government sponsored and other mortgage-backed securities. The Company has no Level 3 securities.

Derivative financial instruments (Cash flow hedges): The Company's open derivative positions are interest rate swap agreements. Those classified as Level 2 open derivative positions are valued using externally developed pricing models based on observable market inputs provided by a third party and validated by management. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018 (dollar amounts in thousands):

As of December 31, 2019

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Debt securities:				
Government agencies	\$ -	\$ 2,488	\$ -	\$ 2,488
Municipals.....	-	36,175	-	36,175
Corporates	-	15,535	-	15,535
Mortgage-backed securities - private label.....	-	13,811	-	13,811
Government sponsored mortgage-backed securities and SBA loan pools.....	-	50,236	-	50,236
Available-for-sale securities.....	<u>\$ -</u>	<u>\$ 118,245</u>	<u>\$ -</u>	<u>\$ 118,245</u>
Financial liabilities:				
Interest Rate Swaps.....	<u>\$ -</u>	<u>\$ 1,628</u>	<u>\$ -</u>	<u>\$ 1,628</u>

As of December 31, 2018

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Debt securities:				
Municipals.....	\$ -	\$ 33,770	\$ -	\$ 33,770
Corporates	-	3,019	-	3,019
Government sponsored mortgage-backed securities and SBA loan pools.....	-	49,477	-	49,477
Available-for-sale securities.....	<u>\$ -</u>	<u>\$ 86,266</u>	<u>\$ -</u>	<u>\$ 86,266</u>
Interest Rate Swaps.....	<u>\$ -</u>	<u>\$ 1,272</u>	<u>\$ -</u>	<u>\$ 1,272</u>

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Foreclosed Assets Held for Sale: Fair value is estimated using recent appraisals, comparable sales and other estimates of value obtained principally from independent sources, adjusted for selling costs. Foreclosed assets held for sale are classified within Level 3 of the valuation hierarchy.

Impaired loans (Collateral Dependent): Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
December 31, 2019	\$ -	\$ -	\$ 1,483	\$ 1,483
December 31, 2018	\$ -	\$ -	\$ 10,428	\$ 10,428

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
December 31, 2019	\$ -	\$ -	\$ 233	\$ 233
December 31, 2018	\$ -	\$ -	\$ 909	\$ 909

There were no transfers between valuation levels for any asset during the years ended December 31, 2019 or 2018. If transfers are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements (dollar amounts in thousands):

	Fair Value December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent) ...	\$ 1,483	Market Comparable	Discount to reflect realizable value	0% - 100% (22%)
Foreclosed assets held for sale	\$ 233	Market Comparable	Discount to reflect realizable value	30% - 30% (30%)
	Fair Value December 31, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent) ...	\$ 10,428	Market Comparable	Discount to reflect realizable value	0% - 100% (8%)
Foreclosed assets held for sale	\$ 909	Market Comparable	Discount to reflect realizable value	25% - 34% (30%)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and cash equivalents, interest-bearing deposits and Federal Home Loan Bank stock

The carrying amounts reported in the consolidated balance sheets approximate those assets' fair value.

Held-to-maturity securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

The fair value of loans is estimated on an exit price basis incorporating contractual cash flow, prepayment discount spreads, credit loss and liquidity premiums.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances

The fair value of advances is estimated by using rates on debt with similar terms and remaining maturities.

Subordinated debentures and Note Payable to Bank

For these variable rate instruments, the carrying amount is a reasonable estimate of fair value. There is currently a limited market for similar debt instruments and the Company has the option to call the subordinated debentures at an amount close to its par value.

Interest payable

The carrying amount approximates fair value.

Commitments to originate loans, letters of credit and lines of credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2019 and 2018.

	December 31, 2019			December 31, 2018		
	Carrying Amount	Fair Value	Hierarchy Level	Carrying Amount	Fair Value	Hierarchy Level
Financial assets:						
Cash and cash equivalents	\$ 92,671,909	\$ 92,671,909	1	\$ 34,121,642	\$ 34,121,642	1
Interest-bearing time deposits at other institutions	250,000	250,315	2	-	-	-
Held-to-maturity securities	-	-	-	11,794	11,850	2
Federal Home Loan Bank stock	3,757,500	3,757,500	2	5,387,200	5,387,200	2
Mortgage loans held for sale	2,786,564	2,786,564	2	1,516,849	1,516,849	2
Loans, net	720,732,402	723,363,117	3	778,298,606	783,910,789	3
Interest receivable	3,511,875	3,511,875	2	3,390,944	3,390,944	2
Financial liabilities:						
Deposits	821,406,532	822,046,988	2	749,618,822	747,903,071	2
FHLB advances	65,000,000	65,015,635	2	105,300,000	105,325,386	2
Subordinated debentures	15,465,000	15,465,000	3	21,760,829	21,760,829	3
Note payable to bank	11,200,000	11,200,000	3	5,000,000	5,000,000	3
Interest payable	793,746	793,746	2	821,811	821,811	2
Unrecognized financial instruments (net of contractual value):						
Commitments to extend credit	-	-	-	-	-	-
Unused lines of credit	-	-	-	-	-	-

NOTE 16: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote regarding loans.

NOTE 17: EMPLOYEE BENEFIT PLANS

Equity Plans

On May 27, 2015, the Company's stockholders voted to approve the Guaranty Federal Bancshares, Inc. 2015 Equity Plan (the "2015 Plan"). The Plan provides for the grant of up to 250,000 shares of Common Stock under equity awards including stock options, stock awards, restricted stock, stock appreciation rights, performance units, or other equity-based awards payable in cash or stock to key employees and directors of the Company and the Bank. As of December 31, 2019, restricted stock for 69,803 shares of Common Stock and 55,823 of performance stock units has been granted under the Plan.

On May 26, 2010, the Company's stockholders voted to approve the Guaranty Federal Bancshares, Inc. 2010 Equity Plan (the "2010 Plan"). The Plan provides for the grant of up to 200,000 shares of Common Stock under equity awards including stock options, stock awards, restricted stock, stock appreciation rights, performance units, or other equity-based awards payable in cash or stock to key employees and directors of the Company and the Bank. As of December 31, 2019, non-incentive stock options for 25,000 shares and restricted stock for 139,330 shares of Common Stock have been granted under the Plan.

In addition, the Company established four stock option plans for the benefit of certain directors, officers and employees of the Company and its subsidiary. A committee of the Company's Board of Directors administers the plans. The stock options under these plans may be either incentive stock options or nonqualified stock options. Incentive stock options can be granted only to participants who are employees of the Company or its subsidiary. The option price must not be less than the market value of the Company stock on the date of grant. All options expire no later than ten years from the date of grant. The options vest at the rate of 20% per year over a five-year period.

The tables below summarize transactions under the Company's equity plans:

Stock Options

	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non-Incentive Stock Option	
Balance outstanding as of January 1, 2017.....	60,000	50,000	\$ 19.95
Granted	-	-	-
Exercised	(3,000)	-	5.19
Forfeited.....	(11,000)	(25,000)	29.48
Balance outstanding as of December 31, 2017.....	46,000	25,000	\$ 15.74
Granted	-	-	-
Exercised	(13,500)	(10,000)	7.07
Forfeited.....	(20,000)	(10,000)	28.71
Balance outstanding as of December 31, 2018.....	12,500	5,000	\$ 5.14
Granted	-	-	-
Exercised	(12,500)	(5,000)	5.12
Forfeited.....	-	-	-
Balance outstanding as of December 31, 2019.....	-	-	\$ -
Options exercisable as of December 31, 2019	-	-	\$ -

The total intrinsic value of outstanding stock options was \$0 and \$292,200 at December 31, 2019 and 2018, respectively. The total intrinsic value of outstanding exercisable stock options was \$0 and \$292,200 at December 31, 2019 and 2018, respectively. There were no options that vested during 2019, 2018 and 2017.

Restricted Stock

	Number of shares	Weighted Average Grant- Fair Value
Balance of shares non-vested as of January 1, 2017	60,955	\$ 13.62
Granted	13,386	20.33
Vested	(28,791)	12.29
Forfeited.....	-	-
Balance of shares non-vested as of December 31, 2017.....	45,550	\$ 16.44
Granted	13,338	22.41
Vested	(26,539)	16.40
Forfeited.....	-	-
Balance of shares non-vested as of December 31, 2018.....	32,349	\$ 18.93
Granted	15,434	23.85
Vested	(20,771)	17.67
Forfeited.....	(2,634)	22.38
Balance of shares non-vested as of December 31, 2019.....	<u>24,378</u>	\$ 22.75

In March 2019, the Company granted 5,502 shares of restricted stock to directors pursuant to the 2015 Equity Plan that have a one year cliff vesting and expensed over that same period. In February 2018, the Company granted 5,852 shares of restricted stock to directors pursuant to the 2015 Equity Plan that have a one year cliff vesting and expensed over that same period. In February 2017, the Company granted 6,960 shares of restricted stock to directors pursuant to the 2015 Equity Plan of which 6,195 have a cliff vesting at the end of one year and thus, expensed over that same period and 765 shares have a cliff vesting at the end of three years, and thus, expensed over that same period. The expense is being recognized over the applicable vesting period. The expense relating to these awards for the years ended December 31, 2019, 2018 and 2017 was \$131,443, \$138,200 and \$135,274, respectively.

During 2019, 2018 and 2017, the Company granted 9,932, 7,486 and 6,426 shares of restricted stock to officers that all have a cliff vesting at the end of three years. The expense is being recognized over the applicable vesting period. The expense relating to these awards for the years ended December 31, 2019, 2018 and 2017 was \$149,279, \$183,815 and \$210,008, respectively.

Performance Stock Units

	Performance Stock Units	Weighted Average Grant-Date Fair Value
Balance of shares non-vested as of January 1, 2017	-	\$ -
Granted	55,823	20.48
Vested	-	-
Forfeited	-	-
Balance of shares non-vested as of December 31, 2017	55,823	\$ 20.48
Granted	-	-
Vested	-	-
Forfeited	(8,501)	20.48
Balance of shares non-vested as of December 31, 2018	47,322	\$ 20.48
Granted	-	-
Vested	(30,919)	20.48
Forfeited	(16,403)	20.48
Balance of shares non-vested as of December 31, 2019	-	\$ -

On March 29, 2017, the Company granted restricted stock units representing 55,823 hypothetical shares of common stock to officers. There are three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). The restricted stock units vest based on two financial performance factors over the period from March 29, 2017 to December 31, 2019 (the “Performance Period”). The two performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) Total Assets (50%) and (ii) Return on Average Assets (50%). In determining compensation expense, the fair value of the restricted stock unit awards was determined based on the closing price of the Company’s common stock on the date of grant, which was \$20.48 per share. The expense was being recognized over the applicable vesting period. Due to the fact that the measurements could not be determined at the time of the grant, the Company estimated that the most likely outcome was the achievement of the target level. Upon vesting at December 31, 2019, the conversion rate of the PSUs was 65.33% (or 30,919 common shares) based on the achievement of the pre-established performance metrics noted above. The total amount of expense for restricted stock units during the years ended December 31, 2019, 2018 and 2017 was \$359,606, \$263,204 and \$153,242, respectively.

Total stock-based compensation expense is comprised of expense for restricted stock awards, restricted stock units and stock options. Expense recognized for the years ended December 31, 2019, 2018 and 2017 was \$640,328, \$585,219 and \$498,524, respectively. As of December 31, 2019, there was \$219,100 of unrecognized compensation expense related to non-vested restricted stock awards and restricted stock units, which will be recognized over the remaining vesting periods.

