2020
Annual Report and Proxy

Guaranty Federal
Bancshares

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.

Guaranty Federal Bancshares, Inc.

2020 ANNUAL REPORT

INVESTOR INFORMATION

ANNUAL MEETING OF STOCKHOLDERS:

The Annual Meeting of Stockholders of the Company will be held Wednesday, May 26, 2021 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

Guaranty Federal Bancshares

COMPANY OVERVIEW

- 16 full-service branches in Southwest Missouri
- 32,000+ MoneyPass ATMs
- Loan Production Office in Marshfield, Missouri
- Acquired Hometown Bancshares, Inc. (Carthage/Joplin, Missouri) in Q2 2018 adding $180MM in assets
- Ameriprise Financial Services partnership launched in 2019
- Experienced Management Team
- 240 Employees

FINANCIAL HIGHLIGHTS: YEAR ENDED DECEMBER 31, 2020

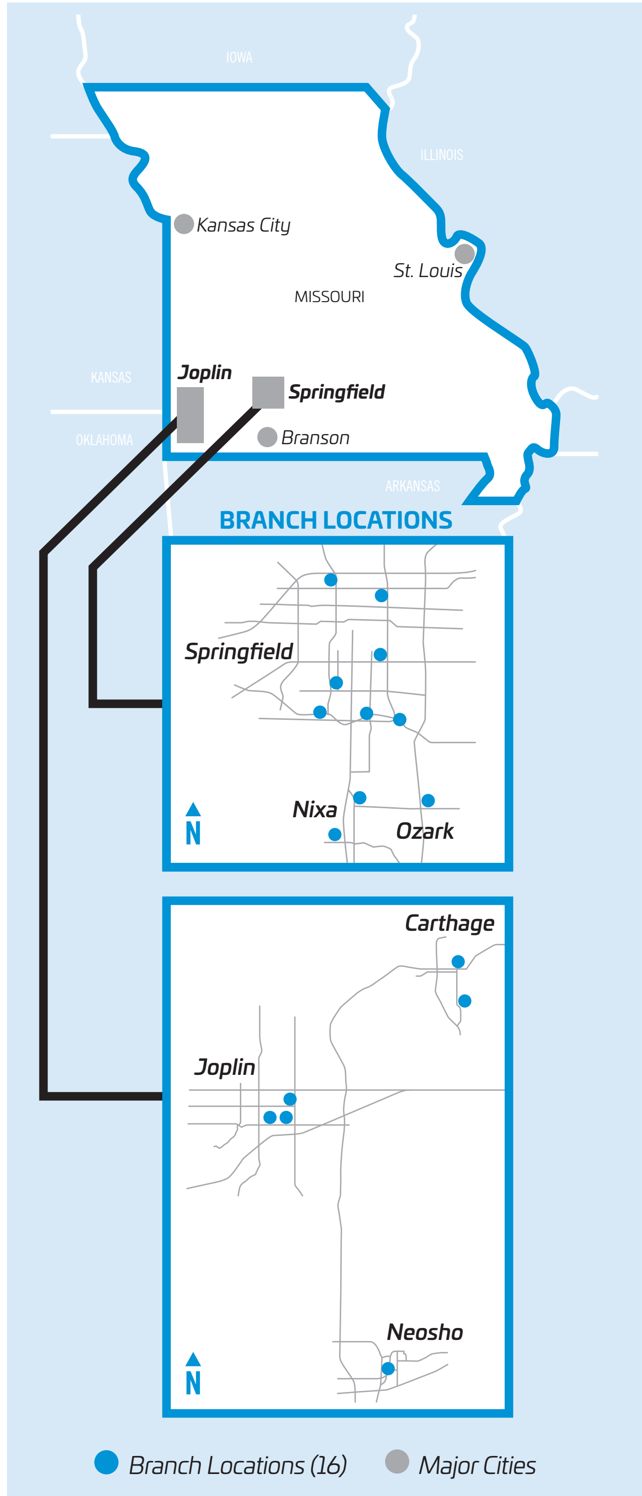
Balance Sheet (dollars in thousands)	
Total Assets	$ 1,146,253
Total Loans	753,508
Total Deposits	938,673
Total Equity	88,968

Profitability	
Return on Average Assets	0.63%
Return on Average Equity	7.85%
Net Interest Margin	3.06%
Efficiency Ratio	71.77%

Asset Quality	
Nonperforming Assets/Total Assets	1.67%

Capital	
Tangible Common Equity Ratio	7.48%
Tangible Book Value per Common Share	$19.71

BRANCH MAP



A MESSAGE FROM THE PRESIDENT

DEAR FELLOW SHAREHOLDERS:

For the past several years, we focused our time and attention on addressing the pace of change in our industry and building the capabilities needed to successfully meet our customers' expectations and to compete and grow well into the future. We entered 2020 with momentum and optimism following a year that saw record earnings and the company surpassing $1 billion in assets. We had all the right elements to succeed including strong leadership, a great team, a strong culture, loyal customers, and a solid financial foundation.

Starting in the second quarter, a global pandemic quickly turned economic tailwinds into headwinds. "Optimism" turned to "uncertainty" as gross domestic product collapsed at an historic rate, unemployment rose, consumer spending dropped significantly, and the industry booked near-record loan-loss provisions. The recovery from this bottom in the second quarter has been aided in remarkable ways by aggressive monetary and fiscal policy. The Federal Reserve slashed interest rates to zero and provided extraordinary liquidity into the system by expanding its market operations. Congress passed the largest stimulus package in our country's history and with this came the launch of the Small Business Administration's Paycheck Protection Program, placing the banking sector on the front lines of the economic recovery.

I am proud of our 240 team members and their response to the pandemic and the related economic situation. We kept people healthy and safe while managing our business well, and we continued to serve our communities by refinancing record amounts of mortgages, advanced technological initiatives to assist our team and customers in socially distanced settings, and we supported our customers and their families by generating hundreds of modifications and SBA Paycheck Protection Program loans.

Despite the tumultuous impacts of the pandemic, we are well-positioned for success. In an operating environment more uncertain and challenging than any in recent memory, we increased assets 13% in 2020 supported by our continued success in growing core deposits. We earned $6.8 million and $1.57 per diluted common share compared to $9.4 million and $2.11 per share in 2019. The decrease in earnings was mostly due to the $3.6 million in credit reserves we took in 2020, compared to just $200,000 in 2019. Our precautionary loan loss reserve build was in response to the uncertain economy and potential negative impact on certain borrowers. After meeting the capital and liquidity needs of our clients, we closed out the year with capital ratios exceeding well-capitalized thresholds, and we increased tangible book value per share 5.3% during the year to $19.71 at December 31, 2020.

In a year of unprecedented change and challenges our team proved its resilience and determination. I am thankful for their dedication, our customers for their trust, and you, our shareholders, for your continued support.

Sincerely,

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

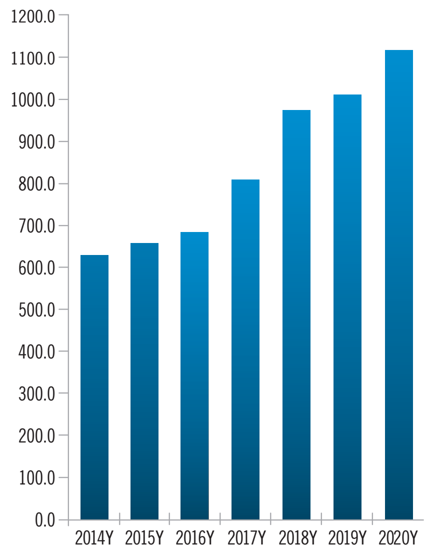
Shared Vision

- Simple, powerful strategic blueprint for success

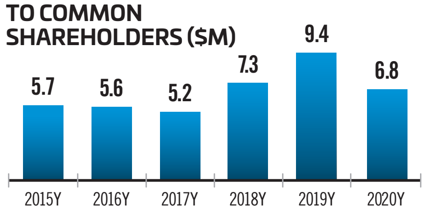
Relationship Banking Focus

- Thriving communities need community banks

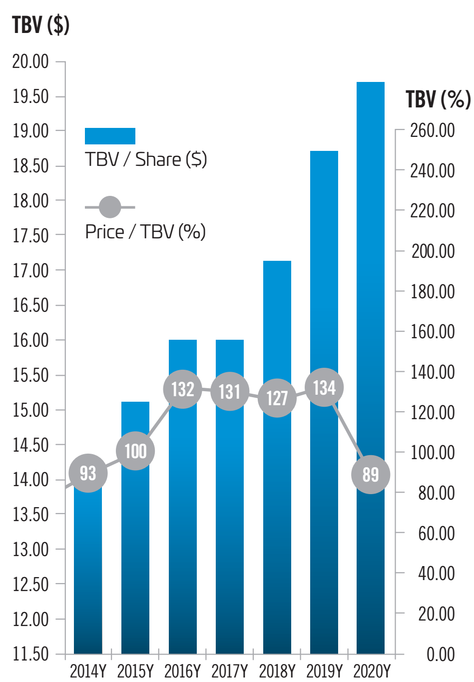
TOTAL ASSETS ($M)



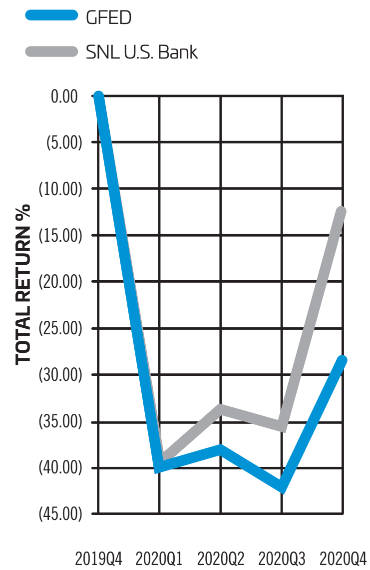
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS ($M)



TANGIBLE BOOK VALUE (TBV) PER SHARE

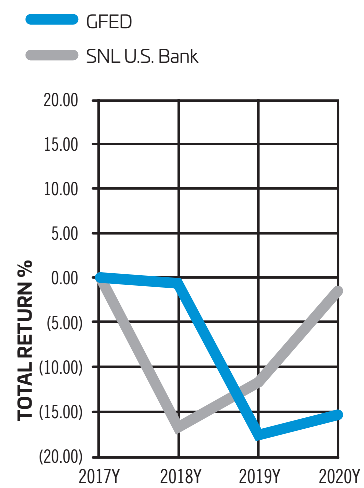


TOTAL 1-YEAR SHAREHOLDER RETURN



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

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020
☐ 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	**43-1792717**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2144 E Republic Rd, Suite F200	
Springfield, Missouri	**65804**
(Address of principal executive offices)	(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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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, 2020 (the last business day of the registrant's most recently completed fiscal second quarter) was $45.6 million. As of March 1, 2021, there were 4,381,352 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, 2020 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 has allowed the Company to achieve cost savings by integrating the two companies and combining accounting, data processing and other administrative functions.

At December 31, 2020, the Company's consolidated assets were $1.1 billion, net loans were $742.1 million, deposits were $938.7 million and total stockholders' equity was $89.0 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 (the "SEC"). These materials are also available free of charge on the SEC'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 include 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, hospitality 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, entertainment and outdoor recreation. Branson is located 30 miles south of Springfield and normally attracts between six and seven million tourists each year, many of whom pass through Springfield. However, Branson's tourism industry was negatively impacted in 2020 and continues to be negatively impacted by the effects of the coronavirus or COVID-19 pandemic ("COVID-19") which is discussed in more detail below. 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 78% of our loan portfolio by value as of December 31, 2020. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

	As of December 31,									
	2020		2019		2018		2017		2016	
	$	%	$	%	$	%	$	%	$	%
	(Dollars in Thousands)									
Mortgage loans (includes loans held for sale):										
One to four family (1)	$ 127,158	17 %	$ 121,611	17 %	$ 133,928	17 %	$ 108,223	17 %	$ 108,594	20 %
Multi-family	90,029	12 %	87,448	13 %	90,548	12 %	85,225	13 %	48,483	9 %
Construction	70,847	9 %	77,309	10 %	88,554	11 %	64,744	10 %	40,912	7 %
Commercial real estate	305,673	40 %	300,619	41 %	322,921	41 %	261,866	41 %	249,581	46 %
Total mortgage loans	593,707	78 %	586,987	81 %	635,951	81 %	520,058	81 %	447,570	82 %
Commercial business loans	144,326	19 %	114,048	15 %	119,369	15 %	94,523	15 %	75,405	14 %
Consumer loans	26,734	3 %	30,666	4 %	33,091	4 %	24,716	4 %	23,606	4 %
Total consumer and other loans	171,060	22 %	144,714	19 %	152,460	19 %	119,239	19 %	99,011	18 %
Total loans	764,767	100 %	731,701	100 %	788,411	100 %	639,297	100 %	546,581	100 %
Less:										
Deferred loan fees/costs, net	1,642		574		600		663		382	
Allowance for loan losses	9,617		7,608		7,996		7,107		5,742	
Total Loans, net	$ 753,508		$ 723,519		$ 779,815		$ 631,527		$ 540,457	

(1) Includes mortgage loans held for sale of $11,359

The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2020. 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.

12/31/2020

Loan Maturities	Due in One Year or Less	Due After One Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
One to four family	$ 14,853	$ 47,560	$ 64,745	$ 127,158
Multi-family	3,589	43,381	43,059	90,029
Construction	14,179	56,168	500	70,847
Commercial real estate	24,409	184,120	97,144	305,673
Commercial loans	23,440	84,779	36,107	144,326
Consumer loans	6,071	8,608	12,055	26,734
Total loans (1)	$ 86,541	$ 424,616	$ 253,610	$ 764,767
Less:				
Deferred loan fees/costs				1,642
Allowance for loan losses				9,617
Loans receivable net				$ 753,508

(1) Includes mortgage loans held for sale of $11,359

The following table sets forth the dollar amount of all loans due after December 2021, 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	$ 59,740	$ 52,565	$ 112,305	47%
Multi-family	27,981	58,459	86,440	68%
Construction	18,618	38,050	56,668	67%
Commercial real estate	132,876	148,388	281,264	53%
Commercial loans	82,313	38,573	120,886	32%
Consumer loans	7,405	13,258	20,663	64%
Total loans (1)	$ 328,933	$ 349,293	$ 678,226	52%

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

Commercial Real Estate Loans. As of December 31, 2020, the Bank had commercial real estate loans totaling $305.7 million or 40% 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 $30.2 million as of December 31, 2020, 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, 2020, the Bank's commercial real estate loan portfolio included approximately $14.2 million, or 1.9% 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, 2020, the Bank had commercial business loans totaling $144.3 million or 19% 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. Included in this category as of December 31, 2020 are $37.3 million loans originated during the year under the Small Business Administration ("SBA") Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief and Economic Security ("CARES") Act with the majority of the loans having an original duration of two years or less. Detailed information regarding PPP loans and loan modifications are included below in the General Section of Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Assumable Rate Conversion ("ARC") Loans. Within our loan portfolio, the Bank offers certain loan customers the ability to effectively convert a variable-rate loan agreement to a fixed-rate commercial loan agreement. This is accomplished by the Bank entering into variable-rate loan agreements (Master Servicing Agreement) with commercial loan customers, and the customer simultaneously enters into an interest swap agreement directly with a third-party (the "counterparty"). The customer is required to enter into a transaction agreement as part of each loan. The agreement states that in an event of default by the loan customer, the Bank must pay a termination value to the extent it is positive. The termination value is defined by the Master Agreement, which is in essence the fair value of the derivative on the event date. The counterparty pays a fee to the Company for brokering the transaction and for servicing the loan/swap agreement between the customer and the counterparty. As of December 31, 2020, $72.4 million of these loans are included in the Commercial Business Loan category noted in the previous paragraph.

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, 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, 2020, $127.2 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 with the majority 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 mortgaged 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, 2020, $90.0 million or 12% 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, $30.2 million as of December 31, 2020, 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, 2020, construction loans totaled $70.8 million or 9% 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, recreational vehicles, boats and home equity loans. As of December 31, 2020, the Bank has such loans totaling $26.7 million or 3% of the Bank’s total loan portfolio.

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.

FORM 10-K

Delinquencies, Non-Performing and Problem Assets.