NOTE 18: NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, (Topic 606): *Revenue from Contracts with Customers* (“ASU 2014-09”). The scope of the guidance applies to revenue arising from contracts with customers, except for the following: lease contracts, insurance contracts, contractual rights and obligations within the scope of other guidance and nonmonetary exchanges between entities in the same line of business to facilitate sales to customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration that the entity receives or expects to receive. ASU 2014-09 is not expected to significantly impact the timing or approach to revenue recognition for financial institutions. Initially, the amendments were effective for public entities for annual reporting periods beginning after December 15, 2016, however, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*” which deferred the effective date of ASU 2014-09 by one year to annual and interim periods beginning after December 15, 2017. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under GAAP, which comprises a significant portion of our revenue stream. The Company adopted ASU 2014-09 during the first quarter of 2018 and completed an evaluation of the impact of the revenue streams which are included in the scope of these updates, such as deposit fees and revenue from the sale of other real estate owned. The Company concluded that the adoption of this update did not change significantly from our current practice of recognizing the in-scope non-interest income. In addition, we did not retroactively revise prior period amount or record a cumulative adjustment to retained earnings upon adoption.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 simplifies the impairment assessment of equity investments, clarifies reporting disclosure requirements for financial instruments measured at amortized cost, and requires the exit price notion be disclosed when measuring fair value of financial instruments. ASU 2016-01 details the required separate presentation in other comprehensive income for the change in fair value of a liability related to change in instrument specific credit risk and details the required separate presentation of financial assets and liabilities by measurement category and clarifies the guidance for a valuation allowance on deferred tax assets related to available-for-sale securities. ASU 2016-01 is effective for annual and interim reporting periods beginning after December 15, 2017. ASU 2016-01 was effective for the Company on January 1, 2018 and did not have a material impact on our consolidated financial statements but has had an impact on our fair value disclosures. See Note 15- Disclosures about Fair Value of Assets and Liabilities for further information regarding the valuation method for loans.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*.” ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU 2018-11, “*Leases (Topic 842) Targeted Improvements*” which provides additional transition options including allowing entities to not apply the lease standard to the comparative periods presented in their financial statements in the year of adoption. The Company adopted this standard along with certain practical expedients during the quarter ending March 31, 2019 adding operating Right of Use (“ROU”) assets and liabilities of \$9,655,304. Additionally, the Company recorded initial balances for financing ROU assets and liabilities of \$481,130. There was no significant impact made to the income statement.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments. Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, have been released in November 2018 (2018-19), November 2019 (2019-10 and 2019-11) and a January 2020 Update (2020-02) that provided additional guidance on this Topic. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers meeting certain criteria, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For SEC filers that meet the criteria of a smaller reporting company (including this Company) and for non-SEC registrant public companies and other organizations, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company has formed a committee that is assessing our data and evaluating the impact of adopting ASU 2016-13. The Company has also selected a third-party vendor to assist in generating loan level cash flows and disclosures. Based on the results from larger SEC filers and preliminary internal calculations there is likely a significant financial impact of adopting this standard. Estimated amounts and decisions pertaining to implementation of this standard will be evaluated over the next several quarters.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*. The update was intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows with respect to eight types of cash flows. This new accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2017. Adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the quantitative assessment for a reporting unit to determine if the qualitative impairment test is necessary. The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. This standard has been delayed and is now effective for fiscal years beginning after December 15, 2022.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Subtopic 718): *Scope of Modification Accounting*. ASU 2017-09 clarifies when changes to terms or conditions of a share-based payment award must be accounted for as a modification. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as either an equity or liability instrument. ASU 2017-09 was effective for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The guidance requires companies to apply the requirements prospectively to awards modified on or after the adoption date. ASU 2017-09 was effective for the Company on January 1, 2018 and did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): *Targeted improvements to accounting for hedging activities*. Additional guidance on this Topic was released in October 2018 (ASU 2018-16), November 2019 (2019-10) and January 2020 (2020-01). The purpose of this updated guidance is to better align financial reporting for hedging activities with the economic objectives of those activities. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The standard requires the modified retrospective transition approach as of the date of adoption. Implementation of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) are recorded. This standard is effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company elected to early adopt ASU 2018-02 and, as a result, reclassified \$31,818 from accumulated other comprehensive income to retained earnings as of December 31, 2017. The reclassification impacted the Consolidated Balance Sheet and the Consolidated Statement of Stockholder's Equity as of and for the year ended December 31, 2017.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU applies to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. Disclosures removed by this ASU are the amount and reasons for transfers between Level 1 and Level 2, the policy for timing of transfers between levels and the valuation process for Level 3 measurements. This ASU modifies disclosures relating to investments in certain entities that calculate net asset value. Additional disclosures require by the ASU include: 1) change in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and 2) range and weighted average of significant observable inputs used to develop Level 3 measurements. The prospective method of transition is required for the new disclosure requirements. The other amendments should be applied retrospectively. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years or January 1, 2020 for the Company. Early adoption is permitted. The Company is currently evaluating the impact of the new standard on our consolidated financial statements, but at this time do not believe the standard will have a significant impact on the financial statements.

NOTE 19: OTHER EXPENSES

Other expenses for the years ended December 31, 2019, 2018 and 2017 were as follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Directors compensation.....	\$ 232,826	\$ 235,060	\$ 231,479
Outside services.....	164,930	122,715	73,966
Legal expense.....	313,520	249,572	261,088
Deposit expense.....	80,879	78,892	110,897
Office supplies.....	129,988	160,727	105,780
Telephone.....	143,411	183,732	173,160
Postage.....	197,775	175,614	138,864
Insurance.....	161,032	113,610	118,483
Supervisory exam.....	63,619	67,222	55,849
Accounting.....	387,102	453,000	207,652
Organization dues.....	170,017	172,259	155,121
Loan expense.....	417,736	410,177	361,389
Contributions.....	82,200	60,000	60,000
ATM expense.....	252,192	245,892	170,455
Other operating.....	1,007,578	1,210,112	637,961
	<u>\$ 3,804,805</u>	<u>\$ 3,938,584</u>	<u>\$ 2,862,144</u>

NOTE 20: RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to executive officers and directors and their affiliates. Annual activity consisted of the following:

	Year ended December 31,		
	2019	2018	2017
Balance, beginning of year.....	\$ 5,797,809	\$ 6,528,933	\$ 5,822,136
New Loans.....	500,000	2,795,734	1,523,847
Repayments.....	(2,266,965)	(3,526,858)	(817,050)
Balance, end of year.....	<u>\$ 4,030,844</u>	<u>\$ 5,797,809</u>	<u>\$ 6,528,933</u>

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

NOTE 21: COMMITMENTS AND CREDIT RISK

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate.

As of December 31, 2019 and 2018, the Bank had outstanding commitments to originate fixed-rate mortgage loans of approximately \$6,690,000 and \$5,600,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a thirty-day period.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Bank as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Bank be obligated to perform under the standby letters of credit, the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Bank had total outstanding standby letters of credit amounting to \$5,446,000 and \$12,218,000 as of December 31, 2019 and 2018, respectively, with terms ranging from 1 year to 5 years.

The Bank has confirming letters of credit from the FHLB issued for collateral on public deposits and to enhance Bank issued letters of credit granted to various customers for industrial revenue bond issues. As of December 31, 2019 and 2018, these letters of credit aggregated approximately \$57,771,000 and \$61,751,000.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on balance sheet instruments.

As of December 31, 2019 and 2018, unused lines of credit to borrowers aggregated approximately \$108,257,000 and \$104,570,000, respectively, for commercial lines and \$24,373,000 and \$22,254,000, respectively, for open-end consumer lines.

NOTE 22: DERIVATIVE FINANCIAL INSTRUMENTS

The Company records all derivative financial instruments at fair value in the financial statements. Derivatives are used as a risk management tool to hedge the exposure to changes in interest rates or other identified market risks.

When a derivative is intended to be a qualifying hedged instrument, the Company prepares written hedge documentation that designates the derivative as 1) a hedge of fair value of a recognized asset or liability (fair value hedge) or 2) a hedge of a forecasted transaction, such as, the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The written documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item, and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective.

In June 2017, the Company entered into a forward start interest rate swap agreement totaling \$50 million notional amount to hedge against interest rate risk on FHLB advances. As a cash flow hedge, the portion of the change in the fair value of the derivative that has been deemed highly effective is recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings. At December 31, 2019, the Company reported a \$795,612 unrealized loss, net of a \$272,323 tax effect, in accumulated other comprehensive income related to this cash flow hedge.

In March 2019, the Company entered into an interest rate swap agreement totaling \$10.3 million notional amount to hedge against interest rate risk on variable rate subordinated debentures. As a cash flow hedge, the portion of the change in the fair value of the derivative that has been deemed highly effective is recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings. At December 31, 2019, the Company reported a \$417,489 unrealized loss, net of a \$142,899 tax effect, in accumulated other comprehensive income related to this cash flow hedge.

For each instrument, the Company documents at inception and periodically over the life of the hedge, its analysis of actual and expected hedge effectiveness. To the extent that the hedge of future cash flows is deemed ineffective, changes in the fair value of the derivative are recognized in earnings as a component of other noninterest expense. For the year ended December 31, 2019, there was no ineffectiveness attributable to either cash flow hedge.

As of December 31, 2019, based on current fair values, the Company pledged cash collateral of \$1.9 million to its counterparty for the swaps. As of December 31, 2018, based on then current fair values, the counterparty had pledged cash collateral of \$1.5 million to the Company.

A summary of the Company's derivative financial instruments at December 31, 2019 and 2018 is shown in the following table:

Forward Start Inception Date	Termination Date	Derivative Type	Notional Amount	Rate Paid	Rate Hedged	December 31, 2019 Balance Sheet Classification	Estimated Fair Value at:	
							December 31, 2019	December 31, 2018
2/28/2018	2/28/2025	Interest rate swap - FHLB Advances	\$ 50,000,000	2.12%	3 month LIBOR Floating	Other liabilities	\$ (1,067,935)	\$ 1,271,538
5/23/2019	2/23/2026	Interest rate swap - Subordinated Debentures	\$ 10,310,000	4.09%	3 month LIBOR Floating +145 bps	Other liabilities	\$ (560,388)	-

The following table presents the net amounts included in the consolidated statements of income for derivatives designated as hedging instruments for the periods indicated:

Derivative Type	Income Statement Classification	Years ended December 31,	
		2019	2018
Interest rate swap - FHLB Advances	Interest expense	\$ (155,062)	\$ (60,388)
Interest rate swap - Subordinated Debentures	Interest expense	\$ 24,065	-

NOTE 23: ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net unrealized gain (loss) on available-for-sale securities	\$ 1,092,554	\$ (1,836,462)
Net unrealized gain (loss) on interest rate swap instrument	<u>(1,628,323)</u>	<u>1,271,538</u>
	(535,769)	(564,924)
Tax effect	104,734	112,168
Net-of-tax amount.....	<u>\$ (431,035)</u>	<u>(452,756)</u>

NOTE 24: CONDENSED PARENT COMPANY STATEMENTS

The condensed balance sheets as of December 31, 2019 and 2018, and statements of income, comprehensive income and cash flows for the years ended December 31, 2019, 2018 and 2017 for the parent company, Guaranty Federal Bancshares, Inc., are as follows:

Condensed Balance Sheets

	December 31,	
	2019	2018
Assets		
Cash.....	\$ 1,783,729	\$ 1,476,735
Investment in subsidiary.....	108,504,578	104,786,630
Investment in Capital Trusts.....	465,000	651,000
Prepaid expenses and other assets.....	336,796	132,946
Deferred and receivable income taxes.....	1,625,872	1,006,823
	<u>\$ 112,715,975</u>	<u>\$ 108,054,134</u>
Liabilities		
Subordinated debentures.....	\$ 15,465,000	\$ 21,760,829
Note payable.....	11,200,000	5,000,000
Accrued expenses and other liabilities.....	1,412,193	807,813
Due to subsidiary.....	6,900	6,900
Stockholders' equity		
Common stock.....	691,950	690,200
Additional paid-in capital.....	51,908,867	51,382,585
Retained earnings.....	72,860,750	65,829,687
Accumulated other comprehensive loss.....	(431,035)	(452,756)
Treasury stock.....	(40,398,650)	(36,971,124)
	<u>\$ 112,715,975</u>	<u>\$ 108,054,134</u>

Condensed Statements of Income

	Years ended December 31,		
	2019	2018	2017
Income			
Dividends from subsidiary bank.....	\$ 8,000,000	\$ 14,000,000	\$ 2,000,000
Interest income:			
Other.....	40,855	31,016	19,017
	<u>8,040,855</u>	<u>14,031,016</u>	<u>2,019,017</u>
Expense			
Interest expense.....	362,079	120,503	631,202
Other.....	2,439,799	2,773,018	1,158,462
	<u>2,801,878</u>	<u>2,893,521</u>	<u>1,789,664</u>
Income before income taxes and equity in undistributed income of subsidiaries.....	5,238,977	11,137,495	229,353
Credit for income taxes.....	(721,649)	(780,131)	(689,813)
Income before equity in undistributed earnings of subsidiaries.....	5,960,626	11,917,626	919,166
Equity in undistributed income of subsidiaries.....	3,454,464	(4,585,747)	4,238,498
Net income.....	<u>\$ 9,415,090</u>	<u>\$ 7,331,879</u>	<u>\$ 5,157,664</u>

Condensed Statements of Cash Flows

	Years ended December 31,		
	2019	2018	2017
Cash Flows From Operating Activities			
Net income	\$ 9,415,090	\$ 7,331,879	\$ 5,157,664
Items not requiring (providing) cash:			
(Equity in undistributed income) distributions in excess of subsidiaries	(3,454,464)	4,585,747	(4,238,498)
Deferred income taxes.....	(633,608)	(196,399)	-
Accretion of purchase accounting adjustment.....	(109,829)	(65,897)	-
Stock award plan expense	615,385	517,053	466,469
Changes in:			
Prepaid expenses and other assets	(28,124)	(113,711)	(73,584)
Income taxes payable/refundable	157,458	(341,404)	(420,444)
Accrued expenses.....	(26,374)	(1,360,728)	2,390
Net cash provided by operating activities.....	<u>5,935,534</u>	<u>10,356,540</u>	<u>893,997</u>
Cash Flows From Investing Activities			
Capital contributions to subsidiary bank.....	-	(5,000,000)	-
Cash paid for acquisition	-	(4,627,810)	-
Net cash used in investing activities.....	<u>-</u>	<u>(9,627,810)</u>	<u>-</u>
Cash Flows From Financing Activities			
Proceeds from stock options exercised.....	90,000	166,230	15,570
Cash dividends paid on common stock.....	(2,313,661)	(2,132,221)	(1,767,486)
Proceeds from issuance of notes payable.....	7,450,000	5,000,000	-
Repayment of notes payable	(1,250,000)	(3,000,000)	-
Repayment of Capital Trust.....	(6,000,000)	-	-
Treasury Stock purchased.....	(3,604,879)	-	-
Net cash provided by (used in) financing activities.....	<u>(5,628,540)</u>	<u>34,009</u>	<u>(1,751,916)</u>
Increase (Decrease) in cash	306,994	762,739	(857,919)
Cash, beginning of year	<u>1,476,735</u>	<u>713,996</u>	<u>1,571,915</u>
Cash, end of year	<u>\$ 1,783,729</u>	<u>\$ 1,476,735</u>	<u>\$ 713,996</u>

Statements of Comprehensive Income

	Years ended December 31,		
	2019	2018	2017
NET INCOME	<u>\$ 9,415,090</u>	<u>\$ 7,331,879</u>	<u>\$ 5,157,664</u>
OTHER ITEMS OF COMPREHENSIVE INCOME:			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes.....	-	-	-
Change in unrealized loss on interest rate swaps, before income taxes.....	(560,388)	-	-
Income tax expense (benefit) related to other items of comprehensive income.....	(142,899)	-	-
Other comprehensive loss.....	(417,489)	-	-
Comprehensive income (loss) of Bank.....	439,210	(246,563)	1,103,048
TOTAL COMPREHENSIVE INCOME	<u>\$ 9,436,811</u>	<u>\$ 7,085,316</u>	<u>\$ 6,260,712</u>

NOTE 25: SUBSEQUENT EVENT

On February 28, 2020, the Company authorized a new share repurchase plan for up to 250,000 shares of its outstanding common stock. The plan is authorized through December 31, 2022. Shares of common stock may be repurchased through open market transactions or privately negotiated transactions, pursuant to a trading plan in accordance with applicable securities laws. The timing and amount of share repurchases will be depend on several factors, including the market price of the common stock, general market and economic conditions, legal and regulatory requirements and the Company's financial performance. The share repurchase plan does not obligate the Company to acquire any particular number shares, and the Board of Directors may modify, amend or terminate the plan at any time.

NOTE 26: UNAUDITED QUARTERLY OPERATING RESULTS

	Year Ended December 31, 2019, Quarter ended			
	Mar-19	Jun-19	Sep-19	Dec-19
Interest income	\$11,096,436	\$11,299,507	\$11,581,621	\$11,248,939
Interest expense	3,321,718	3,449,152	3,459,478	3,304,666
Net interest income.....	7,774,718	7,850,355	8,122,143	7,944,273
Provision for loan losses.....	-	100,000	100,000	-
Gain on loans and investment securities.....	645,469	888,300	1,055,589	752,688
Other noninterest income, net	918,866	1,045,038	881,541	917,402
Noninterest expense	6,843,559	6,826,483	6,953,456	6,874,636
Income before income taxes.....	2,495,494	2,857,210	3,005,817	2,739,727
Provision for income taxes	375,130	428,711	455,275	424,042
Net income available to common shareholders	\$ 2,120,364	\$ 2,428,499	\$ 2,550,542	\$ 2,315,685
Basic income per common share.....	\$ 0.48	\$ 0.55	\$ 0.58	\$ 0.54
Diluted income per common share.....	\$ 0.47	\$ 0.54	\$ 0.57	\$ 0.53

	Year Ended December 31, 2018, Quarter ended			
	Mar-18	Jun-18	Sep-18	Dec-18
Interest income	\$ 7,956,316	\$10,379,125	\$13,377,875	\$11,532,388
Interest expense	1,925,064	2,406,858	2,648,869	2,946,828
Net interest income.....	6,031,252	7,972,267	10,729,006	8,585,560
Provision for loan losses.....	225,000	500,000	200,000	300,000
Gain on loans and investment securities.....	553,602	831,919	858,254	609,521
Other noninterest income, net	765,437	1,121,893	603,504	1,207,810
Noninterest expense	5,475,855	10,222,637	6,665,849	7,093,992
Income before income taxes.....	1,649,436	(796,558)	5,324,915	3,008,899
Provision for income taxes	293,691	(453,574)	1,390,673	624,023
Net income available to common shareholders.....	\$ 1,355,745	\$ (342,984)	\$ 3,934,242	\$ 2,384,876
Basic income per common share.....	\$ 0.31	\$ (0.08)	\$ 0.89	\$ 0.54
Diluted income per common share.....	\$ 0.30	\$ (0.08)	\$ 0.88	\$ 0.53

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors and Audit Committee
Guaranty Federal Bancshares, Inc.
Springfield, Missouri

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Guaranty Federal Bancshares, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2020, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

To the Stockholders, Board of Directors and Audit Committee
Guaranty Federal Bancshares, Inc.
Page 2

Emphasis of Matter

As discussed in *Note 18* to the financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of *Topic 842*.

BKD, LLP

BKD, LLP

We have served as the Company's auditor since 1980.

March 13, 2020
Springfield, Missouri

Item 9. Changes in and Disagreements with Accountants On Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures**Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures. Based on the foregoing evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2019.

Internal Control Over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the fourth quarter ending December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of Guaranty Federal Bancshares, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, based on the framework set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2019, the Company's internal control over financial reporting was effective.

The Company's internal control over financial reporting as of December 31, 2019, has been audited by BKD, LLP, an independent registered public accounting firm. Their attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 is set forth below.

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors and Audit Committee
Guaranty Federal Bancshares, Inc.
Springfield, Missouri

Opinion on the Internal Control over Financial Reporting

We have audited Guaranty Federal Bancshares, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 13, 2020, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

BKD, LLP

BKD, LLP

Springfield, Missouri
March 13, 2020

Item 9B. Other Information

Not applicable.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information contained under the section captioned "First Proposal: Election of Directors" (excluding any information contained under the section captioned "Meetings and Committees of the Board of Directors") of the Proxy Statement is incorporated herein by reference.

The Company has adopted a Code of Conduct and Ethics, and it applies to all of the members of the Board of Directors, officers and employees of the Company (including the Bank), with special emphasis on compliance by the directors of the Company and the Company's Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or Controller or persons performing similar functions for the Company. The Company's Code of Conduct and Ethics is available on the Company's website at www.gbankmo.com and may be accessed by logging onto the Company's website and clicking on the "Disclosures" link and then the "Code of Conduct" link. You will then be able to click on, and access, the Company's Code of Conduct and Ethics. Amendments to, and waivers granted under, the Company's Code of Conduct and Ethics, if any, will be posted to the Company's website as well.

The information required by Item 10 regarding an audit committee financial expert and the identification of the members of the audit committee, a separately designated committee of the Company's Board of Directors established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, is contained under the section captioned "Report of the Audit Committee" of the Proxy Statement and is incorporated herein by reference.

Additional information required by this item is contained in the section captioned "Information about our Executive Officers of the Registrant" in Item 1 of this report.

Item 11. Executive Compensation

The information contained in the Proxy Statement under the section captioned "Report of the Compensation Committee" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is contained under the section captioned "Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

The following table sets forth information as of December 31, 2019 with respect to equity plans under which shares of the Company's common stock may be issued:

2019 Equity Compensation Plan Information

<u>Plan category</u>	(a) Number of securities to be issued upon exercise of Outstanding options, Warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders.....	-	\$ -	171,179
Equity compensation plans not approved by security holders.....	-	-	-
Totals.....	-	\$ -	171,179

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is contained under the sections captioned "Indebtedness of Management and Directors and Transactions with Certain Related Persons" and "Director Independence" in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item is contained under the section captioned "Principal Accountant Fees and Services" in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Schedules

1. Financial Statements

The following consolidated financial statements and the report of independent registered public accounting firm are filed as part of this report under Item 8.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2019 and 2018.

Consolidated Statements of Income for the Years Ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2019, 2018 and 2017.

Notes to Consolidated Financial Statements.

2. Financial statement schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

3. The following exhibits are filed with this report or incorporated herein by reference:

Index to Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Agreement and Plan of Merger, between Guaranty Federal Bancshares, Inc. and Hometown Bancshares, Inc. dated November 30, 2017 (1)
3.1	Restated Certificate of Incorporation of Guaranty Federal Bancshares, Inc. (2)
3.2	Bylaws of Guaranty Federal Bancshares, Inc., as amended (3)
4.1	Description of the Registrant's Securities†
10.1	Guaranty Federal Bancshares, Inc. 2010 Equity Plan *(4)
10.2	Guaranty Federal Bancshares, Inc. 2015 Equity Plan *(5)
10.3	Employment Agreement dated March 24, 2014 between the Company and Shaun A. Burke *(6)
10.4	Employment Agreement dated March 24, 2014 between the Company and Carter M. Peters (7)*
10.5	Employment Agreement dated March 24, 2014 between the Company and Robin E. Robeson (8)*
10.6	Employment Agreement dated March 24, 2014 between the Company and Sheri D. Biser (9)*
10.7	Amendment to Employment Agreement dated June 1, 2016 between the Company and Shaun A. Burke (10)*
10.8	Amendment to Employment Agreement dated June 1, 2016 between the Company and Carter M. Peters (11)*
10.9	Amendment to Employment Agreement dated June 1, 2016 between the Company and Robin E. Robeson (12)*
10.10	Amendment to Employment Agreement dated June 1, 2016 between the Company and Sheri D. Biser (13)*
10.11	Written Description of 2017 Executive Long-Term Incentive Performance Share Plan for Shaun A. Burke (14)*
10.12	Written Description of 2017 Executive Long-Term Incentive Performance Share Plan for Carter Peters (15)*
10.13	Written Description of 2017 Executive Long-Term Incentive Performance Share Plan for Robin Robeson (16)*
10.14	Written Description of 2017 Executive Long-Term Incentive Performance Share Plan for Sheri Biser (17)*
10.15	Written Description of 2019 Executive Incentive Compensation Annual Plan for Shaun A. Burke (18)*
10.16	Written Description of 2019 Executive Incentive Compensation Annual Plan for Carter Peters (19)*
10.17	Written Description of 2019 Executive Incentive Compensation Annual Plan for Robin Robeson (20)*
10.18	Written Description of 2019 Executive Incentive Compensation Annual Plan for Sheri Biser (21)*
21	Subsidiaries of the Registrant†

- 23 Consent of BKD, LLP†
- 31.1 Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act†
- 31.2 Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act†
- 32 Officer certifications pursuant to 18 U.S.C. Section 1350†
- 101 The following materials from Guaranty Federal Bancshares, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Financial Condition (unaudited), (ii) Condensed Consolidated Statements of Operations (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited), (iv) Condensed Consolidated Statement of Stockholders' Equity (unaudited), (v) the Consolidated Statements of Cash Flows (unaudited), and (vi) related notes.

* Management contract or compensatory plan or arrangement

† Filed herewith

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- (1) Filed as Exhibit 2.1 to the Current Report on Form 8-K filed by the Registrant on December 1, 2017 and incorporated herein by reference.
- (2) Filed as Exhibit 3(i) to the Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (SEC File No. 0-23325) and incorporated herein by reference.
- (3) Filed as Exhibit 3(ii) to the Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (SEC File No. 0-23325) and incorporated herein by reference.
- (4) Filed as Exhibit 99.1 to the Form S-8 Registration Statement filed by the Registrant on October 29, 2010 (SEC File No. 333-170205) and incorporated herein by reference.
- (5) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on May 28, 2015 and incorporated herein by reference.
- (6) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on March 26, 2014 and incorporated herein by reference.
- (7) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on March 26, 2014 and incorporated herein by reference.
- (8) Filed as Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on March 26, 2014 and incorporated herein by reference.
- (9) Filed as Exhibit 10.5 to the Current Report on Form 8-K filed by the Registrant on March 26, 2014 and incorporated herein by reference.
- (10) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on June 3, 2016 and incorporated herein by reference.
- (11) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on June 3, 2016 and incorporated herein by reference.
- (12) Filed as Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on June 3, 2016 and incorporated herein by reference.
- (13) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on June 3, 2016 and incorporated herein by reference.
- (14) Filed as Exhibit 10.6 to the Current Report on Form 8-K filed by the Registrant on March 31, 2017 and incorporated herein by reference.
- (15) Filed as Exhibit 10.7 to the Current Report on Form 8-K filed by the Registrant on March 31, 2017 and incorporated herein by reference.
- (16) Filed as Exhibit 10.8 to the Current Report on Form 8-K filed by the Registrant on March 31, 2017 and incorporated herein by reference.
- (17) Filed as Exhibit 10.10 to the Current Report on Form 8-K filed by the Registrant on March 31, 2017 and incorporated herein by reference.
- (18) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on March 20, 2019 and incorporated herein by reference.
- (19) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on March 20, 2019 and incorporated herein by reference.
- (20) Filed as Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on March 20, 2019 and incorporated herein by reference.
- (21) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on March 20, 2019 and incorporated herein by reference.

Item 16. Form 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GUARANTY FEDERAL BANCSHARES, INC.

Dated: March 13, 2020

By: /s/ Shaun A. Burke
Shaun A. Burke
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Shaun A. Burke
Shaun A. Burke
President and Chief Executive Officer
and Director
(Principal Executive Officer)

Date: March 13, 2020

By: /s/ Tim Rosenbury
Tim Rosenbury
Director

Date: March 13, 2020

By: /s/ Carter M. Peters
Carter M. Peters
EVP and Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: March 13, 2020

By: /s/ James R. Batten
James R. Batten
Chairman of the Board and Director

Date: March 13, 2020

By: /s/ John F. Griesemer
John F. Griesemer
Director

Date: March 13, 2020

By: /s/ James L. Sivils, III
James L. Sivils, III
Director

Date: March 13, 2020

By: /s/ David T. Moore
David T. Moore
Director

Date: March 13, 2020

By: /s/ Greg A. Horton
Greg A. Horton
Director

Date: March 13, 2020

By: /s/ Kurt D. Hellweg
Kurt D. Hellweg
Director

Date: March 13, 2020

By: /s/ Tony Scavuzzo
Tony Scavuzzo
Director

Date: March 13, 2020

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GUARANTY FEDERAL BANCSHARES, INC.
2144 E. Republic Rd. Suite F200
SPRINGFIELD, MO 65804
(417) 520-4333

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 27, 2020

Notice is hereby given that an annual meeting of the stockholders (the "Meeting") of Guaranty Federal Bancshares, Inc. (the "Company") will be held at the Guaranty Bank Headquarters, 2144 E. Republic Rd., Suite F200, Springfield, Missouri, on May 27, 2020, at 6:00 p.m., local time. Stockholders of record at the close of business on April 2, 2020 are the stockholders entitled to notice of and to vote at the Meeting. As part of our precautions regarding the coronavirus or COVID-19, we are planning for the possibility that the annual meeting may be held solely by means of remote communication. If we take this step, we will announce the decision to do so in advance and will provide details on how to participate.

The Meeting is being held for the purpose of considering and acting upon:

1. The election of three directors.
2. The advisory (non-binding) vote to approve the Company's named executive officer compensation.
3. The advisory (non-binding) vote on the frequency of future advisory (non-binding) stockholder votes to approve the Company's named executive officer compensation.
4. The ratification of BKD, LLP as Independent Registered Public Accounting Firm to the Company for the fiscal year ending December 31, 2020.
5. Such other matters as may come properly before the Meeting or any adjournments thereof. Except with respect to procedural matters incident to the conduct of the Meeting, the Board of Directors is not aware of any other business to come before the Meeting.