Delinquent Loans. As of December 31, 2020, the Bank had 18 loans 90 days or more past due with an aggregate principal balance of $10,225,731 and 25 loans between 30 and 89 days past due with an aggregate principal balance of $3,278,544. 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,				
	2020	2019	2018	2017	2016
	(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	$ 3,086	$ 2,398	$ 4,136	$ 4,423	$ 2,060
Multi-family	-	-	-	-	-
Construction	6,240	3,738	4,088	4,452	5,447
Commercial real estate	3,932	2,941	3,593	162	162
	13,258	9,077	11,817	9,037	7,669
Non-mortgage loans:					
Commercial loans	5,250	856	1,263	803	925
Consumer and other loans	121	70	2	122	38
	5,371	926	1,265	925	963
Total non-accrual loans	18,629	10,003	13,082	9,962	8,632
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	-	-	-	-	-
	-	-	-	-	-
Non-mortgage loans:					
Commercial loans	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
	-	-	-	-	-
Total past maturity or past due accruing loans	-	-	-	-	-
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due	$ 18,629	$ 10,003	$ 13,082	$ 9,962	$ 8,632
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	2.47%	1.38%	1.68%	1.58%	1.60%
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	1.63%	0.99%	1.36%	1.24%	1.25%

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, 2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Non-accrual loans:					
Mortgage loans:					
One to four family	$ 3,086	$ 2,398	$ 4,136	$ 4,423	$ 2,060
Multi-family	-	-	-	-	-
Construction	6,240	3,738	4,088	4,452	5,447
Commercial real estate	3,932	2,941	3,593	162	162
	13,258	9,077	11,817	9,037	7,669
Non-mortgage loans:					
Commercial loans	5,250	856	1,263	803	925
Consumer and other loans	121	70	2	122	38
	5,371	926	1,265	925	963
Total non-accrual loans	18,629	10,003	13,082	9,962	8,632
Real estate and other assets acquired in settlement of loans	546	992	1,127	283	2,682
Total non-performing assets	$ 19,175	$ 10,995	$ 14,209	$ 10,245	$11,314
Total non-accrual loans as a percentage of net loans	2.47%	1.38%	1.68%	1.58%	1.60%
Total non-performing assets as a percentage of total assets	1.67%	1.09%	1.47%	1.28%	1.64%
Impact on interest income for the period:					
Interest income that would have been recorded on non-accruing loans	$ 811	$ 398	$ 299	$ 95	$ 90

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.

The following table shows the aggregate amounts of the Bank's classified assets as of December 31, 2020.

2020
Classification of Assets

	Special Mention		Substandard		Doubtful		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
				(Dollars in Thousands)				
Loans:								
One to four family	-	$ -	49	$ 5,184	-	$ -	49	$ 5,184
Multi-family	-	-	-	-	-	-	-	-
Construction	-	-	14	6,316	-	-	14	6,316
Commercial real estate	3	4,442	38	38,460	-	-	41	42,902
Commercial	3	123	20	13,329	-	-	23	13,452
Consumer and Other	-	-	4	202	-	-	4	202
Total loans	6	4,565	125	63,491	-	-	131	68,056
Foreclosed assets held-for-sale:								
One to four family	-	-	-	-	-	-	-	-
Land and other assets	-	-	2	546	-	-	2	546
Total foreclosed assets	-	-	2	546	-	-	2	546
Total	6	$ 4,565	127	$ 64,037	-	$ -	133	$68,602

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, 2020, the Bank's total allowance for loan losses was $9.6 million or 1.28% of gross loans outstanding (excluding mortgage loans held for sale), an increase of $2.0 million from December 31, 2019. During 2020, the Bank proactively provisioned for loan losses based on uncertainties in the loan portfolio from COVID-19 related economic pressures while also experiencing 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 2020, 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, economic uncertainties related to COVID-19 and/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 approximately $550,000 at December 31, 2020.

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,									
	2020		2019		2018		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Mortgage Loans	$ 7,259	75%	$ 5,762	76%	$ 6,337	79%	$ 4,577	64%	$ 4,126	72%
Non-Mortgage Loans	2,358	25%	1,846	24%	1,659	21%	2,530	36%	1,616	28%
Total	$ 9,617	100%	$ 7,608	100%	$ 7,996	100%	$ 7,107	100%	$ 5,742	100%

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,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Beginning balance	$ 7,608	$ 7,996	$ 7,107	$ 5,742	$ 5,812
Gross loan charge offs					
Mortgage Loans:					
One to four family	(2)	(272)	(8)	(11)	(47)
Multi-family	-	-	-	-	-
Construction	(738)	-	-	-	(1,222)
Commercial real estate	-	(122)	(37)	(72)	(69)
	(740)	(394)	(45)	(83)	(1,338)
Non-mortgage loans:					
Commercial loans	(709)	(381)	(110)	(240)	(171)
Consumer and other loans	(261)	(280)	(382)	(213)	(190)
	(970)	(661)	(492)	(453)	(361)
Total charge offs	(1,710)	(1,055)	(537)	(536)	(1,699)
Recoveries					
Mortgage Loans:					
One to four family	6	8	32	19	34
Multi-family	-	-	-	-	-
Construction	-	252	97	74	91
Commercial real estate	7	31	2	-	32
	13	291	131	93	157
Non-mortgage loans:					
Commercial loans	40	125	17	12	8
Consumer and other loans	66	51	53	46	89
	106	176	70	58	97
Total recoveries	119	467	201	151	254
Net loan charge-offs	(1,591)	(588)	(336)	(385)	(1,445)
Provision charged to expense	3,600	200	1,225	1,750	1,375
Ending balance	$ 9,617	$ 7,608	$ 7,996	$ 7,107	$ 5,742
Net charge-offs as a percentage of average loans, net	0.21%	0.08%	0.04%	0.06%	0.28%
Allowance for loan losses as a percentage of average loans, net	1.26%	1.00%	1.03%	1.17%	1.12%
Allowance for loan losses as a percentage of total non-performing loans	52%	76%	61%	71%	67%

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, 2020, the Company has investment securities with an amortized cost of $159.3 million and an estimated fair value of $164.1 million. See Note 1 of the "Notes to Consolidated Financial Statements" for description of the accounting policy for investments. As of December 31, 2020, 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 2020, the Company sold or had called $39.0 million in securities and recognized $461,029 of net gains from these transactions.

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, 2020				
AVAILABLE-FOR-SALE SECURITIES:				
Debt Securities:				
U.S. government agencies	$ 6,282,000	$ 6,519	$ (4,885)	$ 6,283,634
Municipals	58,754,912	3,241,133	(26,991)	61,969,054
Corporates	30,510,893	261,740	(171,811)	30,600,822
Mortgage-backed securities - private label – commercial	5,399,385	55,712	(10,650)	5,444,447
Mortgage-backed securities - private label – consumer	9,249,375	228,469	(25,747)	9,452,097
Government sponsored mortgage-backed securities and SBA loan pools	49,053,252	1,391,728	(74,165)	50,370,815
	$ 159,249,817	$ 5,185,301	$ (314,249)	$ 164,120,869

	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
	$ 117,152,760	$ 1,468,000	$ (375,446)	$ 118,245,314

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, 2020.

Investment Portfolio Maturities and Average Weighted Yields	Amortized Cost	Weighted Average Yield	Approximate Fair Value
Due in one to five years	1,150,000	3.30%	1,149,433
Due in five to ten years	36,190,647	3.57%	36,551,663
Due after ten years	58,207,158	2.73%	61,152,414
Mortgage-backed securities - private label not due on a single maturity date	14,648,760	2.39%	14,896,544
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	49,053,252	1.98%	50,370,815
	$ 159,249,817	2.74%	$ 164,120,869

	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, 2020					
Debt Securities:					
U.S. government agencies	$ -	$ 6,283,634	$ -	$ -	$ 6,283,634
Municipals	150,024	4,102,942	57,716,088	-	61,969,054
Corporates	999,409	26,165,087	3,436,326	-	30,600,822
Mortgage-backed securities - private label – commercial	-	-	-	5,444,447	5,444,447
Mortgage-backed securities - private label – consumer	-	-	-	9,452,097	9,452,097
Government sponsored mortgage-backed securities and SBA loan pools	-	-	-	50,370,815	50,370,815
	$ 1,149,433	$ 36,551,663	$ 61,152,414	$ 65,267,359	$ 164,120,869

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, 2020			As of December 31, 2019			As of December 31, 2018		
	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	0.35 %	$ 560,971	60 %	0.93 %	$ 487,622	59 %	1.16 %	$ 388,515	52 %
Savings	0.13 %	47,839	5 %	0.28 %	39,204	5 %	0.30 %	39,664	5 %
Non-interest bearing demand.	0.00 %	144,911	15 %	0.00 %	87,598	11 %	0.00 %	88,908	12 %
Total		753,721	80 %		614,424	75 %		517,087	69 %
Certificates of Deposit: (fixed-rate, fixed-term)									
1-11 months	1.90 %	133,586	14 %	1.79 %	91,295	11 %	0.91 %	139,255	19 %
12-23 months	1.83 %	41,850	4 %	2.34 %	113,335	14 %	1.49 %	53,954	7 %
24-35 months	1.15 %	3,206	1 %	1.97 %	1,008	0 %	1.95 %	34,246	4 %
36-47 months	2.40 %	1,880	0 %	2.97 %	1,292	0 %	2.00 %	4,172	1 %
48-59 months	1.28 %	1,045	0 %	1.59 %	45	0 %	1.39 %	843	0 %
60-71 months	1.58 %	2,809	1 %	1.59 %	8	0 %	2.05 %	58	0 %
72-95 months	1.57 %	576	0 %	0.00 %	-	0 %	1.59 %	4	0 %
Total		184,952	20 %		206,983	25 %		232,532	31 %
Total Deposits		$ 938,673	100 %		$ 821,407	100 %		$ 749,619	100 %

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

	(Dollars in thousands) As of December 31, 2020
Three months or less	$ 24,748
Over three through six months	29,491
Over six through twelve months	25,594
Over twelve months	23,523
Total	$ 103,356

Borrowings

The Company’s borrowings at December 31, 2020 consist of FHLB advances, issuances of subordinated debentures for Capital Trust purposes as described below under “*Subordinated Debentures issued to Capital Trusts*” and newly issued unsecured subordinated notes. Other borrowings available to the Company include borrowings from the Federal Reserve Bank, Securities Sold Under Agreements to Repurchase and a line of credit at another financial institution.

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, 2020	2019	2018
	(Dollars in Thousands)		
Remaining maturity:			
Less than one year	$ 50,000	$ 65,000	$ 105,300
One to two years	-	-	-
Two to three years	6,500	-	-
Three to four years	-	-	-
Four to five years	6,500	-	-
Over five years	3,000	-	-
Total	$ 66,000	$ 65,000	$ 105,300
Weighted average rate at end of period	0.45%	1.83%	2.69%
For the period:			
Average outstanding balance	$ 60,467	$ 53,358	$ 96,957
Weighted average interest rate	1.95%	2.42%	2.29%
Maximum outstanding as of any month end	$ 66,000	$ 71,100	$ 112,800

Subordinated Debentures issued to Capital Trusts:

On December 15, 2005, the Company completed an offering of $15 million of trust preferred securities (the "GFED Trust Preferred Securities"). 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 GFED Trust Preferred Securities. The proceeds of the sale of GFED 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 GFED Trust Preferred Securities. The Debentures mature on February 23, 2036. Subject to prior approval by the Federal Reserve Board, the Debentures and the GFED 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 GFED 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 GFED Trust Preferred Securities whereby the Company has guaranteed any and all payment obligations of the Trusts related to the GFED Trust Preferred Securities including distributions on, and the liquidation or redemption price of, the GFED 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 ("Capital Trust I") ("Trust I, Trust II and Capital Trust I each a "Capital Trust", and collectively, the "Capital Trusts"). Capital Trust I was formed for the purposes of issuing $6.0 million of trust preferred securities (the "Hometown Trust Preferred Securities"). Hometown issued 30-year junior subordinated deferrable interest debentures to Capital Trust I 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 Capital Trust I were to be used to pay the dividends payable by Capital Trust I to the holders of the Hometown 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 Capital Trusts at the dates indicated.

Selected Data for Subordinated Debentures issued to Capital Trusts

	As of December 31,		
	2020	2019	2018
	(Dollars in Thousands)		
Subordinated debentures	$ 15,465	$ 15,465	$ 21,761
Weighted average interest rate of subordinated debentures	3.42%	4.55%	4.72%

Subordinated Notes:

On July 29, 2020, the Company completed a private offering of $20.0 million aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2030 (the “Notes”). The Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. Costs related to the issuance of $454,445 reduced the proceeds received by the Company and will be amortized over the life of the Notes. The Notes are intended to qualify as Tier 2 capital for regulatory purposes. The Notes have a stated maturity of September 30, 2030, are redeemable by the Company at its option, in whole or in part, on or after September 30, 2025, and at any time upon the occurrences of certain events. Prior to September 30, 2025, the Company may redeem the Notes, in whole but not in part, only under certain limited circumstances set forth in the Notes. On or after September 30, 2025, the Company may redeem the Notes, in whole or in part, at its option, on any interest payment date. Any redemption by the Company would be at a redemption price equal to 100% of the principal amount of the Notes being redeemed, together with any accrued and unpaid interest on the Notes being redeemed to but excluding the date of redemption. The Notes are not subject to redemption at the option of the holder. The Notes will bear interest at a fixed rate of 5.25% per year until September 30, 2025 or earlier redemption date. From October 1, 2025 to, but excluding the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR plus 519 basis points. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The Notes are unsecured, subordinated obligations of the Company, are not obligations of, and are not guaranteed by, any subsidiary of the Company, and rank junior in right of payment to the Company’s current and future senior indebtedness.

The following table sets forth certain information as to the Company's Notes at the dates indicated.

Selected Data for Subordinated Notes

	As of December 31,		
	2020	2019	2018
	(Dollars in Thousands)		
Subordinated notes	$ 19,564	$ -	$ -
Weighted average interest rate of subordinated note	5.25%	N/A	N/A

Note Payable to Bank

During 2019, the Company established a note payable for $11.2 million with another financial institution. The funds were used to provide additional capital for funding Bank asset growth and to redeem Hometown Bancshares subordinated debentures noted above. The note carried a variable interest rate tied to 30-day LIBOR plus 250 basis points that was set to mature in June 2024, however, on July 30, 2020, the note was completely repaid with proceeds from the issuance of the Notes. A balance of $11.2 million was outstanding on this note as of December 31, 2019 and that balance was unchanged during 2020 until its full repayment on July 30, 2020.

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, 2020 and 2019. The funds, if used, will be to provide additional capital for funding Bank asset growth, repurchasing outstanding common shares or general corporate purposes. 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 $37.2 million as of December 31, 2020. 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, 2020 and 2019.

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 GFED 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 GFED Trust Preferred Securities. The Company has guaranteed any and all payment obligations of the Trusts related to the GFED Trust Preferred Securities. Under generally accepted accounting principles, the financial statements of the trusts are not consolidated with financial statements of 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, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Common Dividend Payout Ratio	38%	26%	30%
Return on Average Assets	0.63%	0.96%	0.77%
Return on Average Equity	7.85%	11.26%	9.35%
Stockholders' Equity to Assets	7.76%	8.36%	8.34%
EPS Diluted	$ 1.57	$ 2.11	$ 1.64
Dividends on Common Shares	$ 0.60	$ 0.54	$ 0.49

Employees

As of December 31, 2020, the Bank had 217 full-time employees and 17 part-time employees. As of December 31, 2020, 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. Companies specializing in online-only business models continue to expand their financial product and services offerings to consumers and may have advantages in technological resources compared to traditional financial institutions. 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 marketing campaigns through their greater capital resources. Our marketing efforts depend heavily upon referrals from officers, directors and shareholders, selective advertising in local media, electronic means 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, 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 "Minimum Capital Requirements" 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

On September 17, 2019, a final ruling by federal banking regulators provided a simpler method of measuring adequate capital ratios for community banking organizations compared to previous standards established and agreed to by the U.S. federal banking agencies approved under the 2013 International Basel Committee on Bank Supervision that incorporated changes required by the Dodd-Frank Act (the "Basel III Rule").

The 2019 Community Bank Leverage Ratio ("CBLR") framework is an optional framework that is designed to reduce burdens on institutions 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 9.00% 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, however, certain portions of the framework were granted temporary exceptions under the CARES Act due to concerns over COVID-19 impacts on financial institutions in April 2020. Most notably, the leverage ratio requirements were reduced to 8.00% for the remainder of 2020, 8.50% for 2021, and then to the already established 9.00% for 2022 and beyond. The Company and the Bank opted into the revised CBLR framework during 2020 having met all capital requirements under the new standard. Despite the ability to meet capital standards currently, 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. If unable to maintain these capital levels, a grace period to retain compliance may be granted or the Bank and Company can opt to revert to previous Basel III standards as noted below.

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:

    - a new minimum ratio of CET1 to risk-weighted assets of at least 4.50% (plus a capital conservation buffer);

    - 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);

    - 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

    - 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 increased 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 grandfathers 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.

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 leverage ratio of 9% or greater if following CBLR framework, 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%.

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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 under the CBLR framework and was categorized as “well-capitalized”, as of December 31, 2020. 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, 2020, 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 typically 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. On March 26, 2020, reserve requirements were waived due to potential economic impacts as a result of the COVID-19 pandemic. Previously, the first $16.9 million of otherwise reservable balances were exempt from the reserve requirements; a 3% reserve requirement was necessary for net transaction accounts between $16.9 million and $127.5 million; and a 10% reserve requirement was in place for net transaction accounts in excess of $127.5 million. The FRB has the ability to re-impose reserve requirements and requirement ratios may change in the future if conditions warrant and are subject to annual adjustments.

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) or 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 non-preferential 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. The impact of any Tax Reform Legislation on the Company's financial results is not quantifiable until details of proposed changes are known. With prior changes to corporate tax rates and regulations, future earnings may be impacted as well as the valuation of previously booked tax planning items already in place may be revalued.

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 36 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 M. Peters is Executive Vice President and Chief Financial Officer of the Bank and the Company. Mr. Peters has over 28 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.