Important Notice Regarding the Availability of Proxy Materials for the 2020 Annual Stockholders' Meeting to be Held on May 27, 2020. Pursuant to the rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials by notifying you of the availability of our proxy materials on the internet. We encourage you to access and review all of the important information contained in these proxy materials before voting. If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed below on or before May 17, 2020 to facilitate timely delivery. **This Notice of Annual Meeting and Proxy Statement and our 2019 Annual Report may be accessed at www.gbankmo.com or www.investorvote.com/GFED.**

BY ORDER OF THE BOARD OF DIRECTORS



James Batten
Chairman of the Board

Springfield, Missouri
April 14, 2020

THE BOARD OF DIRECTORS URGES YOU TO VISIT THE WEBSITE OR USE THE TOLL-FREE TELEPHONE NUMBER, AS PROVIDED IN THE ENCLOSED MATERIALS, TO VOTE YOUR PROXY AS SOON AS POSSIBLE, EVEN IF YOU CURRENTLY PLAN TO ATTEND THE ANNUAL MEETING. THIS WILL NOT PREVENT YOU FROM VOTING IN PERSON AT THE ANNUAL MEETING IF YOU DESIRE, AND YOU MAY REVOKE YOUR PROXY BY WRITTEN INSTRUMENT AT ANY TIME PRIOR TO THE VOTE AT THE ANNUAL MEETING. IF YOU ARE A STOCKHOLDER WHOSE SHARES ARE NOT REGISTERED IN YOUR OWN NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER TO VOTE PERSONALLY AT THE MEETING.

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2144 E. Republic Rd. Ste F200 • Springfield, MO 65804
417-520-4333 • www.gbankmo.com

April 14, 2020

Dear Fellow Stockholder:

On behalf of the Board of Directors and management of Guaranty Federal Bancshares, Inc., I cordially invite you to attend the 2020 Annual Meeting of Stockholders to be held at the Guaranty Bank Headquarters, 2144 E. Republic Rd., Suite F200, Springfield, Missouri, on Wednesday, May 27, 2020 at 6:00 p.m., local time. The Notice of Annual Meeting of Stockholders and Proxy Statement describe the formal business to be transacted at the meeting. Following the formal meeting, I will report on the operations of the Company. Directors and officers of the Company, as well as representatives of BKD, LLP, our independent registered public accounting firm, will be present to respond to any questions that stockholders may have. As part of our precautions regarding the coronavirus or COVID-19, we are planning for the possibility that the annual meeting may be held solely by means of remote communication. If we take this step, we will announce the decision to do so in advance and will provide details on how to participate.

Whether or not you plan to attend the meeting, please vote online or via the toll-free telephone number, as provided in the enclosed materials, or request a paper copy of the proxy materials to receive a proxy card as soon as possible to vote, sign and return in the postage prepaid envelope in which the proxy card will be mailed to you. This will not prevent you from voting in person at the meeting but will assure that your vote is counted if you are unable to attend the meeting.

Respectfully,

Shaun A. Burke
President and CEO

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**GUARANTY FEDERAL BANCSHARES, INC.
2144 E. REPUBLIC RD. SUITE F200
SPRINGFIELD, MISSOURI 65804**

PROXY STATEMENT

This Proxy Statement has been prepared in connection with the solicitation of proxies by the Board of Directors of Guaranty Federal Bancshares, Inc. (the “Company”) for use at the annual meeting of stockholders to be held on May 27, 2020 (the “Annual Meeting”), and at any adjournment(s) thereof. The Annual Meeting will be held at 6:00 p.m., local time, at the Guaranty Bank Headquarters, 2144 E Republic Rd, Suite F200, Springfield, Missouri. As part of our precautions regarding the coronavirus or COVID-19, we are planning for the possibility that the annual meeting may be held solely by means of remote communication. If we take this step, we will announce the decision to do so in advance and will provide details on how to participate. This Proxy Statement will first be made available to stockholders on April 14, 2020.

RECORD DATE--VOTING--VOTE REQUIRED FOR APPROVAL

All persons who were holders of record of the common stock, par value \$0.10 per share (“Common Stock”) of the Company at the close of business on April 2, 2020 (“Record Date”) will be entitled to cast votes at the Annual Meeting. Article XIII of the Company’s Certificate of Incorporation provides that the number of shares of Common Stock that may be voted by a record holder who beneficially owns Common Stock in excess of 10% of the outstanding shares of Common Stock as of the Record Date (the “Limit”), will be determined pursuant to a formula set forth in Article XIII. However, if the Company’s Board of Directors (the “Board of Directors” or the “Board”) approved the acquisition of the shares of Common Stock that resulted in the record owner beneficially owning more than 10% of the outstanding Common Stock, Article XIII is not applicable. Further, this restriction does not apply to employee benefit plans of the Company.

Voting may be by proxy or in person. As of the Record Date, the Company had 4,372,983 shares of Common Stock issued and outstanding. Holders of a majority of the outstanding shares of Common Stock entitled to vote (after giving effect, if required, to Article XIII), will constitute a quorum for purposes of transacting business at the Annual Meeting.

Stockholders are urged to vote in one of the following manners: (i) via the Internet at www.investorvote.com/GFED; (ii) by telephone at 1-800-652-VOTE (8683); or (iii), for stockholders who request a paper copy, by indicating their vote in the appropriate spaces on the proxy card. Each proxy solicited hereby, if properly executed, duly received by the Board of Directors and not revoked prior to the Annual Meeting, will be voted at the Annual Meeting in accordance with the stockholder’s instructions indicated thereon. Where no instructions are indicated, proxies will be voted by those named in the proxies FOR the approval of the specific proposals presented in this Proxy Statement and on the proxy card and in the discretion of those named in the proxies upon any other business that may properly come before the Annual Meeting or any adjournment thereof. Each stockholder shall have one vote for each share of Common Stock owned. No appraisal or dissenters’ rights exist for any action to be taken at the Annual Meeting.

A stockholder giving a proxy has the power to revoke the proxy at any time before it is exercised by filing with the Secretary of the Company written instructions revoking the proxy. A duly executed proxy bearing a later date will be sufficient to revoke an earlier proxy. The proxy executed by a stockholder who attends the Annual Meeting will be revoked only if that stockholder files the proper written instrument with the Secretary prior to the end of the voting at the Annual Meeting.

To the extent necessary to assure sufficient representation at the Annual Meeting, proxies may be solicited by officers, directors and regular employees of the Company personally, by telephone, by internet or by further correspondence. Officers, directors and regular employees of the Company will not be compensated for their solicitation efforts. The cost of soliciting proxies from stockholders will be borne by the Company. The Company will also reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock.

Regardless of the number of shares of the Company's Common Stock owned, it is important that stockholders be represented by proxy or be present in person at the Annual Meeting. In order for any proposals considered at the Annual Meeting to be approved by the Company's stockholders, a quorum must be present. Stockholders are requested to vote by visiting the internet at www.investorvote.com/GFED, calling 1-800-652-VOTE (8683) or by requesting a paper proxy card and returning it signed and dated in the enclosed postage-paid envelope.

Only holders of record of the Common Stock are entitled to vote at the Annual Meeting. An abstention occurs when a holder of record of Common Stock who has the right to vote such shares on a particular matter does not vote such shares on that matter. Brokers who are record holders of Common Stock are entitled to vote the shares they hold for their customers in "street name" only on routine matters when their customers (i.e. the "beneficial owners") do not instruct the brokers how to vote their shares on that routine matter. Only Proposal Four, the ratification of BKD, LLP as the Company's independent registered public accounting firm, is deemed to be a routine matter. Therefore, brokers will be entitled to vote shares of Common Stock they hold in street name for their customers in the absence of instructions on how to vote by the beneficial owners only on Proposal Four. Proposals One, Two and Three are not deemed to be routine matters and, as such, brokers are not entitled to vote shares of Common Stock they hold in street name on Proposals One, Two and Three in the absence of instructions from the beneficial owners on how to vote their shares. These are referred to as "broker non-votes".

Proposal 1 is the election of nominees for positions as directors of the Company. Directors are elected by a plurality of the votes cast (meaning that the three director nominees who receive the highest number of shares voted "for" their election are elected). Withheld votes will have no effect on the election of the nominees for positions as directors. Because the election of directors is considered to be a non-routine matter, brokers are not entitled to vote in the election. Accordingly, broker non-votes will have no effect on the election of the nominees for positions as directors.

Proposal 2 is the advisory (non-binding) vote on named executive officer's compensation. Approval requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or represented by proxy and entitled to vote on that matter at the Annual Meeting. This means that of the shares represented at the meeting and entitled to vote, a majority of them must be voted for Proposal 2 for it to be approved. Abstentions will have the same effect as a vote "against" Proposal 2. Because Proposal 2 is deemed to be a non-routine matter, brokers are not entitled to vote on it. Accordingly, broker non-votes will have no effect on the vote for Proposal 2.

Proposal 3 is the advisory (non-binding) vote on the frequency of future advisory (non-binding) stockholder votes to approve the Company's named executive officer compensation. The frequency receiving the greatest number of votes (every year, every two years or every three years) will be the frequency that our stockholders recommend. Abstentions will have no effect on the say-on-frequency vote. Because the say-on frequency vote is considered to be a non-routine matter, brokers are not entitled to vote on that matter. Accordingly, broker non-votes will have no effect on the particular frequency vote selected by the stockholders.

Proposal 4 is the ratification of BKD, LLP as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2020. Approval requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or represented by proxy and entitled to vote on that matter at the Annual Meeting. This means that of the shares represented at the meeting and entitled to vote, a majority of them must be voted for Proposal 4 for it to be approved. Abstentions will have the same effect as a vote "against" Proposal 4. Because ratification of accountants is deemed to be a routine matter permitting brokers to vote even in the absence of instructions from the beneficial owner, there will not be broker non-votes with respect to Proposal 4.

Pursuant to Article XIII of the Company’s Certificate of Incorporation, the voting restrictions imposed thereby will apply to a broker, a bank, trust company or other nominee that is the record holder of Common Stock it holds for beneficial owners that either individually or collectively own in excess of the Limit. However, if the Board approved the acquisition of the shares by the broker, bank, trust company or other nominee that resulted in that record holder beneficially owning more than 10% of the outstanding Common Stock, the voting restrictions imposed by Article XIII would not be applicable and such shares would be voted as instructed by the beneficial owner.

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Persons and groups owning in excess of 5% of the Common Stock are required to file certain reports regarding such ownership pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Article XIII of the Certificate of Incorporation of the Company restricts the voting of all shares of Common Stock beneficially owned by record holders who beneficially own in excess of 10% of the outstanding shares of Common Stock unless the Board approved the acquisition of the shares that resulted in the record owner beneficially owning more than the Limit. This restriction does not apply to employee benefit plans of the Company. The following table sets forth, as of the Record Date, persons or groups who are known by the Company to beneficially own more than 5% of the Common Stock.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Total Outstanding Common Shares</u>
Castle Creek Capital Partners V, LP 6051 El Tordo Racho Santa Fe, CA 92067	918,804 (1)	21.04%
FJ Capital Management, LLC 1313 Dolley Madison Blvd, Ste 306 McLean, VA 22101.....	429,959 (2)	9.85%

- (1) Information based solely on a joint schedule 13D/A filed with the Securities and Exchange Commission (the “SEC”) on March 6, 2018 by Castle Creek Capital Partners V, LP (“Fund V”), Castle Creek Capital V LLC (“CCC V”), John M. Eggemeyer III, Mark G. Merlo, John T. Pietrzak and J. Mikesell Thomas as the “Reporting Persons.” Each of the Reporting Persons may be deemed to be the beneficial owner of the 918,804 shares of Common Stock held directly by Fund V. CCC V is the sole general partner of Fund V. Mr. Eggemeyer, Mr. Merlo, Mr. Pietrzak, and Mr. Thomas share voting and dispositive power over the 918,804 shares beneficially owned by Fund V, due to the fact that each is a managing principal of CCC V. CCC V, Mr. Eggemeyer, Mr. Merlo, Mr. Pietrzak, and Mr. Thomas each disclaim beneficial ownership of the Common Stock, except to the extent of their respective pecuniary interest in Fund V. The record holder of the shares of Common Stock beneficially owned by Fund V may vote all 918,804 shares of Common Stock beneficially owned by it, without restrictions on voting imposed by Article XIII of the Company’s Certificate of Incorporation, because the Board of Directors approved the acquisition of the shares of Common Stock that exceed the Limit.
- (2) Information based solely on a joint schedule 13G/A filed with the SEC on February 13, 2020 by FJ Capital Management LLC, Financial Hybrid Opportunity SPV I LLC, Financial Opportunity Fund, Bridge Equities III LLC, Bridge Equities VIII LLC, Bridge Equities IX LLC, Bridge Equities X LLC, Bridge Equities XI LLC, Martin S. Friedman, SunBridge Manager LLC, SunBridge Holdings LLC and Realty Investment Company Inc. (“RIC”) as the “Reporting Persons.”

PROXY STATEMENT

The following table sets forth certain information as of the Record Date, with respect to the shares of Common Stock beneficially owned by each of the directors, nominees for director and Named Executive Officers (see section titled “Summary Compensation Table”) of the Company, and the total shares beneficially owned by directors and executive officers as a group. The Company’s policy is for each director with five years or more of experience on the Board to own a minimum of 2,500 shares, exclusive of stock grants and non-exercised stock options. Directors with less than five years of experience on the Board are required to own a minimum of 500 shares for each full year of service on the Board, up to 2,500 shares. Less than 1% stock ownership is shown below with an asterisk (*).

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Total Outstanding Common Shares
Shaun A. Burke	66,996	1.5%
Kurt Hellweg	97,317	2.2%
Tim Rosenbury	24,569	*
Jamie Sivils, III	26,411	*
James Batten	25,366	*
John Griesemer	130,192	3.0%
David Moore	6,620	*
Greg Horton	5,236	*
Tony Scavuzzo	918,804 (2)	21.0%
Carter Peters	33,804	*
Sheri Biser	20,874	*
Robin Robeson	17,291	*
Total owned by all directors and executive officers as a group (Twelve persons)	1,373,480	31.5%

- (1) Amounts may include shares held directly, as well as shares held jointly with family members, in retirement accounts, in a fiduciary capacity, by certain family members, by certain related entities or by trusts of which the directors and executive officers are trustees or substantial beneficiaries, with respect to which shares the respective director or executive officer may be deemed to have sole or shared voting and/or investment powers. Due to the rules for determining beneficial ownership, the same securities may be attributed as being beneficially owned by more than one person. The holders may disclaim beneficial ownership of the included shares which are owned by or with family members, trusts or other entities.
- (2) Includes 918,804 shares held by Castle Creek Capital Partners V, LP. Mr. Scavuzzo is a Principal at Castle Creek and disclaims beneficial ownership.

PROPOSAL 1: ELECTION OF DIRECTORS

The number of directors constituting the Board will be nine. The Board is divided into three classes. The term of office of one class of directors expires each year in rotation so that the class up for election at each annual meeting of stockholders has served for a three-year term. The terms of three of the present directors (Messrs. Moore, Sivils, and Griesemer) are expiring at the Annual Meeting.

Messrs. Moore, Sivils, and Griesemer have been nominated, upon the recommendation of the Nominating Committee of the Board, by the Board and, upon election at the Annual Meeting, will hold office for a three-year term expiring in 2023 or until their successors are elected and qualified. Each nominee has indicated that he is willing and able to serve as a director if elected and has consented to being named as a nominee in this Proxy Statement.

Unless otherwise specified on the proxies received by the Company, it is intended that executed proxy cards received in response to this solicitation will be voted in favor of the election of each person named in the following table to be a director of the Company for the term as indicated, or until his successor is elected and qualified. There are no arrangements or understandings between the nominees or directors and any other person pursuant to which any such person was or is selected as a director or nominee.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE FOLLOWING NOMINEES FOR THREE-YEAR TERMS EXPIRING 2023

Name	Age (1)	Director Since	Current Term Expires
John F. Griesemer	52	2008	2020
James L. Sivils, III	55	2002	2020
David T. Moore	48	2014	2020

In addition to the three nominees proposed to serve on the Board as described above, the following individuals are also directors of the Company, each serving for the current term indicated.

Directors Who Are Not Nominees Who Will Continue in Office After the Annual Meeting

Name	Age (1)	Director Since	Current Term Expires
Shaun A. Burke	56	2004	2021
Kurt D. Hellweg	62	2000	2021
James R. Batten	57	2006	2021
Greg A. Horton	60	2016	2022
Tim Rosenbury	63	2002	2022
Tony Scavuzzo	38	2018	2022

(1) As of the Record Date

Biographical Information

Set forth below are brief summaries of the background and business experience, including principal occupation, of each nominee and director currently serving on the Board.

James R. Batten, CPA, was Chief Financial Officer of International Dehydrated Foods (IDF) a privately held manufacturer of ingredients for the food industry from September 2016 through January 2020. Prior to joining IDF, Mr. Batten served as a management consultant serving businesses and non-profit organizations from March 2014 through August 2016. Mr. Batten was the Executive Vice President of Convoy of Hope, an international nonprofit relief organization from April 2009 through February 2014. Mr. Batten served as Chief Operations Officer and Executive Vice President of AG Financial Solutions from September 2007 through March 2009. Mr. Batten served as the Executive Vice President of Finance, Chief Financial Officer and Treasurer of O'Reilly Automotive, Inc. (NASDAQ: ORLY) from January 1993 through March 2007. Prior to joining O'Reilly, Mr. Batten was employed by the accounting firms of Whitlock, Selim & Keehn, from 1986 to 1993 and Deloitte, Haskins & Sells from 1984 until 1986. Mr. Batten is a member of the board of AG Financial Solutions, Foundation Capital Resources and Treasurer of Hope Church. Mr. Batten is a former member of the NASDAQ Issuer Affairs Committee. He has also served on a number of other professional and civic boards including the Springfield Area Chamber of Commerce, Big Brothers Big Sisters of the Ozarks and New Covenant Academy. Mr. Batten's extensive experience in public accounting and publicly traded companies, along with strong community service makes him a valuable member of the Board.

John F. Griesemer is President, Chief Executive Officer of Erlen Group since 2017 and a member of the Board of Directors of the Erlen Group since 1993. The Erlen Group is a privately held family of industrial companies, including Springfield Underground, Westside Stone, and Joplin Stone. Mr. Griesemer holds a B.S. degree in Industrial Management and Engineering from Purdue University. He is the past Chairman and current member of the Board of Mercy Springfield Communities, member of the Springfield Catholic Schools Board and a member of the Board of the National Stone Sand and Gravel Association. He is a past Member of the Board of the Missouri Limestone Producers Association, Catholic Campus Ministries, Junior Achievement of the Ozarks and Ozark Technical Community College Foundation. Mr. Griesemer brings to the Board a strong organizational and leadership background, management experience and deep ties in the local community.

Kurt D. Hellweg is the past Chairman of the Board of International Dehydrated Foods, Inc. ("IDF"), American Dehydrated Foods, Inc. ("ADF"), Food Ingredients Technology Company, L.L.C ("FITCO") – a joint venture with Mars Petcare, and Chairman of the Board of IsoNova Technologies, L.L.C. ("IsoNova") – a joint venture with Rembrandt Enterprises, Inc. IDF, ADF, FITCO and IsoNova are privately held companies that manufacture and market ingredients for both the food and feed industries. Mr. Hellweg joined ADF in 1987 and has previously served as Vice President of Sales, Senior Vice President of Operations, and President/COO. Prior to joining ADF, Mr. Hellweg was an officer in the U.S. Navy from 1980 to 1987. During that time, he served tours as a helicopter pilot in the Atlantic Fleet and as an instructor pilot. Mr. Hellweg holds a B.S. degree in Engineering from the University of Nebraska. He is a past Board Member of the Springfield Area Chamber of Commerce, the Springfield Area Arts Council, and the Springfield Symphony. He is the founding member of the Greater Ozarks Chapter of World Presidents' Organization ("WPO") (where he is still active) and has previously chaired the Greater Ozarks Chapter of the Young Presidents' Organization. He is a Black Belt in Taekwondo, a member of Mensa, and enjoys competing in ultra-distance bicycling races. He currently serves on the following Boards: CoxHealth, the Darr Family Foundation, Hammons Products Company. Mr. Hellweg brings to the Board a strong organizational and leadership background, a long history with the company and deep ties in the local community.

Tim Rosenbury, a member of the American Institute of Architects, is the Director of Quality of Place Initiatives for The City of Springfield, Missouri. In his role he oversees capital investments in infrastructure and facilities, with an emphasis on design quality and civic engagement. He retired from the practice of architecture on February 29, 2020, after 35 years as a Partner of Butler, Rosenbury & Partners, Inc., an architecture and planning firm in Springfield, Missouri. He graduated with a B.Arch. from Mississippi State University in 1980, which in 1999 awarded him the designation of Alumni Fellow, and for which he serves on the professional advisory board of The School of Architecture. He is a member of a number of professional and civic organizations, many of which he has held leadership positions, including Chairman of the Springfield Area Chamber of Commerce and President of the Board of Education for Springfield Public Schools. Mr. Rosenbury brings to the Board strong community leadership and significant experience in general business and real estate development and management.

James L. Sivils, III, JD, is the CEO of Environmental Works, Inc., an environmental consulting firm with offices in Springfield, Missouri, Kansas City, Missouri and St. Louis, Missouri. Mr. Sivils began his career as a Missouri licensed attorney in 1990. In 1993, Mr. Sivils began developing real estate and became a licensed Missouri Real Estate Broker. Mr. Sivils has developed numerous commercial and residential projects in Southwest Missouri. Mr. Sivils holds a J.D. degree from the University of Missouri – Kansas City Law School and a B.A. degree from the University of Missouri – Columbia. Mr. Sivils is a member and past Chapter Chair of the Ozarks Chapter of the Young Presidents’ Organization (YPO) and is now a member and Chapter Chair of the Ozarks Chapter of YPO-Gold. Mr. Sivils legal background, knowledge and experience with real estate matters and experience running a 200+ employee company make him a valuable resource to the Board.

David T. Moore is President, Chief Executive Officer, and member of the Board of Directors of Paul Mueller Company. Paul Mueller Company is a publicly held manufacturer of milk cooling equipment and processing equipment headquartered in Springfield, Missouri. Mr. Moore has worked at Paul Mueller Company since 2002, serving as the President since 2011. Additionally, he has been a member of the company’s Board of Directors since 1997. Prior to joining Paul Mueller Company, Mr. Moore was Vice President of Product Development at Corporate Document Systems, a computer software company, for six years. Mr. Moore holds an MBA from The University of Chicago - Booth School of Business and a B.A. from Middlebury College. Mr. Moore is a valuable asset to the Board due to his significant experience in public company management, corporate governance, business acquisition and integration, and information and technology development. In addition, Mr. Moore has long-term personal and business ties to the local community.

Greg A. Horton, CPA, is Chief Executive Officer and co-owner of Integrity Home Care & Hospice, a multi-line home health care enterprise that employs 2,000 and serves over 5,000 clients in Missouri and Kansas, and co-founder of affiliate Integrity Pharmacy. Prior to launching Integrity Home Care in 2000, Mr. Horton was a partner in the accounting firm Whitlock, Selim & Keehn, LLP. He has twenty years of experience in public accounting with an emphasis in management consulting, information systems, and auditing services. Mr. Horton holds a Bachelor of Science in Business Administration with an Accounting Specialization from Central Missouri State University. He is a member of the American Institute of Certified Public Accountants and has been active in board and volunteer service with the Fellowship of Christian Athletes, Boys & Girls Town of Missouri, Rotary Club of Springfield Southeast, and the Springfield Area Chamber of Commerce. Greg is a board member of Foundation Capital Resources, Inc. and Developmental Center of the Ozarks. Mr. Horton’s expertise in large service-based organizations and his background in public accounting make him a valuable resource to the Board.

Shaun A. Burke joined the Bank in March 2004 as President and Chief Executive Officer and was appointed President and Chief Executive Officer of the Company on February 28, 2005. He has over 35 years of banking experience. Mr. Burke received a Bachelor of Science Degree in Finance from Missouri State University and is a graduate of the Graduate School of Banking of Colorado. Mr. Burke served as Chairman of the Board of the Missouri Bankers Association in 2018/2019 and previously served as Chairman of the Legislative Affairs Committee and Chairman of the Audit Committee. In 2019 he was appointed to the Government Relations Council of the American Bankers Association and previously served on the Community Bankers Council from 2014 to 2017. In March 2016, he was appointed to the Federal Reserve Bank of St. Louis’ Community Depository Institutions Advisory Council and served a term ending in 2018. From 2012 to 2014, he was a Board Member of the Springfield Area Chamber of Commerce serving as Vice Chairman of Economic Development in 2014. From 2009 through 2014, he was a Board Member of the Springfield Business Development Corporation, the economic development subsidiary of the Springfield Area Chamber of Commerce serving as President in 2012. He is also a past Member of the United Way Allocations and Agency Relations Executive Committee, Salvation Army Board, and Big Brothers Big Sisters Board. Mr. Burke brings to the Board his many years of banking experience and an extensive knowledge of the bank and its history.

Tony Scavuzzo, is a Chartered Financial Analyst and is a Principal at Castle Creek Capital, an alternative asset management firm, joining the firm in 2009. Mr. Scavuzzo is responsible for the identification and evaluation of investment opportunities, transaction execution, and portfolio company monitoring. He has led or supported investments in numerous recapitalizations, distressed, and growth situations and works with executive management teams on strategic planning, operational improvements, acquisitions, and capital financings. He is currently a director with multiple banking institutions and serves on various board committees regarding governance, compensation and risk. Mr. Scavuzzo was formerly Treasurer and member of the Board of Directors for the CFA Society of San Diego and past Chairman of the Finance Committee for the CFA Society of Chicago. Mr. Scavuzzo holds an MBA in Finance, Accounting and Entrepreneurship from the University of Chicago Booth School of Business and a BBA in Finance from the University of Iowa. He is also a CFA Charterholder. Mr. Scavuzzo brings to the Board his many years of extensive experience with multiple financial institutions.

Director Independence

The Board has determined that all of the directors, except for Mr. Burke who is an executive officer of the Company, are “independent directors” as that term is defined in Rule 5605(a) (2) of the Marketplace Rules of The NASDAQ Stock Market (“NASDAQ”). These directors constitute a majority of the Board.

Board Leadership Structure

Throughout its history, the Company has kept the positions of Chairman of the Board and Chief Executive Officer separate. Currently, Mr. Batten holds the position of Chairman of the Board (since 2016) and Mr. Burke holds the position of Chief Executive Officer. Mr. Batten is considered to be “independent” according to NASDAQ listing requirements.

The Board believes that having separate positions and having an independent outside director serve as Chairman is the appropriate leadership structure for the Company at this time and demonstrates our commitment to good corporate governance. Separating these positions allows our Chief Executive Officer to focus on our day-to-day business, while allowing the Chairman to lead the Board in its fundamental role of providing advice to and independent oversight of management. We believe that having an independent Chairman eliminates the conflicts of interest that may arise when the positions are held by one person. In addition, this leadership structure allows the Board to more effectively monitor and evaluate the performance of our Chief Executive Officer.