Craig E. Dunn is Executive Vice President and Chief Commercial Banking Officer of the Bank. He has over 27 years of banking experience. Prior to joining the Bank in April 2020, Craig held multiple leadership roles for various banks in Springfield, including Regional President for Bear State Bank and Market President for Regent Bank. He has a Bachelor of Science Degree in Agricultural Economics from Missouri State University and a Masters Degree in Business Administration from Southwest Baptist University. He is also a graduate of the Graduate School of Banking in Madison, Wisconsin. Mr. Dunn has held numerous local leadership positions, including President of the Child Advocacy Center, President of Wilson's Creek National Battlefield Foundation, President of the Ozark Empire Fairgrounds, Vice President of Life's Journey, Treasurer of Young Presidents' Organization and was a founding member of the Missouri Bankers Association Young Bankers Leadership Division Board. He was a recipient of the Springfield Business Journal's 40 Under 40, was a member of Leadership Springfield Class 27, and was a recipient of the 2018 Springfield Business Journal's Men of the Year award.

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, 2020, the age of these individuals was 57 for Mr. Burke, 51 for Mr. Peters, 49 for Mr. Dunn, 57 for Ms. Biser and 54 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.

Economic Risk

The COVID-19 pandemic has adversely affected us and our customers, employees and third-party service providers, and the adverse impacts on our business, financial position and operations have been and are expected to continue to be significant.

As a result of the unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity caused by the COVID-19 pandemic, business and consumer customers of the Bank are experiencing varying degrees of financial distress, which is expected to increase over coming months and will likely adversely affect their ability to timely pay interest and principal on their loans and the value of the collateral securing their obligations. For the year ended December 31, 2020, our financial results were adversely impacted by the COVID-19 pandemic, primarily due to the increased provision for loan loss expense based on expected stresses in the loan portfolio and, to a lesser extent, by loan payment deferrals and loan modifications particularly as certain businesses remain closed or are operating at decreased capacity and as more customers are expected to draw on their lines of credit or seek additional loans to help finance their businesses. Our future business and financial results are also expected to be adversely impacted by COVID-19.

COVID-19 does not yet appear to be contained and could affect significantly more households and businesses. Given the ongoing and dynamic nature of the circumstances, it is not possible to accurately predict the extent, severity or duration of these conditions or when normal economic and operating conditions will resume. For this reason, the extent to which the COVID-19 pandemic affects our business, operations and financial condition, as well as our regulatory capital and liquidity ratios and credit ratings, is highly uncertain and unpredictable and depends on, among other things, new information that may emerge concerning the scope, duration and severity of the COVID-19 pandemic, actions taken by governmental authorities and other parties in response to the pandemic, the scale of distribution and public acceptance of any vaccines for COVID-19 and the effectiveness of such vaccines in stemming or stopping the spread of COVID-19. Further, variant strains of the COVID-19 virus have appeared, further complicating efforts of the medical community and federal, state and local governments in response to the pandemic. The adverse impact on the markets in which we operate and on our business, operations and financial condition is expected to remain elevated until the pandemic subsides.

In order to protect the health of our customers and employees, and to comply with applicable government directives, we have modified our business practices, including periodically allowing our employees to work remotely from their homes and cancelling certain in-person meetings . We may take further such actions that we determine are in the best interest of our employees, customers and communities or as may be required by government order. These actions in response to the COVID-19 pandemic, and similar actions by our vendors and business partners, have not materially impaired our ability to support our employees, conduct our business and serve our customers, but there is no assurance that these actions will be sufficient to successfully mitigate the risks presented by COVID-19 or that our ability to operate will not be materially affected going forward. For instance, our business operations may be disrupted if key personnel or significant portions of our employees are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the COVID-19 pandemic. Similarly, if any of our vendors or business partners become unable to continue to provide their products and services, which we rely upon to maintain our day-to-day operations, our ability to serve our customers could be impacted.

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 our Market Area, adverse economic conditions that affect our Market Area 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 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 $593.7 million, or approximately 78% of our total loan portfolio, as of December 31, 2020. 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.

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.

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.

Credit and Interest Rate Risk

Effects of COVID-19 substantially increases our credit risk.

Our risks of non-timely loan repayment and deterioration in the value of collateral supporting the loans are affected by the strength of our borrower's businesses. Concern about the spread of COVID-19 has caused and is likely to continue to cause business shutdowns, limitations on commercial activity and financial transactions, labor disruptions, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability, and overall economic and financial market instability, all of which may cause our customers to be unable to make scheduled loan and mortgage payments. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio, we could incur significant delinquencies, foreclosures and credit losses, particularly if the available collateral is insufficient to cover our exposure. The future effects of COVID-19 on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and other services, and the financial condition and credit risk of our customers. Further, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in us taking certain remediation actions, such as foreclosure, in the event of delinquencies. In addition, we have unfunded commitments to extend credit to customers. During a challenging economic environment like this, our customers are more dependent on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity. Furthermore, in an effort to support our communities during the COVID-19 pandemic, we are participating in the PPP under the CARES Act whereby loans to small businesses are made and those loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit our ability to pursue all available remedies in the event of a loan default. If the borrower under the PPP loan fails to qualify for loan forgiveness, we are at heightened risk of holding these loans at unfavorable interest rates as compared to the loans to customers to which we would have otherwise extended credit. Detailed information regarding PPP loans and loan modifications are included below in the General section of Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Effects of COVID-19 may materially adversely increase interest rate risk.

Our net interest income, lending activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate by 150 basis points to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on overall markets. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition. Because there have been no comparable recent global pandemics that resulted in similar global impacts, we do not yet know the full extent of COVID-19's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work from home arrangements, third party providers' abilities to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.

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 losses as of December 31, 2020 was adequate to absorb losses on any existing loans 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.

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 operations.

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, 2020, the Company had derivative financial instruments, a line of credit with another financial institution, certain investment securities and segments of commercial and consumer loans indexed to LIBOR. Management continues to monitor developments with the transition to a new benchmark and will adopt fallback language on existing contracts as well as select an alternative benchmark during 2021. As there are still uncertainties in adopting a new index rate, the overall impact of this change on our financial results is unknown at this time.

Operational Risk

The effects of COVID-19 may continue to adversely affect the operations of the Bank.

Restrictions on our workforce's access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and branch activity that largely depend on people and technology, including access to information technology systems as well as information, applications, payment systems and other services provided by third parties. In response to COVID-19, we have modified our business practices periodically allowing our employees to work remotely from their homes to have our operations uninterrupted as much as possible. Further, technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. The continuation of these remote work measures also introduces additional operational risk, including increased cybersecurity risk. These cybersecurity risks include increased phishing, malware, and other cybersecurity attacks, vulnerability to disruptions of our information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, greater risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations and the operations of any impacted customers.

Moreover, we rely on many third parties in our business operations, including appraisers of the real property collateral securing our loans, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools and providers of electronic payment and settlement systems, and local and federal government agencies, offices, and courthouses. In light of the developing measures responding to the COVID-19 pandemic, many of these entities may limit the availability and access of their services. For example, loan originations could be delayed due to the limited availability of real estate appraisers for the collateral. Loan closings could be delayed related to reductions in available staff in recording offices or the closing of courthouses in certain counties, which slows the process for title work, mortgage and UCC filings in those counties. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may negatively affect our operations.

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 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 habits 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.

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 the 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 COVID-19 pandemic), natural disaster, war, act of terrorism, accident, or other reason. Natural disasters, geopolitical events, public health crises (again, such as COVID-19) 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 effects of the COVID-19 outbreak. If COVID-19 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.

Strategic Risk

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. 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.

The effects of COVID-19 may adversely affect our ability to implement our strategic plans.

Our results may be affected by a variety of external factors that may affect the price or marketability of our products and services, changes in interest rates that may negatively impact our funding costs, reduced demand for our financial products due to economic conditions and the various responses of governmental, non-governmental and regulatory authorities. In recent months, the COVID-19 pandemic has significantly increased economic and demand uncertainty and has led to disruption and volatility in the global capital markets. Furthermore, many of the governmental actions have been directed toward curtailing household and business activity to contain COVID-19. These actions have been rapidly expanding in scope and intensity. In our two major market areas of Springfield and Joplin, Missouri, local governments have previously acted to temporarily close or restrict the operations of businesses. The future effects of COVID-19 on economic activity could negatively affect the future banking products we provide, including a decline in originating of loans and lower usage of ATMs and debit cards.

Regulatory and Compliance Risk

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, Executive Order 13772 announcing new "Core Principles" for regulating the U.S. financial system was enacted. Among other things, the Secretary of the Treasury, in consultation with federal regulatory agencies, was directed to review existing laws and regulations and report on the extent to which they were consistent with the Core Principles. Indications were also made 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). 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 that adopted the CBLR framework must maintain capital conservation buffers above the minimum risk-based capital requirements. The buffer must be maintained to avoid limitations on capital distributions and discretionary bonus payments to executive officers. If we or the Bank fall below thresholds, we could be subject to increasingly strict limitations on capital distributions and bonus payments. Additional details are listed below.

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 opted into the new CBLR method during 2020. The decision to adopt this framework did not 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. Should future changes to tax regulations and rates occur, the Company's customers are likely to experience varying effects from changes in both the individual and business tax provisions. Such changes could include (i) limiting 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. 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.

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.

Risks Related to Investment in Common Stock

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;
- advance notice requirements for director nominations and for proposing matters that stockholders may act on at stockholder meetings;
- the election of directors to staggered terms of three years;
- 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, 2020**,** we had $15.5 million of subordinated debentures held by two Capital Trusts. Interest payments on the Company's existing debentures, which totaled $785,000 for 2020, 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.

Other

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, 2020, 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, 2021, 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, 2020 and 2019.

	Year ended December 31, 2020				Year ended December 31, 2019		
	Declared	Paid	Dividend Per Share		Declared	Paid	Dividend Per Share
Quarter ended:				Quarter ended:			
March 31	3/27/2020	4/17/2020	$ 0.15	March 31..........	3/29/2019	4/19/2019	$ 0.13
June 30	6/26/2020	7/17/2020	$ 0.15	June 30.............	6/28/2019	7/18/2019	$ 0.13
September 30....	9/25/2020	10/16/2020	$ 0.15	September 30	9/27/2019	10/18/2019	$ 0.13
December 31	12/18/2020	1/15/2021	$ 0.15	December 31.....	12/20/2019	1/16/2020	$ 0.15

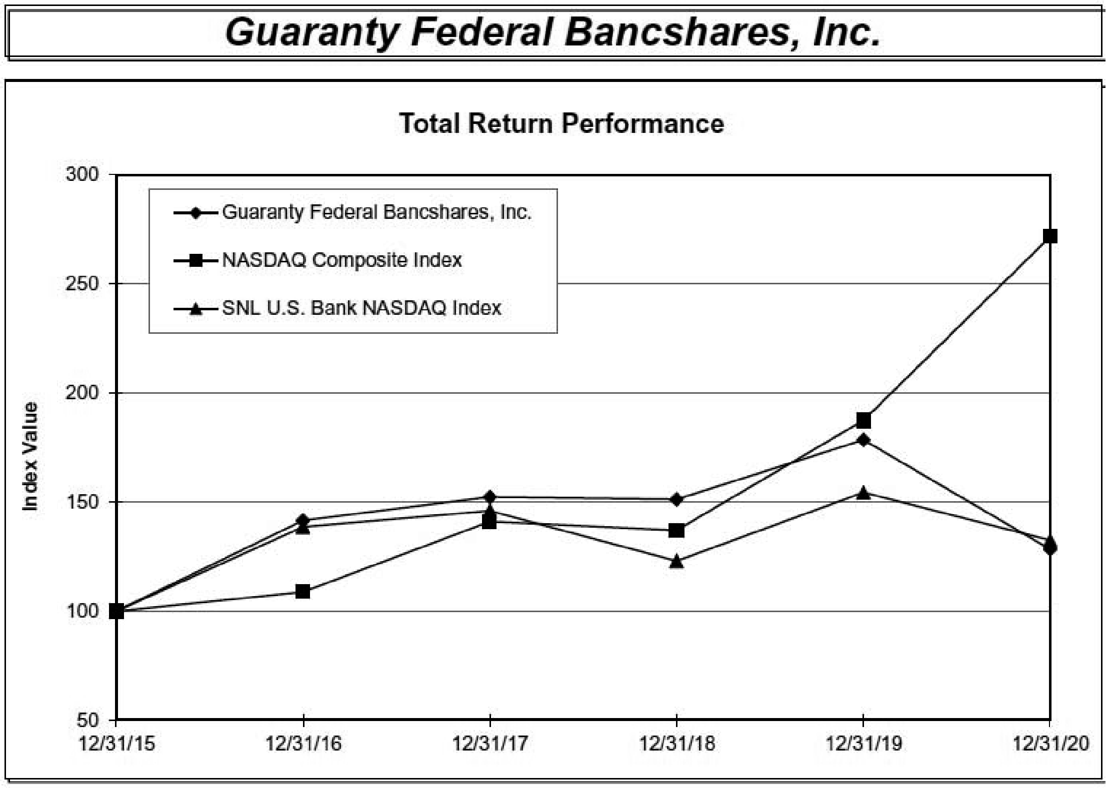
Any future dividends will be at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's results of operations, cash requirements and surplus, financial condition, regulatory limitations and other factors that the Company's Board of Directors may consider 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, 2020 and 2019.

	Year ended December 31, 2020		Year ended December 31, 2019	
	High	Low	High	Low
Quarter ended:				
March 31	$ 25.21	$ 13.50	$ 24.00	$ 20.98
June 30	16.95	12.70	23.94	22.37
September 30....	15.79	13.35	24.75	23.19
December 31	19.76	13.85	26.93	23.90

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, 2015 and the hypothetical value of that investment as of the Company's fiscal years ended December 31, 2016, 2017, 2018, 2019 and 2020, 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.



	Period Ending					
Index	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**
Guaranty Federal Bancshares, Inc.	100.00	141.68	152.40	151.25	178.54	128.44
NASDAQ Composite Index	100.00	108.87	141.13	137.12	187.44	271.64
SNL U.S. Bank NASDAQ Index.............	100.00	138.65	145.97	123.04	154.47	132.56

Source: S&P Global Market Intelligence
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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 monthly repurchase activity of the Company's Common Stock during the fiscal year ended December 31, 2020.

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, 2020 - January 31, 2020	-	-	-	2,307
February 1, 2020 - February 29, 2020	2,307	24.06	2,307	-
March 1, 2020 - March 31, 2020	14,409	23.23	14,409	235,591
April 1, 2020 - April 30, 2020	-	-	-	235,591
May 1, 2020 - May 31, 2020	-	-	-	235,591
June 1, 2020 - June 30, 2020	-	-	-	235,591
July 1, 2020 - July 31, 2020	-	-	-	235,591
August 1, 2020 - August 31, 2020	-	-	-	235,591
September 1, 2020 - September 30, 2020	-	-	-	235,591
October 1, 2020 - October 31, 2020	-	-	-	235,591
November 1, 2020 - November 30, 2020	-	-	-	235,591
December 1, 2020 - December 31, 2020	-	-	-	235,591

(1) During the first quarter of 2020, the Company concluded a stock repurchase plan that was originally announced on August 20, 2007. This plan authorized the purchase by the Company of up to 350,000 shares of the Company's common stock. On February 28, 2020, a new stock repurchase plan for up to 250,000 shares of the Company's common stock was approved. As of December 31, 2020, 235,591 shares could be repurchased under this plan. The newest plan has an expiration date of December 31, 2022 and is the only repurchase plan 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, 2020	2019	2018	2017	2016
ASSETS					
Cash and cash equivalents	$ 148,423	$ 92,672	$ 34,122	$ 37,407	$ 9,088
Investments and interest-bearing deposits	168,881	118,495	86,528	81,495	92,427
Loans receivable, net	753,508	723,519	779,815	631,527	540,457
Accrued interest receivable	4,061	3,512	3,391	2,450	1,947
Prepaids and other assets	24,179	25,034	15,446	10,950	11,234
Intangibles	3,462	3,939	4,416	-	-
Foreclosed assets	546	992	1,127	283	2,682
Premises and equipment, net	17,898	19,164	20,095	10,607	10,871
Bank owned life insurance	25,295	24,698	20,198	19,741	19,273
	$ 1,146,253	$ 1,012,025	$ 965,138	$ 794,460	$ 687,979
LIABILITIES					
Deposits	$ 938,673	$ 821,407	$ 749,619	$ 607,364	$ 505,363
Federal Home Loan Bank and Federal Reserve Bank advances	66,000	65,000	105,300	94,300	95,700
Subordinated debentures issued to Capital Trusts	15,465	15,465	21,761	15,465	15,465
Subordinated notes, net	19,564	-	-	-	-
Notes payable	-	11,200	5,000	-	-
Other liabilities	17,583	14,321	2,979	2,439	1,477
	1,057,285	927,393	884,659	719,568	618,005
STOCKHOLDERS' EQUITY	88,968	84,632	80,479	74,892	69,974
	$ 1,146,253	$ 1,012,025	$ 965,138	$ 794,460	$ 687,979

Supplemental Data	As of December 31, 2020	2019	2018	2017	2016
Number of full-service offices	16	16	16	11	9
Cash dividends per common share	$ 0.60	$ 0.54	$ 0.49	$ 0.42	$ 0.34

Summary Statements of Income	Years ended December 31, 2020	2019	2018	2017	2016
Interest income	$ 40,870	$ 45,226	$ 43,246	$ 29,441	$ 25,389
Interest expense	9,611	13,535	9,928	6,087	4,177
Net interest income	31,259	31,691	33,318	23,354	21,212
Provision for loan losses	3,600	200	1,225	1,750	1,375
Net interest income after provision for loan losses	27,659	31,491	32,093	21,604	19,837
Noninterest income	10,073	7,105	6,552	5,727	4,870
Noninterest expense	29,665	27,498	29,458	19,603	17,100
Income before income taxes	8,067	11,098	9,187	7,728	7,607
Provision for income taxes	1,235	1,683	1,855	2,570	2,013
Net income	$ 6,832	$ 9,415	$ 7,332	$ 5,158	$ 5,594
Basic income per common share	$ 1.58	$ 2.14	$ 1.66	$ 1.18	$ 1.28
Diluted income per common share	$ 1.57	$ 2.11	$ 1.64	$ 1.16	$ 1.27

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 severity, magnitude and duration of COVID-19 and the direct and indirect impact of COVID-19, as well as responses to COVID-19 by the government, businesses and consumers; the disruption of global, national, state and local economies associated with COVID-19; 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.