Board’s Role in Risk Oversight

It is necessary to effectively manage risk when managing and operating any financial institution. We face a number of risks, including but not limited to, general economic risks, credit risks, regulatory risks, audit risks, information security and technology risks, reputational risks, business competition and pandemics. Management is responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the general oversight of risk management. In its role of risk oversight, the Board has the responsibility to satisfy itself that the risk management processes and procedures designed and implemented by management are appropriate and functioning as designed.

While the full Board is charged with ultimate oversight responsibility for risk management, various committees of the Board and members of management also have specific responsibilities with respect to our risk oversight. Each Board committee has been assigned oversight responsibility for specific areas of risk and risk management, and each committee considers risks within its areas of responsibility. Each of these committees receives regular reports from management regarding our risks and reports regularly to the Board concerning risk.

We believe that providing for full and open communication between management and the Board is essential for effective risk management and oversight. Certain senior management personnel, consistent with their specific areas of responsibility, attend Board meetings and/or Board committee meetings on a regular and consistent basis. We have regular and ongoing reporting and communication mechanisms in place to ensure that oversight is effective.

Meetings and Committees of the Board of Directors

The business of the Company is conducted at regular and special meetings of the full Board of Directors and its standing committees. The standing committees consist of the Executive, Audit, Compensation, Nominating, Investment, Special, Building and Asset/Liability. During the twelve months ended December 31, 2019, the Board held twelve regular meetings. Messrs. Hellweg and Batten attended less than 75% of those meetings and the meetings held by all committees of the Board of Directors on which they served.

Although the Company does not have a formal policy regarding director attendance at the Company's annual stockholders' meeting, all directors are expected to attend these annual meetings absent extenuating circumstances. All current directors attended the Company's annual meeting of stockholders held on May 29, 2019 with the exception of Messrs. Hellweg, Batten and Scavuzzo.

Stockholder Communications with Directors

Stockholders and other interested persons who wish to communicate with the Board of Directors of the Company, or any individual director, should send their written correspondence by mail to: Vicki Lindsay, Secretary, Guaranty Federal Bancshares, Inc., 2144 E. Republic Rd., Ste F200, Springfield, Missouri, 65804.

Audit Committee

The Company has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee of the Board currently consists of four directors: Messrs. Committee Chairman Moore, Horton, Batten, and Hellweg, each of whom is an "independent director" as defined under the NASDAQ listing standards and the criteria for independence set forth in Rule 10A-3 of the Securities Exchange Act of 1934. The Board has determined that Mr. Moore qualifies as an Audit Committee Financial Expert, as defined in the rules and regulations of the SEC. This standing committee, among other things, (i) regularly meets with the internal auditor to review audit programs and the results of audits of specific areas as well as other regulatory compliance issues, (ii) meets at least annually in executive session with the Company's independent auditors to review the results of the annual audit and other related matters, and (iii) meets quarterly with management and the independent auditors to review the Company's financial statements and significant findings based on the independent auditor's review. The Audit Committee is responsible for hiring, retaining, compensating and terminating the Company's independent auditors. The Audit Committee operates under a written charter adopted by the Company's Board of Directors. A copy of the Audit Committee Charter can be viewed on our Guaranty Bank website at www.gbankmo.com by clicking on "Stock Performance" and then "Committee Charting" under "Investor Menu".

During the twelve months ended December 31, 2019, the Audit Committee met five times.

Nominating Committee

The Nominating Committee of the Board is to be comprised of three or more directors as appointed by the Board, each of whom are required to be an "independent director" as defined under the NASDAQ listing standards. Currently, the Nominating Committee consists of four directors, Messrs. Committee Chairman Sivils, Batten, Moore, and Horton, each of whom is an "independent director." During the twelve months ended December 31, 2019, the Nominating Committee met two times. The Nominating Committee operates under a formal written charter adopted by the Board of Directors. A copy of the Nominating Committee Charter can be viewed on our Guaranty Bank website at www.gbankmo.com by clicking on "Stock Performance" and then "Committee Charting" under "Investor Menu".

The Nominating Committee is responsible for identifying individuals qualified to serve as members of the Board and recommending to the Board the director nominees for election and appointment to the Board, as well as director nominees for each of the committees of the Board. In accordance with its charter, the Nominating Committee recommends candidates (including incumbent nominees) based on the following criteria: business experience, education, integrity and reputation, independence, conflicts of interest, diversity, age, number of other directorships and commitments (including charitable obligations), tenure on the Board, attendance at Board and committee meetings, stock ownership, specialized knowledge (such as an understanding of banking, accounting, marketing, finance, regulation and public policy) and a commitment to the Company's communities and shared values, as well as overall experience in the context of the needs of the Board as a whole. The Nominating Committee monitors the mix of skills and experience of its directors and committee members in order to assess whether the Board has the appropriate tools to perform its oversight function effectively. The Nominating Committee does not have a separate diversity policy, but the Nominating Committee does consider the diversity of its directors and nominees in terms of knowledge, experience, skills, expertise, and other demographics which may contribute to the Board.

With respect to nominating existing directors, the Nominating Committee reviews relevant information available to it and assesses their continued ability and willingness to serve as a director. The Nominating Committee will also assess such person's contribution in light of the mix of skills and experience the Nominating Committee has deemed appropriate for the Board as a whole. With respect to nominations of new directors, the Nominating Committee will conduct a thorough search to identify candidates based upon criteria the Nominating Committee deems appropriate and considering the mix of skills and experience necessary to complement existing members of the Board. The Nominating Committee will then review selected candidates and make its recommendation to the Board.

Nominations by a stockholder will be considered by the Nominating Committee if such nomination is written and delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Company between 30 and 60 days prior to the meeting at which such nominee may be considered. However, if less than 31 days' notice of the meeting is given by the Company to stockholders, written notice of the stockholder nomination must be given to the Secretary of the Company as provided above no later than the tenth day after notice of the meeting was mailed to stockholders. A nomination must set forth, with respect to the nominee, (i) name, age, and business address and if known, the residence address, (ii) principal occupation or employment, (iii) Common Stock beneficially owned, and (iv) other information that would be required in a proxy statement including such nominee's written consent to be named in the proxy statement as a nominee and to serving as a director if elected. The stockholder giving notice must list his or her name and address, as they appear on the Company's books, and the amount of Common Stock beneficially owned by him or her. In addition, the stockholder making such nomination must promptly provide to the Company any other information reasonably requested by the Company. Nominations from stockholders will be considered and evaluated using the same criteria as all other nominations.

Compensation Committee

The Board of Directors of the Company and the Board of Directors of the Bank are comprised of the same persons. The Compensation Committee of the Company's Board of Directors and of the Bank's Board of Directors (the "Compensation Committee") are comprised of the same persons and consist solely of non-employee directors of the Company and the Bank, namely Messrs. Committee Chairman Hellweg, Griesemer, Moore, Scavuzzo and Horton. As indicated above, each of these committee members is an "independent director" as defined under the NASDAQ listing standards. The Company has no employees and relies on employees of the Bank for the limited services received by the Company. All compensation paid to executive officers of the Company is paid by the Bank.

The Compensation Committee, together with the full Board, is responsible for designing the compensation and benefit plans for all executive officers and directors of the Company and all employees, executive officers and directors of the Bank, including the Chief Executive Officer, based on its review of performance measures, industry salary surveys and the recommendations of management concerning compensation (See "Report on Executive Compensation"). The Compensation Committee recommends adjustments to the compensation of the Chief Executive Officer and the other Named Executive Officers of the Company based upon its assessment of individual performance and the Bank's performance, and makes other recommendations, when appropriate, to the full Board of Directors. Independent consultants may be engaged directly by the Compensation Committee to evaluate the Company's executive compensation. The Compensation Committee, together with the full Board, determines the compensation of all other officers. The Compensation Committee may delegate its authority to a subcommittee of the Compensation Committee.

During the twelve months ended December 31, 2019, the Compensation Committee met one time. The Compensation Committee operates under a formal written charter adopted by the Company's and the Bank's boards of directors. A copy of the Compensation Committee Charter can be viewed on our Guaranty Bank website at www.gbankmo.com by clicking on "Stock Performance" and then "Committee Charting" under "Investor Menu".

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the year ended December 31, 2019, the Compensation Committee was comprised of Messrs. Committee Chairman Hellweg, Griesemer, Moore, Scavuzzo and Horton, each of whom is a non-employee director of the Company and the Bank. Mr. Burke, the current President and Chief Executive Officer of the Company and the Bank, did not serve as a member of the Compensation Committee during 2019. No executive officer of the Company served on the compensation committee or board of directors of any company that employed any member of the Compensation Committee or Board of Directors.

COMPENSATION DISCUSSION AND ANALYSIS

Overall Compensation Philosophy and Objectives

The Compensation Committee, together with the full Board, has designed the compensation and benefit plans for all employees, executive officers and directors in order to attract and retain individuals who have the skills, experience and work ethic to provide a coordinated work force that will effectively and efficiently carry out the policies adopted by the Board and to manage the Company and the Bank to meet the Company's mission, goals and objectives.

To determine the compensation of executive officers and directors, the Compensation Committee reviews industry compensation statistics based on our asset size, makes cost of living adjustments, and establishes salary ranges for each executive officer and fees for the Board. The Compensation Committee then reviews (i) the financial performance of the Bank over the most recently completed fiscal year (including Return on Assets, Return on Equity, asset quality, etc.) compared to results at comparable companies within the industry, and (ii) the responsibilities and performance of each executive officer and the salary compensation levels of each executive officer compared to like positions at comparable companies within the industry. The Compensation Committee evaluates all factors subjectively in the sense that they do not attempt to tie any factors to a specific level of compensation.

The Compensation Committee offers long-term incentives for executive officers and other management personnel primarily in the form of restricted stock awards. We believe that our stock award programs are an important component of compensation to attract and retain talented executives, provide an incentive for long-term corporate performance, and to align the long-term interests of executives and stockholders.

All executive officers may participate on an equal, non-discriminatory basis with all other employees of the Bank in the Bank's contributory 401(k) tax-deferred savings plan, medical insurance plan, long-term disability plan and group life insurance plan. The Compensation Committee recommends all compensation and benefit plans to the full Board for approval annually and, where necessary, for the Board to submit to the stockholders for approval.

Executive Compensation Philosophy and Objectives

The Compensation Committee is guided by the following four key principles in determining the compensation of the Company's executive officers:

- Competition. The Committee believes that compensation should reflect the competitive marketplace, so the Company can attract, retain and motivate talented personnel.
- Accountability for Business Performance. Compensation should be tied in part to the Company's financial performance, so that executives are held accountable through their compensation for the performance of the Company.
- Accountability for Individual Performance. Compensation should be tied in part to the individual's performance to reflect individual contributions to the Company's performance.
- Alignment with Stockholder Interests. Compensation should be tied in part to the Company's stock performance through long-term incentives such as restricted stock, to align the executive's interests with those of the Company's stockholders.

Consideration of 2019 Say on Pay

At the Company's 2019 annual meeting of stockholders, 94.41% of voting stockholders approved the non-binding advisory proposal on the compensation of the Named Executive Officers (or "NEOs"), (commonly referred to as a "say-on-pay" vote).

The Board and the Compensation Committee pay careful attention to communications received from stockholders regarding executive compensation, including the non-binding advisory vote. The Company carefully considered the result of the 2019 advisory vote on executive compensation but not for specific 2019 compensation decisions. Based on this consideration and the other factors described in this Compensation Discussion and Analysis, the Compensation Committee did not materially alter the policies or structure for the NEO's compensation for 2019 or 2020.

Report of Executive Compensation

The compensation of the Chief Executive Officer (the "CEO") and other NEOs is recommended by the Compensation Committee with final approval from the full Board. The CEO is not a member of the Compensation Committee and does not attend any Compensation Committee meetings unless specifically requested to do so by the Chairman of the Compensation Committee. The CEO may act as a key discussion partner with the Compensation Committee members to provide information regarding business context, the market environment and our strategic direction. The CEO also provides recommendations to the Compensation Committee on individual performance evaluations and compensation for the NEOs, other than himself. The Compensation Committee strives to provide total compensation that is aligned and competitive with compensation data, based on a peer group of selected publicly-traded companies within the banking industry, a similar geographic location and with comparable financial performance. This information was compiled in 2019 by ChaseCompGroup, LLC, a compensation consulting group engaged by the Compensation Committee. The peer group provides a reference point when making pay decisions and benchmarking short-term and long-term incentive plan awards and mechanics. The compensation packages reflect a range based on this analysis, augmented by the performance of the individual executive officer and the Company. Grants under the various equity plans described below are intended to provide long-term incentive to stay with the Company, but should not replace, or override, maintenance of the compensation ranges established from the peer group.

The Compensation Committee has reviewed all components of the CEO's and the other NEO's compensation, including salary, bonus, accumulated and realized and unrealized stock options and restricted stock awards. Based on this review, the Committee finds the CEO's and other NEO's total compensation in the aggregate to be reasonable and not excessive. It should be noted that when the Compensation Committee considers any component of the CEO's and NEO's total compensation, the aggregate amounts and mix of all the components, including accumulated and realized and unrealized stock options and restricted stock awards, are taken into consideration in the Committee's decisions.

COMPENSATION COMMITTEE REPORT

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management. Based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement for filing with the SEC and incorporated by reference in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

THE COMPENSATION COMMITTEE

Kurt D. Hellweg
David T. Moore
Tony Scavuzzo

John F. Griesemer
Greg A. Horton

Summary Compensation Table

The following table sets forth information with respect to the compensation awarded to, paid to or earned for the periods indicated by the CEO, the Chief Financial Officer (“CFO”), the former Chief Lending Officer (“CLO”), the Chief Credit Officer (“CCO”) and the Chief Operating Officer (“COO”). These current executive officers and the former executive officer are collectively referred to as the NEOs. During the fiscal year ended December 31, 2019, no other person served as the CEO or CFO of the Company, and no other executive officer received annual compensation that exceeded \$100,000.