Impacts from COVID-19 on Our Financial Statements and Results of Operations

The spread of the COVID-19 pandemic has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States, including the markets that we serve. Governmental responses to the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements, observe social distancing and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, have resulted in rapid decreases in commercial and consumer activity, temporary closures of many businesses that have led to a loss of revenues and a rapid increase in unemployment, disrupted supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future.

Financial Impacts to the Bank: Unemployment and business closings will continue to be elevated in our markets while there are infections and changing community health guidelines. Due to segments of our loan portfolio experiencing weakness as a result of COVID-19-related economic slowdowns and travel restrictions, we recorded a significant increase in our provision for loan losses in 2020. The provision for loan losses during 2020 totaled $3,600,000, compared to $200,000 for 2019. We may continue to experience increases in our provision for loan losses and we may also offer additional relief in the form of loan payment deferrals and loan modifications as management believes are needed. The Bank expects other ramifications to include increases in realized losses on loans and decreased fee income due to lower loan originations, partially offset by increases in loan origination fees from PPP loans funded by the Bank and deposit activity. Market interest rates have declined significantly and these reductions, have adversely affected and if prolonged, could continue to adversely affect our net interest income, net interest margin and overall earnings.

Paycheck Protection Program (PPP) Activity: The Federal government has approved various stimulus packages to assist small businesses, individuals, health care entities and certain governmental entities over the past year. Availability and coverage of these programs continues to evolve as the economic impact from COVID-19 continues to unfold. One of the most notable programs is the CARES Act which made available relief to small businesses through SBA PPP loans that, based on certain qualifications, provided funds to qualified borrowers for payroll and certain other costs. All or a portion of such loans have been and will be forgiven if use of funds criteria are met. The Federal government authorized an initial amount of $349 billion of PPP funds in late March 2020 which was fully exhausted within two weeks of start-up. The Federal government authorized an additional $321 billion of PPP funds in late April 2020 with those funds being available to qualified applicants until early August 2020. The Bank approved and funded 661 PPP loans totaling $55.1 million as of December 31, 2020, benefitting nearly 8,400 jobs in the communities we serve. Approximately $2.2 million in origination fees will be recognized over the life of the individual PPP loans by the Bank with $1.1 million being included in 2020 earnings. During the fourth quarter of 2020, $17.0 million in PPP loans originated by the Bank were granted forgiveness by the SBA. The Bank continues to monitor guidelines on this program and intends to participate in the second round of PPP loans that will begin in the first quarter of 2021.

Market Volatility Risk: As noted herein, the COVID-19 pandemic has led to disruption and volatility in the global capital markets. These conditions may require us to recognize an elevated level of other than temporary impairments on investment securities in our portfolio as issues of these securities are negatively impacted by the economic slowdown. Declines in fair value of investment securities in our portfolio could also reduce the unrealized gains reported as part of our consolidated comprehensive income.

Loan Modifications: Increased loan payment deferrals and other loan modifications have adversely impacted, and we expect that they will continue to adversely impact, the performance of our loan portfolio. Based on recent guidance by federal banking regulators, the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB) and provisions within the CARES Act, short-term loan modifications made in response to COVID-19 to borrowers with a current payment status are not considered troubled debt restructurings (TDRs) for reporting purposes. As of December 31, 2020, 20 loans with an aggregate balance of $28.6 million remained modified for periods from one to twelve months. 84% of loan modifications made during 2020 have resumed scheduled payments with the remaining 16% projected to return to their contractual payment terms within the next six months. Additional details on the modified loans are in the following table.

COVID-19 MODIFICATIONS - Types of Modifications

Collateral Type	# Loans Modified	Amount of Loans Modified ($)	Interest Only 3 Months or Less	Interest Only 4-6 Months	Full Payment Deferral 3 Months	Full Payment Deferral 3 Months + Interest Only 3 Months or Less	Full Payment Deferral 3 Months + Interest Only > 3 Months	Full Payment Deferral > 6 Months
Hotel/Motel	9	$ 16,018,273	$ -	$ -	$ -	$ 1,849,520	$ 7,962,876	$ 6,205,877
Theatre	5	10,586,792	-	-	-	-	3,826,974	6,759,818
Restaurant (C&I & RE)	2	411,029	123,236	287,793	-	-	-	-
Land & Land Development	1	1,279,878	-	-	-	-	1,279,878	-
1-4 Family Consumer	2	168,852	-	-	168,852	-	-	-
Other	1	93,100	-	93,100	-	-	-	-
Total Modified Loans	20	$ 28,557,924	$ 123,236	$ 380,893	$ 168,852	$ 1,849,520	$ 13,069,728	$12,965,695

FINANCIAL CONDITION

From December 31, 2019 to December 31, 2020, the Company's total assets increased $134,228,314 (13%) to $1,146,252,939, liabilities increased $129,891,830 (14%) to $1,057,284,573, and stockholders' equity increased $4,336,484 (5%) to $88,968,366. The ratio of stockholders' equity to total assets was 7.8% and 8.4% at December 31, 2020 and 2019, respectively.

From December 31, 2019 to December 31, 2020, available-for-sale securities increased $45,875,555 (39%). The Company increased investment purchases during the year to better utilize excess cash as interest rates fluctuations provided favorable buying opportunities throughout 2020. During 2020, the Company purchased $108,674,561 of investments while having sales, calls and principal payments received of $62,160,271. The Company had net unrealized gains of $4,871,052 at December 31, 2020 compared to net unrealized gains of $1,092,554 at December 31, 2019.

From December 31, 2019 to December 31, 2020, net loans receivable increased by $21,416,869 (3%) to $742,149,271. During the year, commercial business loans increased $30,278,000 (27%), permanent 1-4 family loans increased $5,547,000 (5%), commercial real estate loans increased $5,054,000 (2%) and multi-family loans increased $2,581,000 (3%) while construction loans decreased $6,462,000 (8%), and consumer and other loans decreased $3,932,000 (13%). Commercial lending increased during the year due to PPP lending activity with increased competition in our markets limiting loan growth in other lending categories. The Company continues to focus its lending efforts in the commercial and small business lending categories.

As of December 31, 2020, management identified loans totaling $19,014,000 as impaired with a related allowance for loan losses of $421,000. Impaired loans increased by $7,046,000 during 2020, compared to the balance of $11,968,000 at December 31, 2019. The increase was primarily due to the result of a $8,273,000 relationship moved to nonperforming status during the fourth quarter of 2020. This relationship has been significantly impacted by the economic slowdown and market volatility. The credit is secured by real estate and a brokerage account.

From December 31, 2019 to December 31, 2020, the allowance for loan losses increased $2,009,437 (26%) to $9,617,024. In addition to the provision for loan losses of $3,600,000 recorded by the Company during the year ended December 31, 2020, loan charge-offs of specific loans (previously classified as nonperforming) exceeded recoveries by $1,590,562 for the year ended December 31, 2020. The increase in the allowance was primarily due to increased provisioning due to COVID-19 restrictions impacting portions of our loan portfolio. The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of December 31, 2020 and December 31, 2019 was 1.28% and 1.04%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of December 31, 2020 and December 31, 2019 was 51.6% and 76.1%, 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.

From December 31, 2019 to December 31, 2020, deposits increased $117,266,009 (14%) to $938,672,541. Checking and savings transaction balances increased by $139,296,873 (23%) and certificates of deposit decreased by $22,030,864 (11%). The increase in transaction balances was primarily due to the addition of new public fund customers and increased balances from nearly all depositor groups during 2020. Brokered deposits decreased $53,515,000 (99%) during 2020. The Company utilizes brokered deposits 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 increased $1,000,000 (2%) from $65,000,000 as of December 31, 2019 to $66,000,000 as of December 31, 2020. Due to strong deposit growth, minimal borrowings were utilized during the year.

Subordinated debentures issued to Capital Trusts were unchanged from the prior year at $15,465,000. A newly issued series of unsecured subordinated notes (the "Notes") were issued in July 2020 totaling $20,000,000. The Notes have a fixed rate of 5.25% for the first five years and then will have a yield tied to three-month SOFR plus 519 basis points. The Notes are callable after the first five years with proper notice at 100% of the principal amount in addition to any interest earned and not yet paid.

Note payable to bank decreased by $11,200,000 (100%) when compared to December 31, 2019 due to the full repayment of the note with proceeds from the July 2020 Notes.

From December 31, 2019 to December 31, 2020, stockholders' equity (including accumulated comprehensive loss, net of tax) increased $4,336,484 (5%) to $88,968,366. Net income for the year ended December 31, 2020 exceeded dividends paid or declared by $4,212,957. The equity portion of the Company's unrealized losses on available-for-sale securities and effects of interest rate swaps decreased by $377,657 during 2020. On a per common share basis, stockholders' equity increased from $19.62 as of December 31, 2019 to $20.51 as of December 31, 2020.

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

The following table shows the balances as of December 31, 2020 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.

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	$ 764,707	$ 36,226	4.74%	$ 762,159	$ 41,234	5.41%
Investment securities	143,380	3,843	2.68%	99,299	2,792	2.81%
Other assets	112,333	801	0.71%	54,976	1,201	2.18%
Total interest-earning	1,020,420	40,870	4.01%	916,434	45,227	4.94%
Noninterest-earning	71,326			67,743		
	$ 1,091,746			$ 984,177		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	$ 45,894	$ 79	0.17%	$ 40,325	$ 120	0.30%
Transaction accounts	511,357	2,949	0.58%	440,790	6,144	1.39%
Certificates of deposit	192,412	3,897	2.03%	229,392	4,727	2.06%
FHLB advances	60,467	1,178	1.95%	53,067	1,203	2.27%
Subordinated debentures issued to Capital Trusts	15,465	785	5.08%	19,211	970	5.05%
Subordinated notes, net	8,238	443	5.38%	-	-	0.00%
Other borrowed funds	6,599	280	4.24%	7,933	371	4.68%
Total interest-bearing	840,432	9,611	1.14%	790,718	13,535	1.71%
Noninterest-bearing	164,302			109,866		
Total liabilities	1,004,734			900,584		
Stockholders' equity	87,012			83,593		
	$ 1,091,746			$ 984,177		
Net earning balance	$ 179,988			$ 125,716		
Earning yield less costing rate			2.86%			3.22%
Net interest income, and net yield spread on interest-earning assets		$ 31,259	3.06%		$ 31,692	3.46%
Ratio of interest-earning assets to interest-bearing liabilities	121%			116%		

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 December 31, 2020 versus December 31, 2019				Year ended December 31, 2019 versus December 31, 2018			
	Average Balance	Interest Rate	Rate & Balance	Total	Average Balance	Interest Rate	Rate & Balance	Total
Interest income:								
Loans	$ 138	$ (5,129)	$ (17)	$ (5,008)	$ (929)	$ 1,307	$ (30)	$ 348
Investment securities	1,239	(130)	(58)	1,051	177	571	51	799
Other assets	1,253	(809)	(844)	(400)	1,032	(52)	(146)	834
Net change in interest income	2,630	(6,068)	(919)	(4,357)	280	1,826	(125)	1,981
Interest expense:								
Savings accounts	17	(51)	(7)	(41)	(3)	21	(1)	17
Transaction accounts	983	(3,602)	(576)	(3,195)	378	1,250	107	1,735
Certificates of deposit	(762)	(81)	13	(830)	236	1,810	170	2,216
FHLB advances	168	(169)	(24)	(25)	(621)	89	(31)	(563)
Subordinated debentures issued to Capital Trusts	(189)	5	(1)	(185)	(112)	72	(8)	(48)
Subordinated notes, net	-	-	443	443	-	-	-	-
Other borrowed funds	(63)	(34)	6	(91)	93	89	68	250
Net change in interest expense	154	(3,932)	(146)	(3,924)	(29)	3,331	305	3,607
Change in net interest income	$ 2,476	$ (2,136)	$ (773)	$ (433)	$ 309	$ (1,505)	$ (430)	$(1,626)

RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019

Interest Rates

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2020	3.54%	0.89%	0.37%
December 31, 2019	5.28%	2.05%	2.14%
Change in rates	-1.74%	-1.16%	-1.77%

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, 2020 and December 31, 2019 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.

In response to an expected economic downturn due to COVID-19 impacts, the Federal Reserve Open Market Committee ("FOMC") decreased the discount rate by 150 basis points in March 2020. Rates remained low for the remainder of 2020 with guidance from the FOMC that a lower rate environment will likely continue for the near future. As of December 31, 2020, the prime rate was 3.25% which is a 150 basis point decrease from December 31, 2019.

Interest Income. Total interest income decreased $4,356,627 (10%). The decrease was primarily driven by lower interest rates on interest-earning assets and increased balances in cash and investment securities compared to the loan portfolio. The average balance of interest-earning assets increased $103,986,000 (11%), while the yield on average interest earning assets decreased 93 basis points to 4.01%.

Interest income on loans decreased $5,007,727 (12%). The decrease was primarily due to lower loan offering rates on new credit, the repricing downward of existing adjustable rate loans and an influx of PPP loans added to the portfolio during the year at rates well below standard offering rates. Loan accretion income of $407,000 fell by 73% when compared to the 2019 amount of $1,489,000 as loans from our 2018 Hometown acquisition continued to pay off or amortize steadily during the year. Offsetting the decline in accretion income from purchased loans was $1,120,000 of fee income generated on PPP loan originations. The average balance of loans increased only $2,548,000 (less than 1%) in 2020, while the average yield decreased 67 basis points to 4.74%. Pricing on loans continues to be challenging due to significant competition on new and renewing credits.

Interest Expense. Total interest expense decreased $3,923,813 (29%). The decrease was primarily driven by lower rates across all deposit products due to the previously mentioned FOMC action to cut benchmark interest rates in March 2020. The average balance of interest-bearing liabilities increased $49,714,000 (6%) despite the average cost of interest-bearing liabilities decreasing 57 basis points to 1.14% as many customers maintained elevated cash balances during the year. Specifically, interest expense on deposits decreased $4,066,627 (37%) during 2020 as the average balance of interest-bearing deposits increased $39,156,000 (6%), while the average interest rate paid to depositors decreased 62 basis points to 0.93%. 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 and internet deposits when deemed appropriate).

Interest expense on FHLB advances decreased $25,217 (2%) during 2020 as the average balance of advances increased $7,400,000 (14%), while the average interest rate paid on the advances decreased 32 basis points to 1.95%. The higher average amount of borrowings with the FHLB was due to securing longer duration fixed-rate FHLB funding during the second quarter of 2020 in the current low-rate environment.

Interest expense on subordinated debentures and notes increased $258,142 (27%) during 2020 as the Company issued $20.0 million of Notes during the third quarter. These Notes carry a fixed rate of 5.25% with proceeds being used to pay off an existing line of credit and note payable with another financial institution. Partially offsetting the increased interest expense from the Notes was a decrease of $90,111 (24%) experienced from the payoff of the note payable and line of credit items.

Net Interest Income. The Company's net interest income decreased $432,814 (1%) primarily due to the decrease in overall rates on interest earnings assets, 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 above 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 $3,600,000 and $200,000 for the years ended December 31, 2020 and 2019, respectively. The Company's increase in the provision for loan losses was primarily due to elevated risk of losses from loans to borrowers operating in industries hardest hit by COVID-19 restrictions 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 if COVID-19 continues to negatively impact the Market Area in which our borrowers operate 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 $2,968,551 (42%) when compared to 2019. Primary drivers leading to this increase were increased gains on mortgage loans sold of $1,479,565 (67%) due to record volumes of refinance activity, increased fees from a new commercial loan product of $1,148,681 (100%), a reduction in losses on foreclosed assets by $271,451 (115%) and increased realized gains from the sale of investment securities of $371,465 (415%).

The increases in non-interest income were offset by reduced service charge income of $237,277 (14%) due to lower fee-based transaction activity compared to 2019 and lower SBA lending income of $411,443 (40%) as a result of efforts to fund SBA PPP loans taking precedence over typical SBA activity during periods of 2020.

Non-Interest Expense. Non-interest expense increased $2,166,593 (8%) due to a few significant factors noted below.

Salaries and employee benefits increased $1,240,333 (8%) which was primarily due to the hiring of new executive leadership and relationship managers in the commercial banking area and increased commissions and incentives related to strong mortgage lending activity.

Data processing expenses increased $674,765 (40%) compared to 2019 due to the current year having a full twelve months of expenses related to processing system upgrades made in the last half of 2019.

Income Taxes. The provision for income taxes decreased $447,980 (27%) from 2019 which was primarily due to the reduction of pre-tax income compared to the prior year. However, the overall effective tax rate did increase slightly during the year due to the reduction in federal and state income tax credits available.

Cash Dividends Paid. The Company paid dividends of $0.15 per share on April 17, 2020 to stockholders of record as of April 7, 2020, $0.15 per share on July 17, 2020, to stockholders of record as of July 7, 2020, and $0.15 per share on October 16, 2020, to stockholders of record as of October 6, 2020. The Company also declared a cash dividend of $0.15 per share on December 18, 2020, which was paid on January 15, 2021, to stockholders of record on January 5, 2021. During 2020, 2019 and 2018, the Company paid $2,615,028, $2,313,661 and $2,132,221 in dividends on common stock.

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 each of 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 was 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 was 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 payoffs 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 continued 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) created significant competitive pressures on deposit rates.

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 above 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 considered 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 considered 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.

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 was 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.

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 $148,422,908 as of December 31, 2020 and $92,671,909 as of December 31, 2019, representing an increase of $55,750,999 (60%). 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 $140,242,445 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 45% of assets, the Bank had the ability to borrow an additional $162,393,000 from the FHLB, as of December 31, 2020. Based on existing collateral, the Bank had the ability to borrow $37,237,000 from the Federal Reserve Bank as of December 31, 2020. 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.

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. During the first quarter of 2020, the CARES Act introduced interim CBLR provisions that allow institutions that fall below the 9.0 percent threshold to gradually increase their ratio from minimums of 8.0 percent in 2020, 8.5 percent in 2021 and 9.0 percent in 2022. Additionally, 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. The Company adopted the CBLR framework during 2020 with no material impact on the 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, 2020 and 2019, the Bank had outstanding commitments to originate loans of approximately $32,095,000 and $6,690,000, 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, 2020 and 2019, unused lines of credit to borrowers aggregated approximately $107,444,000 and $108,257,000, respectively, for commercial lines and $24,746,000 and $24,373,000, 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 $10,256,000 and $5,446,000 as of December 31, 2020 and 2019, respectively. The commitments extend over varying periods of time.

Within our loan portfolio, the Bank offers certain loan customers the ability to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. This is accomplished by the Bank entering into variable-rate loan agreements with loan customers, and the customer simultaneously entering into an interest swap agreement directly with a counterparty. In the event that the customer defaults and the termination value, based on current rates, is in a loss position, the Bank could potentially be liable for termination amounts owed to the counterparty.

In connection with the Company's issuance of the GFED 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 GFED Trust Preferred Securities whereby the Company has guaranteed any and all payment obligations of the Trusts related to the GFED Trust Preferred Securities including distributions on, and the liquidation or redemption price of, the GFED 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, 2020. Dollar amounts are expressed in thousands.

	Payments Due By Period				
Contractual Obligations	Total	One Year or less	One to Three Years	Three to Five Years	More than Five Years
Deposits without stated maturity	$ 753,721	$ 753,721	$ -	$ -	$ -
Time and brokered certificates of deposit	184,952	140,243	38,510	2,867	3,332
FHLB advances	66,000	50,000	6,500	6,500	3,000
Subordinated debentures issued to Capital Trusts	15,465	-	-	-	15,465
Subordinated notes	19,564	-	-	-	19,564
Leases	13,419	1,214	2,291	1,686	8,228
Other long term obligations	699	699	-	-	-
Total	$ 1,053,820	$ 945,877	$ 47,301	$ 11,053	$ 49,589

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.

FORM 10-K

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 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, 2020 and 2019, the Bank's savings accounts, checking accounts, and money market deposit accounts totaled $753,720,899 or 80% of its total deposits and $614,424,026 or 75% of total deposits, respectively. The weighted average rate paid on these accounts decreased 57 basis points from 0.76% on December 31, 2019 to 0.19% on December 31, 2020 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, 2020 and 2019, 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.

12/31/2020

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	% Change
+200	$ 123,822	$ 29,831	32%	11.07%	2.83%
+100	111,299	17,308	18%	9.84%	1.60%
NC	93,991	-	0%	8.24%	0.00%
-100	87,015	(6,976)	-7%	7.56%	-0.68%

12/31/2019

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ 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%

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, 2020 and 2019

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 6,366,370	$ 5,114,067
Interest-bearing demand deposits in other financial institutions	142,056,538	87,557,842
Cash and cash equivalents	148,422,908	92,671,909
Interest-bearing time deposits at other financial institutions	4,760,089	250,000
Available-for-sale securities	164,120,869	118,245,314
Stock in Federal Home Loan Bank, at cost	3,896,900	3,757,500
Mortgage loans held for sale	11,359,174	2,786,564
Loans receivable, net of allowance for loan losses of December 31, 2020 and 2019 - $9,617,024 and $7,607,587, respectively	742,149,271	720,732,402
Accrued interest receivable	4,060,795	3,511,875
Prepaid expenses and other assets	7,741,903	8,862,954
Goodwill	1,434,982	1,434,982
Core deposit intangible	2,026,910	2,503,910
Foreclosed assets held for sale	546,450	991,885
Premises and equipment, net	17,898,409	19,164,496
Operating lease right-of-use asset	8,469,661	9,052,941
Bank owned life insurance	25,294,780	24,698,438
Deferred and receivable income taxes	4,069,838	3,359,455
	$ 1,146,252,939	$ 1,012,024,625
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 938,672,541	$ 821,406,532
Federal Home Loan Bank advances	66,000,000	65,000,000
Subordinated debentures issued to Capital Trusts	15,465,000	15,465,000
Subordinated notes, net	19,564,131	-
Note payable to bank	-	11,200,000
Advances from borrowers for taxes and insurance	218,846	268,200
Accrued expenses and other liabilities	7,870,991	4,153,762
Operating lease liabilities	8,560,892	9,105,503
Accrued interest payable	932,172	793,746
	1,057,284,573	927,392,743
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Common stock, $0.10 par value; authorized 10,000,000 shares; issued December 31, 2020 and 2019 - 6,919,503 and 6,919,503 shares; respectively	691,950	691,950
Additional paid-in capital	51,337,219	51,908,867
Retained earnings, substantially restricted	77,073,707	72,860,750
Accumulated other comprehensive loss	(53,378)	(431,035)
	129,049,498	125,030,532
Treasury stock, at cost; December 31, 2020 and 2019 - 2,553,851 and 2,582,041 shares, respectively	(40,081,132)	(40,398,650)
	88,968,366	84,631,882
	$ 1,146,252,939	$ 1,012,024,625

See Notes to Consolidated Financial Statements

FORM 10-K

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Income
Years Ended December 31, 2020, 2019 and 2018

	2020	2019	2018
Interest Income			
Loans	$ 36,225,797	$ 41,233,524	$ 40,886,257
Investment securities	3,843,325	2,791,612	1,992,442
Other	800,754	1,201,367	367,005
	40,869,876	45,226,503	43,245,704
Interest Expense			
Deposits	6,924,826	10,991,453	7,023,286
Federal Home Loan Bank advances	1,177,491	1,202,708	1,766,278
Subordinated debentures issued to Capital Trusts	785,078	970,269	1,017,552
Subordinated notes, net	443,333	-	-
Other	280,473	370,584	120,503
	9,611,201	13,535,014	9,927,619
Net Interest Income	31,258,675	31,691,489	33,318,085
Provision for Loan Losses	3,600,000	200,000	1,225,000
Net Interest Income After Provision for Loan Losses	27,658,675	31,491,489	32,093,085
Noninterest Income			
Service charges	1,469,160	1,706,437	2,004,525
Net gain (loss) on sale of investment securities	461,029	89,564	(8,091)
Gain on sale of mortgage loans held for sale	3,702,098	2,222,533	2,030,746
Gain on sale of Small Business Administration loans	618,506	1,029,949	830,641
Commercial loan referral income	1,148,681	-	-
Net gain (loss) on foreclosed assets	36,057	(235,394)	(360,892)
Other income	2,637,913	2,291,804	2,055,011
	10,073,444	7,104,893	6,551,940
Noninterest Expense			
Salaries and employee benefits	17,348,133	16,107,800	14,918,696
Occupancy	4,623,440	4,582,433	4,071,199
FDIC deposit insurance premiums	312,121	297,628	437,602
Data processing	2,369,224	1,694,459	1,477,034
Advertising	488,998	499,998	534,650
Merger costs	-	34,011	3,671,997
Amortization of core deposit intangible	477,000	477,000	408,571
Other expense	4,045,811	3,804,805	3,938,584
	29,664,727	27,498,134	29,458,333
Income Before Income Taxes	8,067,392	11,098,248	9,186,692
Provision for Income Taxes	1,235,178	1,683,158	1,854,813
Net Income	$ 6,832,214	$ 9,415,090	$ 7,331,879
Basic Income Per Common Share	$ 1.58	$ 2.14	$ 1.66
Diluted Income Per Common Share	$ 1.57	$ 2.11	$ 1.64

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020, 2019 and 2018

	2020	2019	2018
NET INCOME	$ 6,832,214	$ 9,415,090	$ 7,331,879
OTHER ITEMS OF COMPREHENSIVE INCOME:			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	4,239,526	3,018,580	(1,130,514)
Change in unrealized gain (loss) on interest rate swaps, before income taxes	(3,312,874)	(2,899,860)	791,465
Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes	(461,029)	(89,564)	8,091
Total other items of comprehensive income (loss)	465,623	29,156	(330,958)
Income tax expense (benefit) related to other items of comprehensive income	87,966	7,435	(84,395)
Other comprehensive income (loss)	377,657	21,721	(246,563)
TOTAL COMPREHENSIVE INCOME	$ 7,209,871	$ 9,436,811	$ 7,085,316

See Notes to Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 6,832,214	$ 9,415,090	$ 7,331,879
Items not requiring (providing) cash:			
Deferred income taxes	(470,145)	224,142	624,386
Depreciation and amortization	1,989,545	1,970,442	1,593,974
Provision for loan losses	3,600,000	200,000	1,225,000
Gain on sale of Small Business Administration loans	(618,506)	(1,029,949)	(830,641)
Gain on sale of mortgage loans held for sale and investment securities	(4,163,127)	(2,312,097)	(2,022,656)
Loss (gain) on sale of foreclosed assets	(51,836)	(164,636)	315,108
Gain on sale of premises, equipment and other assets	-	(6,069)	(4,652)
Amortization of deferred income, premiums and discounts, net	1,707,861	349,442	481,189
Amortization of intangible assets	477,000	477,000	408,571
Amortization of subordinated notes issuance costs	18,576	-	-
Stock award plan expense	136,138	615,385	517,053
Accretion of purchase accounting adjustments	(406,650)	(1,629,721)	(3,407,340)
Origination of loans held for sale	(147,179,016)	(80,689,007)	(72,116,229)
Proceeds from sale of loans held for sale	142,308,504	81,641,824	74,551,946
Increase in cash surrender value of bank owned life insurance	(596,342)	(500,364)	(457,451)
Changes in:			
Accrued interest receivable	(548,920)	(120,931)	(941,097)
Prepaid expenses and other assets	1,121,052	(1,302,099)	6,676,684
Accounts payable and accrued expenses	466,607	1,188,354	(1,620,868)
Net cash provided by operating activities	4,622,955	8,326,806	12,324,856
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in loans	(30,441,139)	49,550,984	(14,645,559)
Proceeds from sale of loans	5,425,103	9,317,249	12,997,662
Principal payments on available-for-sale securities	23,111,582	7,576,466	13,362,984
Proceeds from maturities of available-for-sale securities	11,617,890	750,000	-
Purchase of premises and equipment	(684,789)	(981,146)	(3,436,389)
Net cash received for acquisition	-	-	2,455,964
Purchase of available-for-sale securities	(108,674,561)	(75,518,385)	(26,151,079)
Proceeds from sale of available-for-sale securities	27,430,799	37,855,257	13,602,508
Purchase of bank owned life insurance	-	(4,000,000)	-
Redemption (purchase) of FHLB stock	(139,400)	1,629,700	(789,700)
Proceeds from sale of premises and equipment	-	-	2,425,000
Purchase of tax credit investments	(256,260)	(3,168,435)	(3,930,176)
Proceeds from sale of foreclosed assets held for sale	181,905	1,343,072	292,003
Net cash provided by (used in) investing activities	(72,428,870)	24,354,762	(3,816,782)

See Notes to Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	2020	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	139,296,873	97,367,801	(40,855,842)
Net increase (decrease) in certificates of deposit	(22,030,864)	(25,548,954)	22,077,932
Net decrease of securities sold under agreements to repurchase	-	-	(2,159,000)
Proceeds from FHLB advances	26,000,000	115,815,000	609,971,000
Repayments of FHLB advances	(25,000,000)	(156,115,000)	(600,971,000)
Proceeds from issuance of notes payable	1,800,000	7,450,000	5,000,000
Repayments of notes payable	(13,000,000)	(1,250,000)	(3,000,000)
Isuance of subordinated notes, net of issuance costs	19,545,555	-	-
Repayment of Hometown Bancshares subordinated debentures	-	(6,000,000)	-
Advances from (repayments to) borrowers for taxes and insurance	(49,354)	(21,608)	109,539
Stock options exercised	-	90,000	166,230
Cash dividends paid	(2,615,028)	(2,313,661)	(2,132,221)
Treasury stock purchased	(390,268)	(3,604,879)	-
Net cash provided by (used in) financing activities	123,556,914	25,868,699	(11,793,362)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,750,999	58,550,267	(3,285,288)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	92,671,909	34,121,642	37,406,930
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 148,422,908	$ 92,671,909	$ 34,121,642

Supplemental Cash Flows Information

	2020	2019	2018
Foreclosed assets acquired in settlement of loans	$ 124,134	$ 1,664,258	$ 368,878
Interest paid	$ 9,472,775	$ 13,563,079	$ 9,401,351
Income taxes paid	$ 840,000	$ 199,000	$ -
Sale and financing of foreclosed assets held for sale	$ 439,500	$ 620,900	$ 181,300

See Notes to Consolidated Financial Statements

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Guaranty Federal Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2020, 2019 and 2018

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	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	691,950	51,908,867	(40,398,650)	72,860,750	(431,035)	84,631,882
Net income	-	-	-	6,832,214	-	6,832,214
Other comprehensive income	-	-	-	-	377,657	377,657
Dividends on common stock ($0.60 per share)	-	-	-	(2,619,257)	-	(2,619,257)
Treasury stock purchased	-	-	(390,268)	-	-	(390,268)
Stock award plans	-	(571,648)	707,786	-	-	136,138
Balance, December 31, 2020	$ 691,950	$ 51,337,219	$ (40,081,132)	$ 77,073,707	$ (53,378)	$88,968,366

See 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, 2020 and 2019.

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, 2020 and 2019, the amount remaining to be amortized is $2,026,910 and $2,503,910, 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 2017.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019 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 equal to a set percentage of deposits. During March of 2020, the Federal Reserve Bank reduced its reserve requirement to zero to encourage institutions to lend out funds to assist with pandemic assistance efforts, therefore, our required reserve on December 31, 2020 was $0. The reserve requirement will be monitored by the Federal Reserve and likely reinstated when economic conditions return to pre-pandemic levels.

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 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 tables below). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject. Additionally, as of December 31, 2020, the most recent notification from

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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. There are no conditions or events since that notification that management believes have changed the Bank's category.

During the fourth quarter of 2019, federal banking agencies issued a final ruling, which provides for 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. The Community Bank Leverage Ratio (CBLR) framework which became effective January 1, 2020, provides an optional simple leverage capital measure, which is generally calculated the same as the generally applicable capital rule's leverage ratio. A banking organization (depository institution or depository institution holding company) that has less than $10 billion in total consolidated assets can elect to opt into the framework if its leverage ratio is greater than 9 percent and the banking organization meets the framework's qualifying criteria of: (i) the generally applicable risk-based and leverage capital requirements in the agencies' capital rules; (ii) the capital ratio requirements to be considered well capitalized under the agencies' prompt corrective action (PCA) framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements. A qualifying banking organization can opt into or out of the CBLR framework at any time by following the prescribed procedures and completing the associated reporting line items that are required on its Call Report and/or form FR Y-9C, as applicable. If a CBLR banking organization fails to satisfy one of the qualifying criteria but has a leverage ratio of greater than 8 percent, the banking organization can continue to apply the CBLR framework and be considered "well capitalized" for a grace period of up to two quarters.

During March 2020, relief from the 9% threshold was approved as part of the CARES Act. The interim thresholds beginning on March 27, 2020 and for the remainder of 2020 was 8% with 2021 increasing to 8.5% and the originally established 9% to be in effect starting in 2022.