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation	All Other Compensation	Total Compensation
Shaun A. Burke President/CEO	2019	\$320,300	\$ 95,266	\$ -	\$ -	\$ -	\$ -	\$ 16,977(4)	\$ 432,543
	2018	314,167	108,282	-	-	-	-	17,041(4)	439,490
	2017	310,000	104,160	187,187	-	-	-	17,490(4)	618,837
Carter Peters EVP/CFO	2019	213,500	63,510	-	-	-	-	16,613(5)	293,623
	2018	208,333	72,188	-	-	-	-	13,447(5)	293,968
	2017	197,500	63,350	100,639	-	-	-	12,801(5)	374,290
H. Charles Puls Former EVP/CLO (9)	2019	12,500	-	-	-	-	-	90,500(6)	103,000
	2018	178,833	45,000	-	-	-	-	11,906(6)	235,739
	2017	172,500	61,977	87,081	-	-	-	12,539(6)	334,097
Sheri Biser EVP/CCO	2019	191,333	57,225	-	-	-	-	10,170(7)	258,728
	2018	181,833	62,907	-	-	-	-	7,273(7)	252,013
	2017	175,500	63,052	88,556	-	-	-	8,462(7)	335,570
Robin Robeson EVP/COO	2019	232,817	69,257	-	-	-	-	11,200(8)	313,274
	2018	226,667	78,719	-	-	-	-	8,276(8)	313,662
	2017	211,667	68,102	108,216	-	-	-	8,467(8)	396,452

- (1) No director fees were paid to Mr. Burke for any of the years presented.
- (2) Cash bonuses were awarded to NEOs in accordance with established Executive Incentive Compensation Annual Plans as described in more detail below.
- (3) This column represents compensation related to performance share unit awards granted in accordance with established Performance Share Unit Agreements. Amounts represent the aggregate grant date fair value computed in accordance with Accounting Standards Codification Topic 718 (“ASC Topic 718”). The compensation amount is estimated utilizing the Target level incentive. The number of shares used and grant price to each executive was as follows: Mr. Burke – 9,140 shares at a per share grant price of \$20.48; Mr. Peters – 4,914 shares at a per share grant price of \$20.48; Mr. Puls – 4,252 shares at a per share grant price of \$20.48; Ms. Biser – 4,324 shares at a per share grant price of \$20.48; and Ms. Robeson – 5,284 shares at a per share grant price of \$20.48. The performance share unit awards vested on December 31, 2019.

- PROXY STATEMENT
- (4) Amount includes payments of \$11,200, \$11,000 and \$10,800 in 2019, 2018 and 2017, respectively, to Mr. Burke for the Company's 401(k) matching contribution and payments of \$5,777, \$6,041 and \$6,690, respectively, for country club dues.
 - (5) Amount includes payments of \$11,200, \$8,333 and \$7,900 in 2019, 2018 and 2017, respectively, to Mr. Peters for the Company's 401(k) matching contribution and payments of \$5,413, \$5,114 and \$4,901, respectively, for country club dues.
 - (6) Amount includes payments of \$500, \$7,153 and \$6,900 in 2019, 2018 and 2017, respectively, to Mr. Puls for the Company's 401(k) matching contribution and payments of \$0, \$4,753 and \$5,639, respectively, for country club dues.
 - (7) Amount includes payments of \$10,170, \$7,273 and \$8,462 in 2019, 2018 and 2017, respectively, to Ms. Biser for the Company's 401(k) matching contribution.
 - (8) Amount includes payments to Ms. Robeson of \$11,200, \$8,276 and \$8,467 in 2019, 2018 and 2017, respectively, for the Company's 401(k) matching contribution.
 - (9) Mr. Puls' employment with the Company was terminated effective January 25, 2019. Salary amounts for 2019 represent his base salary through the date of termination. He received severance pay equal to six months of his base salary or \$90,000, which is included in "All Other Compensation".

Employment Agreements, Potential Payments Upon Termination or Change-in-Control

On March 24, 2014, the Company entered into Employment Agreements with the NEOs (including amendments dated June 2016). Each employment agreement has a term of one year, which automatically renews each year unless terminated, or unless earlier terminated pursuant to its terms, and sets forth a minimum base salary payable to the officer and provides that the officer is eligible to participate in the Company's bonus, incentive, retirement, health and other insurance benefit plans made available to executive-level employees.

Each employment agreement obligates the Company to pay the officer severance in the event the officer's employment is terminated by the Company without cause. In the event of the officer's involuntary termination without cause prior to a change in control of the Company (as defined in the employment agreement), each officer other than Mr. Burke would receive 24 months base pay. Mr. Burke would receive 36 months base pay. Such severance would be made in periodic installments and is conditioned upon the officer executing a release and waiver of claims in favor of the Company.

In the event of involuntary termination without cause within 12 months after a change in control of the Company, each officer other than Mr. Burke would receive 12 months base pay. Mr. Burke would receive 24 months base pay. Such severance would be made in a single lump sum and is conditioned upon the officer executing a release and waiver of claims in favor of the Company.

As a condition of entering into the employment agreement, each officer has agreed not to divulge any confidential information during his or her employment or to solicit the Company's employees or customers for a period of 12 months (24 months in the case of Mr. Burke) following the officer's termination of employment.

On April 2, 2019, the Company entered into incentive compensation arrangements with respect to bonuses payable to all NEOs in 2020 for the calendar year 2019, which are further discussed below.

The Compensation Committee approved an incentive compensation plan for Mr. Burke, the Company's CEO, for 2019. Pursuant to this plan, a maximum amount of 50% of base pay may be paid to Mr. Burke, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). One hundred percent of the bonus amount will be paid in cash. For any amount to be paid, the threshold level of performance must be achieved. The three performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) return on average assets (40%); (ii) net interest margin (20%); and (iii) loan to deposit ratio (40%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Mr. Peters, the Company's CFO, for 2019. Pursuant to this plan, a maximum amount of 50% of base pay may be paid to Mr. Peters, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). One hundred percent of the bonus amount will be paid in cash. For any amount to be paid under this plan, the threshold level of performance must be achieved. The three performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) return on average assets (40%); (ii) net interest margin (20%); and (iii) loan to deposit ratio (40%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Ms. Robeson, the Company's COO, for 2019. Pursuant to this plan, a maximum amount of 50% of base pay may be paid to Ms. Robeson, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). One hundred percent of the bonus amount will be paid in cash. For any amount to be paid under this plan, the threshold level of performance must be achieved. The three performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) return on average assets (40%); (ii) net interest margin (20%); and (iii) loan to deposit ratio (40%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Ms. Biser, the Company's CCO, for 2019. Pursuant to this plan, a maximum amount of 50% of base pay may be paid to Ms. Biser, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). One hundred percent of the bonus amount will be paid in cash. For any amount to be paid under this plan, the threshold level of performance must be achieved. The three performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) return on average assets (40%); (ii) net interest margin (20%); and (iii) loan to deposit ratio (40%). Certain criteria, however, must be satisfied before an award is paid under this plan.

On March 29, 2017 (the "Grant Date"), the Company entered into long-term incentive performance share arrangements for Mr. Burke, Mr. Peters, Ms. Robeson, and Ms. Biser. The performance period under the plans are from March 29, 2017 and ended December 31, 2019 (the "Performance Period"). One hundred-percent (100%) of the incentive amount was to be paid in restricted stock units (the "Units"), representing the right to earn, on a one-for-one basis, shares of the Company's Common Stock. The Plan was to pay a maximum number of shares of which there were three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). For any bonus amount to be paid, the threshold level of performance must have been achieved. The bonus amount was to be prorated for performance achievements between the threshold and target levels and between the target and maximum levels. The two performance measurements of the Company (and the weight given to each measurement) applicable to each award level were as follows: (i) Total Assets (50%) and (ii) Return on Average Assets (50%). The following minimum criteria must all have been satisfied before an award was to be paid under the Plan: (i) No consent orders from any regulatory agency were in place at the time of vesting and (ii) No decline in composite CAMELS rating by the end of the Performance Period as compared to the ratings as of the Grant Date. These plans were to pay a maximum number of shares per individual as follows: Mr. Burke – 18,280 shares; Mr. Peters – 9,828 shares; Ms. Robeson – 10,565 shares; and Ms. Biser – 8,649 shares. Based on the performance measurements achieved at the end of the Performance Period, the plans paid each individual as follows: Mr. Burke – 11,944 shares; Mr. Peters – 6,421 shares; Ms. Robeson – 6,904 shares; and Ms. Biser – 5,650 shares.

Outstanding Equity Awards at Fiscal Year End 2019

The Company had no outstanding equity awards to the NEOs which were outstanding as of December 31, 2019.

Directors' Compensation

During 2019, each non-employee member of the Board received cash compensation from the Bank of \$830 per each Bank board meeting attended, payable monthly. In addition to the cash compensation, each non-employee member of the Board receives equity compensation from the Company. Directors will receive fees for committee memberships or attendance at committee meetings comprised of \$200 per meeting for the Executive, Audit and Compensation Committees and \$125 per meeting for any other committee. Asset/Liability Committee members receive a \$200 monthly fee. The Chairman of the Board receives an additional \$500 monthly fee in addition to the regular per meeting fee. The Chairman of the Audit Committee receives an additional \$417 monthly fee in addition to the regular per meeting fee. Building and Compensation Committees Chairman receives an additional \$170 monthly fee in addition to the regular per meeting fee.

Directors may participate in the Company's 2015 Equity Plan. During fiscal years 2019, 2018, and 2017, restricted stock awards of 786, 836, and 885 shares, respectively, were granted to each independent, non-employee director (except Mr. Scavuzzo) to provide equity compensation from the Company. Annual equity compensation is determined at the discretion of the Compensation Committee.

The following table sets forth information with respect to the compensation received in fiscal years 2019, 2018, and 2017 for serving as a director of the Company and the Bank.

Name	Year	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Total Compensation (\$)
James Batten	2019	14,215	18,746	32,961
	2018	14,060	18,735	32,795
	2017	15,290	18,010	33,300
Kurt Hellweg	2019	11,030	18,746	29,776
	2018	13,215	18,735	31,950
	2017	13,995	18,010	32,005
Tim Rosenbury	2019	12,340	18,746	31,086
	2018	13,500	18,735	32,235
	2017	14,955	18,010	32,965
James Sivils	2019	11,005	18,746	29,751
	2018	12,210	18,735	30,945
	2017	12,540	18,010	30,550
John Griesemer	2019	14,435	18,746	33,181
	2018	13,685	18,735	32,420
	2017	15,340	18,010	33,350
David Moore	2019	15,798	18,746	34,544
	2018	13,250	18,735	31,985
	2017	13,125	18,010	31,135
Greg Horton	2019	11,410	18,746	30,156
	2018	10,960	18,735	29,695
	2017	10,960	33,578	44,538
Tony Scavuzzo	2019	11,150	-	11,150
	2018	5,980	-	5,980

- (1) This column represents equity compensation from the Company and is the aggregate grant date fair value of restricted stock awards granted under the 2015 Equity Plan. The compensation for 2019 per director of \$18,746 represents 786 shares granted at a per price share of \$23.85. The compensation for 2018 per director of \$18,735 represents 836 shares granted at a per price share of \$22.41. The compensation for 2017 per director of \$18,010 represents 885 shares granted at a per price share of \$20.35.

Indebtedness of Management and Directors and Transactions with Certain Related Persons

Loans made to a director or executive officer in excess of the greater of \$25,000 or 5% of the Company's capital and surplus (up to a maximum of \$500,000) must be approved in advance by a majority of the disinterested members of the Board of Directors. The Bank, like other financial institutions, provides loans to its officers, directors, and employees to purchase or refinance personal residences as well as consumer loans. As an additional benefit to eligible Bank directors and employees, the Bank offers an employee mortgage loan program (the "Loan Program"). The Loan Program provides mortgage loans at favorable interest rates, namely a one-year adjustable rate mortgage priced at the Bank's cost of funds with a 1% floor. The purpose of the loan must be to purchase or refinance a primary or secondary residence (i.e., no investment properties). All full-time employees that have completed the 30-day probation period are eligible to participate in this Loan Program. Underwriting includes standard application and financial disclosures, which must qualify to standard secondary market requirements. The borrower is responsible for all third-party closing costs. The index rate is the Bank's all-in cost of funds with a 1% floor. The index will be the last month-end calculation within 45 days prior to closing. The maximum adjustment per year is 2% with a 6% lifetime maximum. Each loan has up to a 30-year note/amortization. If the borrower's employment is terminated for reasons other than normal retirement, disability or death, or if the property securing the promissory note evidencing each eligible participant's loan (the "Note") ceases to be the primary or secondary residence of the employee, the interest rate will adjust to the rate that would have been in effect pursuant to the original provision of the Note. The payment will adjust the following month to amortize the outstanding balance of the Note using the new interest rate and the remaining term. Other than the interest rate with respect to the Loan Program, all loans provided under the Loan Program and any other loans provided to directors and executive officers have been made in the ordinary course of business, on substantially the same terms and collateral as those of comparable transactions prevailing at the time, and, in the opinion of management of the Company, do not involve more than the normal risk of collectability or present other unfavorable features.

No directors, executive officers or their affiliates had aggregate indebtedness to the Company or the Bank on below market rate loans exceeding the lesser of (i) \$120,000 or (ii) one percent of the average of the Company's total assets at year-end for the last two completed fiscal years, at any time since January 1, 2019 except as noted in the following table.