The Bank opted into the CBLR framework during the first quarter of 2020. Capital ratios under this framework as of December 31, 2020 are as below with dollar amounts 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, 2020						
Community Bank Leverage Ratio						
Bank	$ 111,098	10.0%	N/A	N/A	$ 89,175	8.0%

The Bank's 2019 actual capital amounts and ratios are as presented in the table below. 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%

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

The amount of dividends that the Bank may pay is subject to various regulatory limitations. As of December 31, 2020 and 2019, 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, 2020, 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, 2020, 2019 and 2018 is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Net income available to common shareholders	$ 6,832,214	$ 9,415,090	$ 7,331,879
Weighted average common shares outstanding	4,330,525	4,405,575	4,410,422
Effect of dilutive securities	19,499	57,984	72,261
Weighted average diluted shares outstanding	4,350,024	4,463,559	4,482,683
Basic income per common share	$ 1.58	$ 2.14	$ 1.66
Diluted income per common share	$ 1.57	$ 2.11	$ 1.64

For the years ended December 31, 2020, 2019 and 2018 all outstanding stock options were included in the above computation because their exercise price was less than the average market price.

Concentration of Cash Holdings

During the normal course of business, the Bank may have excess cash on deposit at other financial institution's. Each institution's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At December 31, 2020, the Bank had $70.9 million in deposits above FDIC insured limits. These funds are held with three institutions that are each shown to be well capitalized as of December 31, 2020. Additionally, the Bank held $65.1 million in deposits at the Federal Reserve Bank at December 31, 2020.

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 believed it would 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 approximately $550,000 at December 31, 2020.

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, 2020				
Debt Securities:				
U. S. government agencies	$ 6,282,000	$ 6,519	$ (4,885)	6,283,634
Municipals	58,754,912	3,241,133	(26,991)	61,969,054
Corporates	30,510,893	261,740	(171,811)	30,600,822
Mortgage-backed securities - private label – commercial	5,399,385	55,712	(10,650)	5,444,447
Mortgage-backed securities - private label – consumer	9,249,375	228,469	(25,747)	9,452,097
Government sponsored mortgage-backed securities and SBA loan pools	49,053,252	1,391,728	(74,165)	50,370,815
	$ 159,249,817	$ 5,185,301	$ (314,249)	$ 164,120,869

	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
	$ 117,152,760	$ 1,468,000	$ (375,446)	$ 118,245,314

Maturities of available-for-sale debt securities as of December 31, 2020:

	Amortized Cost	Approximate Fair Value
1-5 years	$ 1,150,000	$ 1,149,433
5-10 years	36,190,647	36,551,663
After ten years	58,207,158	61,152,414
Mortgage-backed securities - private label - commercial not due on a single maturity date	5,399,385	5,444,447
Mortgage-backed securities - private label - consumer not due on a single maturity date	9,249,375	9,452,097
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	49,053,252	50,370,815
	$ 159,249,817	$ 164,120,869

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $8,749,409 and $5,358,929 as of December 31, 2020 and 2019, respectively.

Gross gains of $552,366, $244,777 and $48,931 and gross losses of $91,337, $155,213 and $57,022 resulting from sale of available-for-sale securities were realized for the years ended December 31, 2020, 2019 and 2018, respectively. The tax effect of these net gains (losses) was $96,816, $18,809 and ($2,063) in 2020, 2019 and 2018, 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, 2020, 2019 and 2018.

Certain investments in debt 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, 2020 and 2019, was $30,049,473 and $42,570,363, respectively, which is approximately 18% and 36% 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, 2020 and 2019.

	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ 1,495,116	$ (4,885)	$ -	$ -	$ 1,495,116	$ (4,885)
Municipals	4,011,492	(26,991)	-	-	4,011,492	(26,991)
Corporates	14,869,853	(171,811)	-	-	14,869,853	(171,811)
Mortgage-backed securities - private label – commercial	1,481,805	(10,650)	-	-	1,481,805	(10,650)
Mortgage-backed securities - private label – consumer	2,391,511	(25,747)	-	-	2,391,511	(25,747)
Government sponsored mortgage-backed securities and SBA loan pools	5,799,696	(74,165)	-	-	5,799,696	(74,165)
	$ 30,049,473	$ (314,249)	$ -	$ -	$ 30,049,473	$ (314,249)

Description of Securities	December 31, 2019 Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total 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)
	$ 39,551,825	$ (307,898)	$ 3,018,538	$ (67,548)	$ 42,570,363	$ (375,446)

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2020 and 2019 include:

	December 31, 2020	December 31, 2019
Real estate - residential mortgage:		
One to four family units	$ 115,799,200	$ 118,823,731
Multi-family	90,028,775	87,448,418
Real estate – construction	70,847,330	77,308,551
Real estate – commercial	305,673,212	300,619,387
Commercial loans	144,326,350	114,047,753
Consumer and other loans	26,733,546	30,666,185
Total loans	753,408,413	728,914,025
Less:		
Allowance for loan losses	(9,617,024)	(7,607,587)
Deferred loan fees/costs, net	(1,642,118)	(574,036)
Net loans	$ 742,149,271	$ 720,732,402

Classes of loans by aging at December 31, 2020 and 2019 were as follows:

As of December 31, 2020

	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
				(In Thousands)			
Real estate - residential mortgage:							
One to four family units	$ 623	$ 1,058	$ 1,071	$ 2,752	$ 113,047	$ 115,799	$ -
Multi-family	-	-	-	-	90,029	90,029	-
Real estate – construction	1,239	-	4,189	5,428	65,419	70,847	-
Real estate – commercial	264	76	161	501	305,172	305,673	-
Commercial loans	6	1	4,784	4,791	139,535	144,326	-
Consumer and other loans	10	1	21	32	26,702	26,734	-
Total	$ 2,142	$ 1,136	$ 10,226	$ 13,504	$ 739,904	$ 753,408	$ -

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
				(In Thousands)			
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	$ 603	$ 568	$ 185	$ 1,356	$ 727,558	$ 728,914	$ -

Nonaccruing loans are summarized as follows:

	December 31, 2020	December 31, 2019
Real estate - residential mortgage:		
One to four family units	$ 3,086,159	$ 2,398,379
Multi-family	-	-
Real estate – construction	6,239,326	3,738,410
Real estate – commercial	3,932,241	2,941,143
Commercial loans	5,249,782	855,761
Consumer and other loans	121,090	69,784
Total	$ 18,628,598	$ 10,003,477

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, 2020, 2019 and 2018:

As of December 31, 2020

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
				(In Thousands)				
Allowance for loan losses:								
Balance, beginning of year	$ 1,749	$ 2,267	$ 1,001	$ 746	$ 1,129	$ 443	$ 273	$ 7,608
Provision charged to expense	121	1,350	440	312	669	323	385	$ 3,600
Losses charged off	(738)	-	(2)	-	(709)	(261)	-	$ (1,710)
Recoveries	-	7	6	-	40	66	-	$ 119
Balance, end of year	$ 1,132	$ 3,624	$ 1,445	$ 1,058	$ 1,129	$ 571	$ 658	$ 9,617
Ending balance: individually evaluated for impairment	$ 114	$ 117	$ 112	$ -	$ 62	$ 15	$ -	$ 420
Ending balance: collectively evaluated for impairment	$ 1,018	$ 3,507	$ 1,333	$ 1,058	$ 1,066	$ 556	$ 658	$ 9,196
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ 1	$ -	$ -	$ 1
Loans:								
Ending balance: individually evaluated for impairment	$ 6,239	$ 1,810	$ 3,110	$ -	$ 5,111	$ 202	$ -	$ 16,472
Ending balance: collectively evaluated for impairment	$ 64,608	$ 301,453	$ 112,689	$ 90,029	$ 139,083	$ 26,532	$ -	$ 734,394
Ending balance: loans acquired with deteriorated credit quality	$ -	$ 2,410	$ -	$ -	$ 132	$ -	$ -	$ 2,542

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As of December 31, 2019

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
				(In Thousands)				
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	$ 1,749	$ 2,267	$ 1,001	$ 746	$ 1,129	$ 443	$ 273	$ 7,608
Ending balance: individually evaluated for impairment	$ 553	$ 24	$ 197	$ -	$ 299	$ 21	$ -	$ 1,094
Ending balance: collectively evaluated for impairment	$ 1,196	$ 2,243	$ 804	$ 746	$ 830	$ 422	$ 273	$ 6,514
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans:								
Ending balance: individually evaluated for impairment	$ 4,742	$ 650	$ 2,613	$ -	$ 908	$ 220	$ -	$ 9,133
Ending balance: collectively evaluated for impairment	$ 72,567	$ 297,318	$ 116,211	$ 87,448	$ 112,956	$ 30,446	$ -	$ 716,946
Ending balance: loans acquired with deteriorated credit quality	$ -	$ 2,651	$ -	$ -	$ 184	$ -	$ -	$ 2,835

As of December 31, 2018

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
				(In Thousands)				
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	$ 2,306	$ 2,093	$ 1,297	$ 641	$ 1,160	$ 373	$ 126	$ 7,996
Ending balance: individually evaluated for impairment	$ 552	$ 106	$ 573	$ -	$ 363	$ 18	$ -	$ 1,612
Ending balance: collectively evaluated for impairment	$ 1,754	$ 1,987	$ 724	$ 641	$ 797	$ 355	$ 126	$ 6,384
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans:								
Ending balance: individually evaluated for impairment	$ 4,088	$ 1,588	$ 4,520	$ 5,952	$ 1,062	$ 169	$ -	$ 17,379
Ending balance: collectively evaluated for impairment	$ 84,507	$ 317,488	$ 128,258	$ 84,663	$ 118,459	$ 32,968	$ -	$ 766,343
Ending balance: loans acquired with deteriorated credit quality	$ -	$ 2,782	$ -	$ -	$ 216	$ 175	$ -	$ 3,173

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, 2020 and 2019:

As of December 31, 2020

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In Thousands)		
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	$ 2,780	$ 2,780	$ -	$ 1,199	$ -
Multi-family	-	-	-	-	-
Real estate – construction	5,081	5,081	-	423	-
Real estate – commercial	3,419	3,419	-	3,152	4
Commercial loans	4,902	4,902	-	455	-
Consumer and other loans	100	100	-	110	13
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	$ 330	$ 330	$ 112	$ 1,183	$ -
Multi-family	-	-	-	-	-
Real estate – construction	1,158	3,129	114	4,093	-
Real estate – commercial	801	801	117	365	-
Commercial loans	341	341	63	792	-
Consumer and other loans	102	102	15	136	-
Total					
Real estate - residential mortgage:					
One to four family units	$ 3,110	$ 3,110	$ 112	$ 2,382	$ -
Multi-family	-	-	-	-	-
Real estate – construction	6,239	8,210	114	4,516	-
Real estate – commercial	4,220	4,220	117	3,517	4
Commercial loans	5,243	5,243	63	1,247	-
Consumer and other loans	202	202	15	246	13
Total	$ 19,014	$ 20,985	$ 421	$ 11,908	$ 17

As of December 31, 2019

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In Thousands)		
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	$ 11,968	$ 13,201	$ 1,096	$ 17,291	$ 7

At December 31, 2020, 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.

In March 2020, our regulators issued a statement titled "Interagency Statement on Loan Modifications and Reporting for Financial institutions with Customers Affected by the Coronavirus" that encouraged financial institutions to work prudently with borrowers who were expected to have difficulty in meeting payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further clarifies that qualified loan modifications are exempt by law from being classified as a TDR as defined by GAAP from March 1, 2020 until December 31, 2020. In December 2020, the Economic Aid to Hard Hit Small Businesses, Non-Profits and Ventures Act was enacted, which extended the CARES Act provisions until January 1, 2022. The Bank continues to work with impacted entities in the form of modifications, payment deferrals, extensions of repayment terms and/or other delays in payments, as necessary.

Due to the before mentioned regulatory changes, there were no troubled debt restructuring charge offs or increases to the allowance for loan losses related to TDRs during 2020. In 2019, there were no debt restructuring charge offs and $37,379 in increased allowances for loan losses.

Impacts from COVID-19 have increased loan payment deferrals and other loan modifications in our loan portfolio. During 2020, guidance by federal banking regulators, the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB) and provisions within the CARES Act noted that short-term loan modifications made in response to COVID-19 to borrowers with a current payment status are not considered troubled debt restructurings (TDRs) for reporting purposes. As of December 31, 2020, 20 loans with an aggregate balance of $28.6 million remained modified for periods from one to twelve months. 84% of loan modifications made during 2020 have resumed scheduled payments with the remaining 16% projected to return to their contractual payment terms with the next six months. Additional details on the modified loans are in the following table.

COVID-19 MODIFICATIONS - Types of Modifications

Collateral Type	# Loans Modified	Amount of Loans Modified ($)	Interest Only 3 Months or Less	Interest Only 4-6 Months	Full Payment Deferral 3 Months	Full Payment Deferral 3 Months + Interest Only 3 Months or Less	Full Payment Deferral 3 Months + Interest Only > 3 Months	Full Payment Deferral > 6 Months
Hotel/Motel	9	$ 16,018,273	$ -	$ -	$ -	$ 1,849,520	$ 7,962,876	$ 6,205,877
Theatre	5	10,586,792	-	-	-	-	3,826,974	6,759,818
Restaurant (C&I & RE)	2	411,029	123,236	287,793	-	-	-	-
Land & Land Development	1	1,279,878	-	-	-	-	1,279,878	-
1-4 Family Consumer	2	168,852	-	-	168,852	-	-	-
Other	1	93,100	-	93,100	-	-	-	-
Total Modified Loans	20	$ 28,557,924	$ 123,236	$ 380,893	$ 168,852	$ 1,849,520	$ 13,069,728	$ 12,965,695

The following summarizes information regarding troubled debt restructurings by class as of and for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Real estate - residential mortgage:		
One to four family units	$ 1,178,876	$ 1,163,782
Multi-family	-	-
Real estate – construction	3,700,084	3,738,409
Real estate – commercial	893,992	161,491
Commercial loans	368,310	572,683
Total	$ 6,141,262	$ 5,636,365

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. Included in this category as of December 31, 2020 are $37.3 million in Small Business Administration PPP loans originated during the year with the majority of the loans having an original duration of two years or less.

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, 2020 and 2019:

As of December 31, 2020

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
			(In Thousands)				
Rating:							
Pass	$ 64,531	$ 262,771	$ 110,615	$ 90,029	$ 130,874	$ 26,532	$685,352
Special Mention	-	4,442	-	-	123	-	4,565
Substandard	6,316	38,460	5,184	-	13,329	202	63,491
Doubtful	-	-	-	-	-	-	-
Total	$ 70,847	$ 305,673	$ 115,799	$ 90,029	$ 144,326	$ 26,734	$753,408

As of December 31, 2019

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
			(In Thousands)				
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	$ 77,309	$ 300,619	$ 118,824	$ 87,448	$ 114,048	$ 30,666	$728,914

The tables include purchased credit impaired loan amounts. At December 31, 2020 and 2019, purchased credit impaired loans rated as "Substandard" were $2.5 and $3.2 million, respectively.

The weighted average interest rate on loans as of December 31, 2020 and 2019 was 4.45% and 5.65%, respectively.

The Bank serviced mortgage loans for others amounting to $24,868 and $29,222 as of December 31, 2020 and 2019, respectively. The Bank serviced commercial loans for others amounting to $62,261,930 and $51,381,794 as of December 31, 2020 and 2019, 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, 2020 and 2019 were $0.41 million and $1.49 million, respectively.

The carrying amount of remaining purchased credit impaired loans are included in the balance sheet amounts of loans receivable at December 31, 2020 and 2019. The amount of these loans is shown below:

	December 31, 2020
	(In Thousands)
Real estate – commercial	$ 2,751
Commercial loans	177
Consumer and other loans	-
Outstanding balance	$ 2,928
Carrying amount, net of fair value adjustment of $386 at December 31, 2020	$ 2,542

	December 31, 2019
	(In Thousands)
Real estate – commercial	$ 3,069
Commercial loans	242
Consumer and other loans	-
Outstanding balance	$ 3,311
Carrying amount, net of fair value adjustment of $476 at December 31, 2019	$ 2,835

Changes in the carrying amount of the accretable yield for all purchased credit impaired loans were as follows for years ended December 31, 2020 and 2019:

	Year ended December 31, 2020
	(In Thousands)
Balance at beginning of period	$ (69)
Additions	-
Reclassification from nonaccretable difference	(98)
Accretion	167
Disposals	-
Balance at end of period	$ -

	Year ended December 31, 2019
	(In Thousands)
Balance at beginning of period	$ 265
Additions	-
Reclassification from nonaccretable difference	-
Accretion	(334)
Disposals	-
Balance at end of period	$ (69)

During the years ended December 31, 2020 and 2019, 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 2020. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled $1.4 million as of December 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
	(in Thousands)	*(in Thousands)*
Goodwill	$ 1,435	$ 1,435
Core deposit intangible		
Gross carrying amount	3,520	3,520
Accumulated amortization	(1,493)	(1,016)
Core deposit intangible, net	2,027	2,504
Remaining balance	$ 3,462	$ 3,939

The Company's estimated remaining amortization expense on intangibles as of December 31, 2020 is as follows:

Amortization Expense *(in Thousands)*	
Remainder of:	
2021	$ 477
2022	477
2023	477
2024	477
2025	119
Thereafter	-
Total	$ 2,027

NOTE 7: PREMISES AND EQUIPMENT

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

	December 31, 2020	December 31, 2019
Land	$ 4,360,353	$ 4,360,353
Buildings and Improvements	11,896,382	11,907,331
Automobile	52,404	52,404
Furniture, Fixtures and Equipment	13,924,839	13,485,163
Leasehold Improvements	2,394,953	2,394,953
	32,628,931	32,200,204
Less accumulated depreciation	(14,730,522)	(13,035,708)
Net premises and equipment	$ 17,898,409	$ 19,164,496

NOTE 8: LEASES

As discussed in Note 19, 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, 2020, operating lease liability balances were $8,560,892 and financing lease liability amounts were $510,526. 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, 2020 and 2019 is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	(In Thousands)	
Finance lease cost:		
Amortization of right-of-use assets	$ 142,582	$ 111,559
Interest on lease liabilities	7,736	8,346
Operating lease cost	1,081,620	1,080,226
Sublease income	(47,200)	(45,200)
Total lease costs	$ 1,184,738	$ 1,154,931
Additional lease information:		
Weighted-average remaining lease term - financing leases (in years)	3.4	3.5
Weighted-average remaining lease term - operating leases (in years)	14.4	15.2
Weighted-average discount rate - financing leases	1.32%	1.96%
Weighted-average discount rate - operating leases	5.68%	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, 2020:

	Financing	Operating	Total
		(In Thousands)	
2021	$ 175	$ 1,020	$ 1,195
2022	170	1,011	1,181
2023	97	1,014	1,111
2024	53	856	909
2025	25	752	777
Thereafter	-	8,228	8,228
Total undiscounted future minimum lease cash payments	$ 520	$ 12,881	$ 13,401
Present value discount	(9)	(4,320)	(4,329)
Lease liability	$ 511	$ 8,561	$ 9,072

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, 2020 and 2019 was $25,294,780 and $24,698,438, 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. 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, 2020 and 2019, the net carrying values of the Company's investments in these entities was $5,712,577 and $6,663,662, respectively, and are included in other assets on the Company's Consolidated Balance Sheets.

The Company received total income tax credits of $1,056,493, $1,183,140 and $1,324,581 during 2020, 2019 and 2018, respectively. Amortization of the investment costs was $937,270, $1,041,863 and $1,120,363 during each of the fiscal years 2020, 2019 and 2018, respectively.

NOTE 11: DEPOSITS

Deposits are comprised of the following at December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
	Weighted Average Rate	Balance	Percentage of Deposits	Weighted Average Rate	Balance	Percentage of Deposits
Non-interest bearing transaction	0.00%	$ 144,911,156	15.4%	0.00%	$ 87,598,281	10.7%
Interest bearing transaction	0.35%	560,970,668	59.8%	0.93%	487,621,927	59.3%
Savings	0.13%	47,839,075	5.1%	0.28%	39,203,818	4.8%
	0.27%	753,720,899	80.3%	0.76%	614,424,026	74.8%
Certificates:						
0.00% - 0.99%	0.62%	49,395,262	5.2%	0.65%	30,075,341	3.7%
1.00% - 1.99%	1.47%	13,875,409	1.5%	1.65%	29,828,669	3.6%
2.00% - 3.99%	2.41%	121,680,971	13.0%	2.49%	147,078,496	17.9%
	1.86%	184,951,642	19.7%	2.10%	206,982,506	25.2%
Total Deposits	0.58%	$ 938,672,541	100.0%	1.10%	$ 821,406,532	100.0%

The aggregate amount of certificates of deposit with a minimum balance of $100,000 was approximately $103,356,000 and $123,765,000 as of December 31, 2020 and 2019, respectively. The aggregate amount of certificates of deposit with a minimum balance of $250,000 was approximately $35,412,000 and $54,654,000, as of December 31, 2020 and 2019, respectively.

A summary of certificates of deposit by maturity as of December 31, 2020, is as follows:

2021	$ 140,242,445
2022	36,240,989
2023	2,269,299
2024	1,805,072
2025	1,061,795
Thereafter	3,332,042
	$ 184,951,642

A summary of interest expense on deposits is as follows:

	Years ended December 31, 2020	2019	2018
Transaction accounts	$ 2,948,835	$ 6,144,802	$ 4,427,407
Savings accounts	78,806	119,730	105,592
Certificate accounts	3,912,688	4,754,944	2,524,098
Early withdrawal penalties	(15,503)	(28,023)	(33,811)
	$ 6,924,826	$ 10,991,453	$ 7,023,286

The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately $35,000 and $53,548,000 as of December 31, 2020 and 2019, respectively.

NOTE 12: BORROWINGS

Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of the following:

December 31, 2020			December 31, 2019		
Maturity Date	Amount	Weighted Average Rate	Maturity Date	Amount	Weighted Average Rate
2021	50,000,000	0.35%	2020	65,000,000	1.83%
2023	6,500,000	0.59%			
2025	6,500,000	0.82%			
2027	3,000,000	1.12%			
	$ 66,000,000	0.45%			

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 45% of assets, the Bank has the ability to borrow an additional $162.4 million from the FHLB, as of December 31, 2020.

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with the Federal Reserve Bank. The Bank has the ability to borrow $37.2 million as of December 31, 2020. 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, 2020 and 2019.

Note Payable to Bank

As of December 31, 2019, the Company had an established note payable of $11.2 million with another financial institution. The note was fully drawn as of December 31, 2019 with the original purpose to provide additional capital for funding Bank asset growth and to redeem Hometown Bancshares subordinated debentures discussed in Note 13. The note carried a variable interest rate tied to 30-day LIBOR plus 250 basis points (4.24% at December 31, 2019). In July 2020, proceeds from a subordinated debt offering, discussed in Note 14, were used to completely pay off the note payable.

Line of Credit to Bank

During 2019, The Company established a $3.0 million revolving line of credit with another financial institution. 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 with a floor of 400 basis points and matures on June 28, 2021. No amounts were borrowed on this line as of December 31, 2020 or 2019.

NOTE 13: SUBORDINATED DEBENTURES ISSUED TO CAPITAL TRUSTS

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: SUBORDINATED NOTES

On July 29, 2020, the Company completed a private offering of $20.0 million aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2030 (the "Notes"). The Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. Costs related to the issuance of $454,445 reduced the proceeds received by the Company and will be amortized over the life of the notes. The Notes are intended to qualify as Tier 2 capital for regulatory purposes. The Notes have a stated maturity of September 30, 2030, are redeemable by the Company at its option, in whole or in part, on or after September 30, 2025, and at any time upon the occurrences of certain events. Prior to September 30, 2025, the Company may redeem the Notes, in whole but not in part, only under certain limited circumstances set forth in the Note. On or after September 30, 2025, the Company may redeem the Notes, in whole or in part, at its option, on any interest payment date. Any redemption by the Company would be at a redemption price equal to 100% of the principal amount of the Notes being redeemed, together with any accrued and unpaid interest on the Notes being redeemed to but excluding the date of redemption. The Notes are not subject to redemption at the option of the holder. The Notes will bear interest at a fixed rate of 5.25% per year until September 30, 2025 or earlier redemption date. From October 1, 2025 to, but excluding the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR plus 519 basis points. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The Notes are unsecured, subordinated obligations of the Company, are not obligations of, and are not guaranteed by, any subsidiary of the Company, and rank junior in right of payment to the Company's current and future senior indebtedness.

NOTE 15: INCOME TAXES

As of December 31, 2020 and 2019, 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, 2020.

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The provision for income taxes consists of:

	Years Ended December 31, 2020	2019	2018
Taxes currently payable	$ 1,705,323	$ 1,459,016	$ 1,230,427
Deferred income taxes	(470,145)	224,142	624,386
	$ 1,235,178	$ 1,683,158	$ 1,854,813

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2020 and 2019 balance sheets are:

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Allowances for loan losses	$ 2,308,086	$ 1,825,853
Writedowns on foreclosed assets held for sale	152,192	409,031
Unrealized loss on interest rate swaps	1,185,887	390,804
Deferred loan fees/costs	368,937	96,700
Lease Liabilities	2,177,140	-
Other purchase accounting adjustments	567,187	690,341
Tax credit partnerships and related tax credit carryforwards	1,322,240	1,354,315
Other	100,565	284,925
	8,182,235	5,051,969
Deferred tax liabilities:		
FHLB stock dividends	(20,968)	(30,062)
Unrealized gain on available-for-sale securities	(1,169,053)	(262,217)
Lease ROU assets	(2,155,245)	-
Accumulated depreciation	(525,995)	(598,785)
Other	(635,280)	(749,964)
	(4,506,541)	(1,641,028)
Net deferred tax asset	$ 3,675,694	$ 3,410,941

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 December 31, 2020	2019	2018
Computed at statutory rate	21.0%	21.0%	21.0%
Increase (reduction) in taxes resulting from:			
State financial institution tax and credits	(1.2%)	(2.3%)	(1.3%)
Cash surrender value of life insurance	(1.6%)	(1.0%)	(1.1%)
Tax exempt interest	(1.8%)	(1.1%)	(1.4%)
Non-dedecutible merger costs	-	-	1.0%
Other	(1.1%)	(1.4%)	2.0%
Actual effective rate	15.3%	15.2%	20.2%

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 16: 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, 2020 and 2019 (dollar amounts in thousands):

As of December 31, 2020

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Debt securities:				
U.S. Government agencies	$ -	$ 6,284	$ -	$ 6,284
Municipals	-	61,969	-	61,969
Corporates	-	30,601	-	30,601
Mortgage-backed securities - private label – commercial	-	5,444	-	5,444
Mortgage-backed securities - private label – consumer	-	9,452	-	9,452
Government sponsored mortgage-backed securities and SBA loan pools	-	50,371	-	50,371
Available-for-sale securities	$ -	$ 164,121	$ -	$ 164,121
Financial liabilities:				
Interest Rate Swaps	$ -	$ 4,941	$ -	$ 4,941

As of December 31, 2019

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Debt securities:				
U.S. 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	$ -	$ 118,245	$ -	$ 118,245

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Financial liabilities:				
Interest Rate Swaps	$ -	$ 1,628	$ -	$ 1,628

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, 2020 and 2019 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
December 31, 2020	$ -	$ -	$ 5,809	$ 5,809
December 31, 2019	$ -	$ -	$ 1,483	$ 1,483

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
December 31, 2020	$ -	$ -	$ 371	$ 371
December 31, 2019	$ -	$ -	$ 233	$ 233

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, 2020	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent)	$ 5,809	Market Comparable	Discount to reflect realizable value	1% - 80% (7%)
Foreclosed assets held for sale	$ 371	Market Comparable	Discount to reflect realizable value	4% - 4% (4%)

	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%)

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.

Subordinated notes

For these fixed rate instruments, the fair value is calculated over the remaining term of the notes compared to similar duration products. There is currently a limited market for similar debt instruments and the Company has the option to call the subordinated notes at par in 2025.

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

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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, 2020 and 2019.

	December 31, 2020			December 31, 2019		
	Carrying Amount	Fair Value	Hierarchy Level	Carrying Amount	Fair Value	Hierarchy Level
Financial assets:						
Cash and cash equivalents	$ 148,422,908	$ 148,422,908	1	$ 92,671,909	$ 92,671,909	1
Interest-bearing time deposits at other institutions	4,760,089	4,771,605	2	250,000	250,315	2
Federal Home Loan Bank stock	3,896,900	3,896,900	2	3,757,500	3,757,500	2
Mortgage loans held for sale	11,359,174	11,626,174	2	2,786,564	2,786,564	2
Loans, net	742,149,271	737,701,011	3	720,732,402	718,594,936	3
Interest receivable	4,060,795	4,060,795	2	3,511,875	3,511,875	2
Financial liabilities:						
Deposits	938,672,541	939,806,149	2	821,406,532	822,046,988	2
FHLB advances	66,000,000	66,089,183	2	65,000,000	65,015,635	2
Subordinated debentures issued to Capital Trusts	15,465,000	15,465,000	3	15,465,000	15,465,000	3
Subordinated notes, net	19,564,131	25,608,997	3	-	-	-
Note payable to bank	-	-	3	11,200,000	11,200,000	3
Interest payable	932,172	932,172	2	793,746	793,746	2
Unrecognized financial instruments (net of contractual value):						
Commitments to extend credit	-	-	-	-	-	-
Unused lines of credit	-	-	-	-	-	-

NOTE 17: 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 18: 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, 2020, restricted stock for 90,016 shares of Common Stock and 108,898 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, 2020, 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		
	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2018	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	-	-	$ -
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Balance outstanding as of December 31, 2020	-	-	$ -
Options exercisable as of December 31, 2020	-	-	$ -

All stock options issued in prior years were exercised in 2019 and no stock options vested during 2020, 2019 and 2018.

Restricted Stock

	Number of shares	Weighted Average Grant-Fair Value
Balance of shares non-vested as of January 1, 2018	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	24,378	$ 22.75
Granted	20,213	20.99
Vested	(11,464)	22.13
Forfeited	(5,090)	22.37
Balance of shares non-vested as of December 31, 2020	28,037	$ 21.80

In February 2020, the Company granted 5,579 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 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. The expense is being recognized over the applicable vesting period. The expense relating to these awards for the years ended December 31, 2020, 2019 and 2018 was $135,110, $131,443 and $138,200, respectively.

During 2020, 2019 and 2018, the Company granted 14,634, 9,932 and 7,486 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, 2020, 2019 and 2018 was $114,357, $149,279 and $183,815, respectively.

Performance Stock Units

	Performance Stock Units		Weighted Average Grant-Date Fair Value
Balance of shares non-vested as of January 1, 2018	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	-	$	-
Granted	53,075		15.40
Vested	-		-
Forfeited	-		-
Balance of shares non-vested as of December 31, 2020	53,075	$	15.40

During 2020, the Company granted restricted stock units representing 53,075 hypothetical shares of performance stock units to officers. There are three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). The performance stock units vest based on two financial performance factors over the period from grant date to December 31, 2022 (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) Earnings Per Share (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 averaged $15.40 per share. The expense is being recognized over the applicable vesting period. Due to the fact that the measurements cannot be determined at the time of the grant, the Company currently estimates that the most likely outcome is the achievement between the target and maximum levels. If during the Performance Period, additional information becomes available to lead the Company to believe a different level will be achieved for the Performance Period, the Company will reassess the number of units that will vest for the grant and adjust its compensation expense accordingly on a prospective basis. The total amount of expense for performance stock units during the years ended December 31, 2020, 2019 and 2018 was $54,948, $359,606 and $263,204, 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, 2020, 2019 and 2018 was $304,415, $640,328 and $585,219, respectively. As of December 31, 2020, there was $429,294 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 19: NEW ACCOUNTING PRONOUNCEMENTS

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 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 a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments should be applied on a prospective basis. This standard was adopted during 2020 and had no impact on the Company's 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 were effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The standard required 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 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 adopted this standard during the first quarter of 2020 with no significant impact on the financial statements.

NOTE 20: OTHER EXPENSES

Other expenses for the years ended December 31, 2020, 2019 and 2018 were as follows:

	December 31, 2020	December 31, 2019	December 31, 2018
Directors compensation	$ 238,704	$ 232,826	$ 235,060
Outside services	139,737	164,930	122,715
Legal expense	292,451	313,520	249,572
Deposit expense	81,725	80,879	78,892
Office supplies	123,334	129,988	160,727
Telephone	145,396	143,411	183,732
Postage	149,783	197,775	175,614
Insurance	183,380	161,032	113,610
Supervisory exam	68,320	63,619	67,222
Accounting	350,370	387,102	453,000
Organization dues	181,155	170,017	172,259
Loan expense	415,436	417,736	410,177
Contributions	132,200	82,200	60,000
ATM expense	307,999	252,192	245,892
Other operating	1,235,821	1,007,578	1,210,112
	$ 4,045,811	$ 3,804,805	$ 3,938,584

NOTE 21: 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, 2020	2019	2018
Balance, beginning of year	$ 4,030,844	$ 5,797,809	$ 6,528,933
New Loans	1,815,200	500,000	2,795,734
Repayments	(1,489,063)	(2,266,965)	(3,526,858)
Balance, end of year	$ 4,356,981	$ 4,030,844	$ 5,797,809

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 22: 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, 2020 and 2019, the Bank had outstanding commitments to originate fixed-rate mortgage loans of approximately $32,095,000 and $6,690,000, 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 $10,256,000 and $5,446,000 as of December 31, 2020 and 2019, 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, 2020 and 2019, these letters of credit aggregated approximately $62,239,000 and $57,771,000.

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, 2020 and 2019, unused lines of credit to borrowers aggregated approximately $107,444,000 and $108,257,000, respectively, for commercial lines and $24,746,000 and $24,373,000, respectively, for open-end consumer lines.