Name	Position	Date of Loan	Largest Principal Amount Outstanding Since 01/01/19	Principal Balance as of 12/31/19	Interest Rate at 12/31/19	Type
The Burke Family Trust (Shaun A. Burke)	President, CEO & Director	1/14/2011	\$ 220,961	\$ 212,215	1.25%	Home Mortgage
Carter M. Peters	EVP, CFO	7/18/2016	\$ 335,707	\$ 325,302	1.375%	Home Mortgage
James R. Batten	Director	10/27/2008	\$ 380,539	\$ 363,413	1.25%	Home Mortgage
James L. Sivils III	Director	6/1/2014	\$ 347,372	\$ 335,636	1.375%	Home Mortgage
James L. Sivils III	Director	6/13/2017	\$ 226,375	\$ 219,651	1.375%	Home Mortgage
John F. Griesemer	Director	5/9/2016	\$ 729,331	\$ 702,010	1.375%	Home Mortgage
Kurt Hellwegg	Director	6/28/2018	\$ 2,146,916	\$ 1,081,778	1.375%	Home Mortgage
George Timothy Rosenbury	Director	6/19/2008	\$ 118,656	\$ 106,376	1.375%	Home Mortgage

PROPOSAL 2

ADVISORY (NON-BINDING) VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

Background of the Proposal

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and corresponding SEC rules enable the Company's stockholders to vote to approve, on an advisory and non-binding basis, the compensation of Company's named executive officers as disclosed in this Proxy Statement in accordance with SEC rules. As a result, the following proposal will be presented at the Meeting in the form of the following resolution:

Proposal

RESOLVED, that the stockholders approve the compensation of the Company's named executive officers, as disclosed in the Compensation Discussion and Analysis, and the compensation tables (together with the accompanying narrative disclosure) and related material in the Company's Proxy Statement for the Annual Meeting.

Effect of Proposal

As provided under the SEC rules, this vote will not be binding on the Company's Board of Directors or the Compensation Committee and may not be construed as overruling a decision by the Board or as creating or implying any additional fiduciary duty of the Board. Further, the vote shall not affect any compensation paid or awarded to any executive. The Compensation Committee and the Board may, however, take into account the outcome of the vote when considering future executive compensation arrangements.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE PROPOSAL ON NAMED EXECUTIVE OFFICER COMPENSATION.

PROPOSAL 3

ADVISORY (NON-BINDING) VOTE ON THE FREQUENCY OF FUTURE STOCKHOLDER ADVISORY (NON-BINDING) VOTES ON EXECUTIVE COMPENSATION

Proposal 3, commonly known as a "say-on-frequency" vote, gives stockholders the opportunity to vote on how frequently stockholders should be given an opportunity to cast a say-on-pay vote in the Company's future annual stockholder meetings (or any special meeting for which the Company must include executive compensation information in the proxy statement). This proposal is also required by the Dodd-Frank Act. Under Proposal 3, stockholders have the following choices regarding how often the Company holds the say-on-pay vote:

- every year;
- every two years;
- every three years; or
- abstain from casting a vote on this proposal.

The Board believes that a say-on-pay proposal every year is the most appropriate alternative for the Company and, therefore the Board of Directors recommends that you vote in favor of conducting a say-on-pay vote every year. The Board of Directors supports an annual advisory approval because we believe that this will provide our stockholders with the most consistent and clear communication channel for stockholder concerns about the compensation of the named executive officers.

This vote is advisory, which means that it is not binding on the Company, the Board of Directors, or the Compensation Committee. The Company recognizes that the stockholders may have different views as to the best approach and looks forward to hearing from the stockholders as to their preferences on the frequency of the say-on-pay vote. The Board of Directors and the Compensation Committee will carefully review the outcome of the say-on-frequency vote; however, when considering the frequency of future advisory (non-binding) say-on-pay votes, the Board of Directors may decide that it is in the Company's and the stockholders' long-term best interest to hold a say-on-pay vote more or less frequently than the frequency receiving the most votes cast by our stockholders.

The proxy card provides stockholders with the opportunity to choose among the four options noted above (holding the advisory (non-binding) say-on-pay vote every year, every two years, every three years, or abstain from voting). Stockholders are not being asked to approve or disapprove the recommendation of the Board of Directors. If a quorum is present, the frequency of the advisory vote on the non-binding resolution to approve the compensation of our named executive officers receiving the greatest number of votes (every three years, every two years, or every year) will be the frequency that our stockholders recommend.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE OPTION OF "EVERY YEAR" AS THE FREQUENCY WITH WHICH STOCKHOLDERS ARE PROVIDED AN ADVISORY VOTE ON EXECUTIVE COMPENSATION."

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is composed of four directors. The Board has determined that each of these directors is independent as defined under the NASDAQ listing standards and the criteria for independence set forth in Rule 10A-3 of the Securities Exchange Act of 1934. The Board has also determined that Mr. Moore qualifies as an Audit Committee Financial Expert as defined by the rules and regulations of the SEC.

The primary duties and responsibilities of the Audit Committee are to (i) monitor the Company's financial reporting process and systems of internal control, (ii) monitor the independence and performance of the Company's independent registered public accounting firm and internal auditors, and (iii) assure that management, the Board of Directors, the internal auditors and the independent auditors have the opportunity to communicate with one another.

The Audit Committee has reviewed and discussed the audited consolidated financial statements with management and with BKD, LLP, the Company's independent registered public accounting firm and has also discussed with BKP, LLP matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board (the "PCAOB").

The Audit Committee has also received the written disclosures and the letter from BKD, LLP, the Company's independent registered public accounting firm, required by the applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence. The Audit Committee has discussed with the independent registered public accounting firm that firm's independence. The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of the independent registered public accounting firm. The Audit Committee has concluded that the independent registered public accounting firm is independent from the Company.

Based upon the Audit Committee's discussions and review described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 for filing with the SEC.

THE AUDIT COMMITTEE

David T. Moore
Kurt D. Hellweg

Greg A. Horton
James R. Batten

PRINCIPAL ACCOUNTANT FEES AND SERVICES

During the calendar years ended December 31, 2019 and 2018, BKD, LLP, the Company's independent registered public accounting firm, provided various audit, audit related and non-audit services, including tax, to the Company. Set forth below are the aggregate fees billed for these services during these periods and a brief description of such services:

- (a) Audit fees: Aggregate fees billed for professional services rendered for the audits of the Company's annual financial statements and internal control over financial reporting and reviews of quarterly financial statements were \$281,433 for the calendar year ended December 31, 2019 and \$370,005 for the calendar year ended December 31, 2018.
- (b) Audit-related fees: Aggregate fees billed for assurance and related services rendered and consultation on accounting matters not otherwise reported in (a) above were \$9,364 for the calendar year ended December 31, 2019 and \$24,237 for the calendar year ended December 31, 2018.
- (c) Tax fees: Aggregate fees billed for professional services rendered related to tax compliance, tax advice and tax planning were \$46,170 for the calendar year ended December 31, 2019 and \$34,300 for the calendar year ended December 31, 2018.
- (d) All other fees: Aggregate fees billed for all other professional services, were \$1,430 for the calendar year ended December 31, 2019, and \$1,850 for the calendar year ended December 31, 2018.

The Audit Committee pre-approves all audit and permissible non-audit services to be provided by BKD, LLP and the estimated fees for these services. There are no other specific policies or procedures relating to the pre-approval of services performed by BKD, LLP. The Audit Committee considered whether the audit and non-audit services rendered by BKD, LLP were compatible with maintaining BKD, LLP's independence as auditors of our financial statements.

PROPOSAL 4

RATIFICATION OF BKD, LLP AS

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The independent registered public accounting firm for the period ended December 31, 2019 for the Company and its subsidiary, the Bank, was BKD, LLP. In accordance with its charter, the Audit Committee has selected and appointed BKD, LLP to continue as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2020. As part of good corporate practice, the Audit Committee and the Company's Board of Directors are requesting that its stockholders ratify such appointment. The Audit Committee is not required to take any action as a result of the outcome of the vote on this proposal. If the stockholders do not ratify the appointment, however, the Audit Committee may investigate the reasons for stockholder rejection and may consider whether to retain BKD, LLP or to appoint another independent registered public accounting firm.

A representative of BKD, LLP will be present at the Annual Meeting. The representative will have an opportunity to make a statement, if so desired, and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF BKD, LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2020.

MISCELLANEOUS

The Board of Directors is not aware of any business to come before the Annual Meeting other than those matters described above in this Proxy Statement. However, if any other matters should properly come before the meeting, it is intended that proxies that are received from stockholders will be voted in respect thereof in the discretion of the persons named in the accompanying proxy. If the Company does not have notice of a matter on or before May 1, 2020, it is expected that the persons named in the proxy will exercise discretionary authority when voting on that matter.

It is anticipated that the Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on May 27, 2020 will be mailed on April 14, 2020, to all stockholders of record as of the Record Date. We encourage you to access and review all of the important information contained in the proxy materials before voting. If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the Notice by May 17, 2020.

STOCKHOLDER PROPOSALS

In order to be eligible for inclusion in the Company's proxy materials for next year's annual meeting of stockholders, any stockholder proposal to take action at such meeting must be received at the Company's executive offices at 2144 E. Republic Rd., Suite F200, Springfield, Missouri 65804, no later than December 15, 2020.

If a stockholder wishes to nominate a director or bring other business before the stockholders at next year's annual meeting the Company's Certificate of Incorporation provides that notice of such stockholder proposal must be received at the Company's executive offices between 60 days and 30 days prior to the meeting, or the proposal will not be eligible for presentation at that meeting. If next year's annual meeting is held on May 26, 2021, then stockholder proposals would have to be delivered to the Company between March 27, 2021 and April 26, 2021. However, if less than 31 days' notice of the annual meeting is provided by the Company, a stockholder's proposal would have to be received no later than 10 days after notice was mailed to the stockholders by the Company for that meeting.

In the event the Company receives notice of a stockholder proposal to take action at next year's annual meeting of stockholders that is not submitted for inclusion in the Company's proxy materials, or is submitted for inclusion but is properly excluded from the proxy materials, the persons named in the proxy sent by the Company to its stockholders intend to exercise their discretion to vote on the stockholder proposal if notice of such proposal is received at the Company's executive offices between 60 days and 30 days prior to the meeting.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K (INCLUDING THE FINANCIAL STATEMENTS) FOR THE PERIOD ENDED DECEMBER 31, 2019, AS FILED WITH THE SEC, WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE UPON WRITTEN REQUEST AS INSTRUCTED ON THE NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR GUARANTY FEDERAL BANCSHARES, INC. THERE IS NO CHARGE FOR REQUESTING A COPY.

Dated: April 14, 2020



ACCOUNTABILITY
ACHIEVE



INTEGRITY



RESPONSIBILITY



COMMUNITY



COURAGE

TRUST

IDEAS

COLLABORATION

GOALS



VALUE



PERSPECTIVE

ENTHUSIASTIC



ENGAGEMENT

ETHICAL

RELATIONSHIPS



Guaranty Federal Bancshares, Inc.

2019 Annual Report

BOARD OF DIRECTORS

Guaranty Federal Bancshares, Inc. and Guaranty Bank



James R. Batten,
Chairman
Management Consultant
Joined the Board in 2006



Shaun A. Burke
President and CEO
Guaranty Federal Bancshares and
Guaranty Bank
Joined the Company in 2004



John F. Griesemer
President/CEO
Erlen Group
Joined the Board in 2008



Kurt D. Hellweg
Retired
Joined the Board in 2000



Greg A. Horton
Chief Executive Officer
Integrity Pharmacy and
Integrity Home Care
Joined the Board in 2016



David T. Moore
President and CEO
Paul Mueller Company
Joined the Board in 2014



Tim Rosenbury, AIA
Director of Quality of Place Initiatives for
The City of Springfield Missouri
Joined the Board in 2002



James L. Sivils, III, JD
CEO
Environmental Works, Inc.
Joined the Board in 2002



Tony Scavuzzo
Principal
Castle Creek Capital
Joined the Board in 2018

EXECUTIVE OFFICERS

Guaranty Federal Bancshares, Inc. and Guaranty Bank



Shaun A. Burke
President and CEO
Joined the Company in 2004



Carter M. Peters
Executive Vice President
Chief Financial Officer
Joined the Company in 2005



Robin E. Robeson
Executive Vice President
Chief Operating Officer
Joined the Company in 2012



Sheri D. Biser
Executive Vice President
Chief Credit Officer
Joined the Company in 2009

Guaranty Bank actively
invests in the  communities we
serve. We do this by delivering
world-class solutions to our
customers, engaging and rewarding
opportunities for our employees, and
superior value to our shareholders.



Guaranty Federal Bancshares

SPRINGFIELD:

2144 East Republic Road, Suite F200
1341 West Battlefield
2109 North Glenstone
4343 South National
1905 West Kearney
1510 East Sunshine
2155 West Republic Road

NIXA:

709 West Mount Vernon
291 East Hwy CC

OZARK:

1701 West State Hwy J

JOPLIN:

1429 East 32nd Street
3016 McClelland Boulevard
1936 Range Line Road Suite A

CARTHAGE:

312 West Central Avenue
2435 Fairlawn Drive

NEOSHO:

1285 South Neosho Boulevard

MORTGAGE LOAN PRODUCTION OFFICE:

1100 Spur Drive, Suite 15, Marshfield

OPERATIONS CENTER:

1414 West Elfindale Street, Springfield

833.875.2492 / gbankmo.com



MEMBER FDIC



COMMUNITY

Relationships are the lifeblood of our business. We are good stewards of our resources and share our time and expertise. We realize that diverse people, ideas, and thinking expand our perspective.

I We choose courage over comfort. We choose what's right over what's fast, easy or popular. We practice our values, not just profess them.

T E

We are enthusiastic ambassadors. We recognize and reward outstanding performance and achieve our goals.

ENGAGEMENT

Outcomes are better when we work together. We gain momentum when we collaborate to achieve our common goals. We value ideas and input is encouraged.

R

COLLABORATION

ACCOUNTABILITY

Y

Our business is based on the highest ethical standards and we hold ourselves accountable for our own actions. We value feedback and hold each other accountable.