The Bank offers certain loan customers the ability to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement via an Assumable Rate Conversion (“ARC”) loan agreement. This is accomplished by the Bank entering into variable-rate loan agreements with loan customers, and the customer simultaneously entering into an interest swap agreement directly with a third-party. The customer is required to enter into a transaction agreement as part of each loan. The agreement states that in an event of default by the loan customer, the Bank must pay a termination value to the extent it is positive. The termination value is defined by the Master Agreement. During 2020, the Bank originated $72.4 million of these agreements and earned $1.1 million in brokerage fees that is included in non-interest income. The Bank evaluates these guarantees on a quarterly basis and would record a liability if it became probable that it would be required to pay a termination value. No liability was recorded as of December 31, 2020.

NOTE 23: 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, 2020, the Company reported a $2,857,818 unrealized loss, net of a $902,469 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, 2020, the Company reported a $897,491 unrealized loss, net of a $283,418 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 years ended December 31, 2020 and 2019, there was no ineffectiveness attributable to either cash flow hedge.

As of December 31, 2020, based on current fair values, the Company pledged cash collateral of $5.1 million to its counterparty for the swaps. 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

A summary of the Company's derivative financial instruments at December 31, 2020 and 2019 is shown in the following table:

Forward Start Inception Date	Termination Date	Derivative Type	Notional Amount	Rate Paid	Rate Hedged	Balance Sheet Classfication	December 31, 2020	December 31, 2019
2/28/2018	2/28/2025	Interest rate swap - FHLB Advances	$ 50,000,000	2.12 %	3 month LIBOR Floating	Other liabilites	$ (3,760,287)	$ (1,067,935)
5/23/2019	2/23/2026	Interest rate swap - Subordinated Debentures	$ 10,310,000	4.09 %	3 month LIBOR Floating +145 bps	Other liabilites	$ (1,180,909)	$ (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 Classfication	Years ended December 31, 2020	Years ended December 31, 2019
Interest rate swap - FHLB Advances	Interest expense	$ 630,870	$ (155,062)
Interest rate swap - Subordinated Debentures	Interest expense	$ 184,537	$ 24,065

NOTE 24: 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:	December 31, 2020	December 31, 2019
Net unrealized gain (loss) on available-for-sale securities	$ 4,871,052	$ 1,092,554
Net unrealized gain (loss) on interest rate swap instrument	(4,941,196)	(1,628,323)
	(70,144)	(535,769)
Tax effect	16,766	104,734
Net-of-tax amount	$ (53,378)	$ (431,035)

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NOTE 25: CONDENSED PARENT COMPANY STATEMENTS

The condensed balance sheets as of December 31, 2020 and 2019, and statements of income, comprehensive income and cash flows for the years ended December 31, 2020, 2019 and 2018 for the parent company, Guaranty Federal Bancshares, Inc., are as follows:

Condensed Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Cash	$ 7,940,245	$ 1,783,729
Investment in subsidiary	115,472,127	108,504,578
Investment in Capital Trusts	465,000	465,000
Prepaid expenses and other assets	218,411	336,796
Deferred and receivable income taxes	2,197,483	1,625,872
	$ 126,293,266	$ 112,715,975
Liabilities		
Subordinated debentures issued to Capital Trusts	$ 15,465,000	$ 15,465,000
Subordinated notes, net	19,564,131	-
Note payable to bank	-	11,200,000
Accrued expenses and other liabilities	2,288,869	1,412,193
Due to subsidiary	6,900	6,900
Stockholders' equity		
Common stock	691,950	691,950
Additional paid-in capital	51,337,219	51,908,867
Retained earnings	77,073,707	72,860,750
Accumulated other comprehensive loss	(53,378)	(431,035)
Treasury stock	(40,081,132)	(40,398,650)
	$ 126,293,266	$ 112,715,975

Condensed Statements of Income

	Years ended December 31, 2020	2019	2018
Income			
Dividends from subsidiary bank	$ 2,500,000	$ 8,000,000	$ 14,000,000
Net gain on foreclosed assets	74,716	-	-
Interest income:			
Other	22,515	40,855	31,016
	2,597,231	8,040,855	14,031,016
Expense			
Interest expense	716,070	362,079	120,503
Other	1,839,930	2,439,799	2,773,018
	2,556,000	2,801,878	2,893,521
Income before income taxes and equity in undistributed income of subsidiaries	41,231	5,238,977	11,137,495
Credit for income taxes	(681,092)	(721,649)	(780,131)
Income before equity in undistributed earnings of subsidiaries	722,323	5,960,626	11,917,626
Equity in undistributed income of subsidiaries	6,109,891	3,454,464	(4,585,747)
Net income	$ 6,832,214	$ 9,415,090	$ 7,331,879

Condensed Statements of Cash Flows

	Years ended December 31, 2020	2019	2018
Cash Flows From Operating Activities			
Net income	$ 6,832,214	$ 9,415,090	$ 7,331,879
Items not requiring (providing) cash:			
(Equity in undistributed income) distributions in excess of subsidiaries	(6,109,891)	(3,454,464)	4,585,747
Deferred income taxes	(237,281)	(633,608)	(196,399)
Accretion of purchase accounting adjustment	-	(109,829)	(65,897)
Stock award plan expense	136,138	615,385	517,053
Changes in:			
Prepaid expenses and other assets	118,386	(28,124)	(113,711)
Income taxes payable/refundable	(193,812)	157,458	(341,404)
Accrued expenses	270,503	(26,374)	(1,360,728)
Net cash provided by operating activities	816,257	5,935,534	10,356,540
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	-	-	(9,627,810)
Cash Flows From Financing Activities			
Proceeds from stock options exercised	-	90,000	166,230
Cash dividends paid on common stock	(2,615,028)	(2,313,661)	(2,132,221)
Proceeds from issuance of notes payable	1,800,000	7,450,000	5,000,000
Proceeds from issuance of subordinated notes, net	19,545,555	-	-
Repayment of notes payable	(13,000,000)	(1,250,000)	(3,000,000)
Repayment of Capital Trust	-	(6,000,000)	-
Treasury Stock purchased	(390,268)	(3,604,879)	-
Net cash provided by (used in) financing activities	5,340,259	(5,628,540)	34,009
Increase in cash	6,156,516	306,994	762,739
Cash, beginning of year	1,783,729	1,476,735	713,996
Cash, end of year	$ 7,940,245	$ 1,783,729	$ 1,476,735

Statements of Comprehensive Income

	Years ended December 31, 2020	2019	2018
NET INCOME	$ 6,832,214	$ 9,415,090	$ 7,331,879
OTHER ITEMS OF COMPREHENSIVE INCOME:			
Change in unrealized loss on interest rate swaps, before income taxes	(620,521)	(560,388)	-
Income tax benefit related to other items of comprehensive income	(140,519)	(142,899)	-
Other comprehensive loss	(480,002)	(417,489)	-
Comprehensive income (loss) of Bank	857,659	439,210	(246,563)
TOTAL COMPREHENSIVE INCOME	$ 7,209,871	$ 9,436,811	$ 7,085,316

NOTE 26: UNAUDITED QUARTERLY OPERATING RESULTS

	Year Ended December 31, 2020, Quarter ended			
	Mar-20	Jun-20	Sep-20	Dec-20
Interest income	$ 10,798,857	$ 10,159,058	$ 9,968,256	$ 9,943,705
Interest expense	3,086,525	2,136,409	2,236,743	2,151,524
Net interest income	7,712,332	8,022,649	7,731,513	7,792,181
Provision for loan losses	500,000	750,000	950,000	1,400,000
Gain on loans and investment securities	571,310	1,018,516	1,992,185	1,199,622
Other noninterest income, net	1,527,822	1,294,202	1,278,146	1,191,641
Noninterest expense	6,798,629	7,253,331	7,735,249	7,877,518
Income before income taxes	2,512,835	2,332,036	2,316,595	905,926
Provision for income taxes	407,990	448,653	418,819	(40,284)
Net income available to common shareholders	$ 2,104,845	$ 1,883,383	$ 1,897,776	$ 946,210
Basic income per common share	$ 0.49	$ 0.43	$ 0.44	$ 0.22
Diluted income per common share	$ 0.49	$ 0.43	$ 0.43	$ 0.22

	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

BKD
CPAs & Advisors

910 E. St. Louis Street, Suite 200 | P.O. Box 1190 | Springfield, MO 65801-1190
417.865.8701 | Fax 417.865.0682 | bkd.com

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

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 Public Company Accounting Oversight Board (United States) (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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

As more fully described in *Notes 1* and *4* to the Company's consolidated financial statements, the allowance for loan losses represents losses that are estimated to have occurred. The allowance for loan losses is based on 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. The allowance consists of allocated and general components. The allocated component relates to specific allowances on loans that are classified as impaired. The general component relates to loans that are not classified as impaired and is based on historical charge-off experience and the expected loss, given default, derived from the Company's internal risk rating process. Other adjustments have been 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. Management discloses that this evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

We identified the valuation of the allowance for loan losses as a critical audit matter. Auditing the allowance for loan losses involves a high degree of subjectivity in evaluating management's estimates, such as evaluating management's assessment of economic conditions and other qualitative or environmental factors, evaluating the adequacy of specific allowances associated with impaired loans or loans acquired that have experienced a deterioration in credit quality post-acquisition, and assessing the appropriateness of loan grades.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls, including those related to technology, over the allowance for loan losses, including data completeness and accuracy, classifications of loans by loan segment, historical loss data, the calculation of loss rates, the establishment of qualitative adjustments, grading and risk classification of loans and establishment of specific reserves on impaired loans, and management's review and disclosure controls over the allowance for loan losses;

- Testing of completeness and accuracy of the information utilized in the calculation of the allowance for loan losses;

- Testing the allowance for loan losses model's computational accuracy;

- Evaluating the qualitative adjustments to historical loss rates, including assessing the basis for the adjustments and the reasonableness of the significant assumptions;
- Testing the internal loan review function and evaluating the accuracy of loan grades, including utilizing our internal loan review professionals to assist us;
- Assessing the reasonableness of specific allowances on certain impaired loans;
- Evaluating the overall reasonableness of significant assumptions used by management, considering the past performance of the Company and evaluating trends identified within peer groups;
- Evaluating the accuracy and completeness of disclosures in the consolidated financial statements.

BKD, LLP

BKD, LLP

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

Springfield, Missouri
March 12, 2021

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, 2020.

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, 2020 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, 2020, 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, 2020, the Company's internal control over financial reporting was effective.

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, 2020 with respect to equity plans under which shares of the Company’s common stock may be issued:

2020 Equity Compensation Plan Information

Plan category	(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	-	$ -	102,981
Equity compensation plans not approved by security holders	-	-	-
Totals	-	$ -	102,981

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, 2020 and 2019.

Consolidated Statements of Income for the Years Ended December 31, 2020, 2019 and 2018.

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2020, 2019 and 2018.

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

Exhibit Number	Exhibit Description
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 (4)
4.2	Form of 5.25% Fixed-to-Float Rate Subordinated Note due 2030 (5)
10.1	Guaranty Federal Bancshares, Inc. 2010 Equity Plan *(6)
10.2	Guaranty Federal Bancshares, Inc. 2015 Equity Plan *(7)
10.3	Employment Agreement dated March 24, 2014 between the Company and Shaun A. Burke * (8)
10.4	Employment Agreement dated March 24, 2014 between the Company and Carter M. Peters (9)*
10.5	Employment Agreement dated March 24, 2014 between the Company and Robin E. Robeson (10)*

10.6 Employment Agreement dated March 24, 2014 between the Company and Sheri D. Biser (11)*
10.7 Amendment to Employment Agreement dated June 1, 2016 between the Company and Shaun A. Burke (12)*
10.8 Amendment to Employment Agreement dated June 1, 2016 between the Company and Carter M. Peters (13)*
10.9 Amendment to Employment Agreement dated June 1, 2016 between the Company and Robin E. Robeson (14)*
10.10 Amendment to Employment Agreement dated June 1, 2016 between the Company and Sheri D. Biser (15)*
10.11 Written Description of 2020 Executive Incentive Compensation Annual Plan for Shaun A. Burke (16)*
10.12 Written Description of 2020 Executive Incentive Compensation Annual Plan for Carter Peters (17)*
10.13 Written Description of 2020 Executive Incentive Compensation Annual Plan for Robin Robeson (18)*
10.14 Written Description of 2020 Executive Incentive Compensation Annual Plan for Sheri Biser (19)*
10.15 Written Description of 2020 Executive Long-Term Incentive Performance Share/Restricted Stock Unit Award Agreement Plan for Shaun A. Burke (20)*
10.16 Written Description of 2020 Executive Long-Term Incentive Performance Share/Restricted Stock Unit Award Agreement Plan for Carter Peters (21)*
10.17 Written Description of 2020 Executive Long-Term Incentive Performance Share/Restricted Stock Unit Award Agreement Plan for Robin Robeson (22)*
10.18 Written Description of 2020 Executive Long-Term Incentive Performance Share/Restricted Stock Unit Award Agreement Plan for Sheri Biser (23)*
10.19 Employment Agreement dated April 20, 2020 between the Company and Craig E. Dunn (24)*
10.20 Written Description of 2020 Executive Incentive Compensation Annual Plan for Craig E. Dunn (25)*
10.21 Written Description of 2020 Executive Long-Term Incentive Performance Share/Restricted Stock Unit Award Agreement Plan for Craig E. Dunn (26)*
10.22 Subordinated Note Purchase Agreement, dated July 29, 2020, by and among Guaranty Federal Bancshares, Inc. and the Purchasers (27)
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, 2020 formatted in Inline Extensible Business Reporting Language (iXBRL): (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.
104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement
† Filed herewith

---

(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 4.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and incorporated herein by reference.
(5) Filed as Exhibit A to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on July 30, 2020 and incorporated herein by reference.
(6) 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.
(7) 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.
(8) 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

(9) 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
(10) 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
(11) 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
(12) 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
(13) 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
(14) 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
(15) 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
(16) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(17) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(18) Filed as Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(19) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(20) Filed as Exhibit 10.5 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(21) Filed as Exhibit 10.6 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(22) Filed as Exhibit 10.7 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(23) Filed as Exhibit 10.8 to the Current Report on Form 8-K filed by the Registrant on March 25, 2020 and incorporated herein by reference
(24) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on April 22, 2020 and incorporated herein by reference
(25) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on May 12, 2020 and incorporated herein by reference
(26) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on May 12, 2020 and incorporated herein by reference
(27) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on July 30, 2020 and incorporated herein by reference

FORM 10-K

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 12, 2021

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 12, 2021

By: /s/ Tim Rosenbury
Tim Rosenbury
Director
Date: March 12, 2021

By: /s/ Carter M. Peters
Carter M. Peters
EVP and Chief Financial Officer
(Principal Accounting and Financial Officer)
Date: March 12, 2021

By: /s/ James R. Batten
James R. Batten
Chairman of the Board and Director
Date: March 12, 2021

By: /s/ John F. Griesemer
John F. Griesemer
Director
Date: March 12, 2021

By: /s/ James L. Sivils, III
James L. Sivils, III
Director
Date: March 12, 2021

By: /s/ David T. Moore
David T. Moore
Director
Date: March 12, 2021

By: /s/ Greg A. Horton
Greg A. Horton
Director
Date: March 12, 2021

By: /s/ Kurt D. Hellweg
Kurt D. Hellweg
Director
Date: March 12, 2021

By: /s/ Tony Scavuzzo
Tony Scavuzzo
Director
Date: March 12, 2021

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 26, 2021

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 26, 2021, at 6:00 p.m., local time. Stockholders of record at the close of business on April 5, 2021 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 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 ratification of BKD, LLP as independent registered public accounting firm to the Company for the fiscal year ending December 31, 2021.

4. 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 2021 Annual Stockholders' Meeting to be Held on May 26, 2021. 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 16, 2021 to facilitate timely delivery. **This Notice of Annual Meeting, Proxy Statement, related materials and our 2020 Annual Report may be accessed at *www.gbankmo.com* or *www.investorvote.com/GFED*.**

BY ORDER OF THE BOARD OF DIRECTORS

James R Batten

James Batten
Chairman of the Board

Springfield, Missouri
April 13, 2021

THE BOARD OF DIRECTORS URGES YOU TO VOTE YOUR PROXY AS PROVIDED IN THE PROXY MATERIALS AS SOON AS POSSIBLE, EVEN IF YOU CURRENTLY PLAN TO ATTEND THE ANNUAL MEETING. AS DESCRIBED HEREIN, YOU MAY VOTE ONLINE, USE THE TOLL-FREE TELEPHONE NUMBER, OR, IF YOU WISH TO VOTE BY PROXY CARD, REQUEST A PAPER COPY OF THE MATERIALS, THEN SIGN AND RETURN THE PROXY CARD 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 ANNUAL MEETING IF YOU DESIRE, AND YOU MAY REVOKE YOUR PROXY AS DESCRIBED HEREIN 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

PROXY STATEMENT

April 13, 2021

Dear Fellow Stockholder:

On behalf of the Board of Directors and management of Guaranty Federal Bancshares, Inc., I cordially invite you to attend the 2021 Annual Meeting of Stockholders to be held at the Guaranty Bank headquarters, 2144 E. Republic Rd., Suite F200, Springfield, Missouri, on Wednesday, May 26, 2021 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 proxy 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 26, 2021 (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 13, 2021.

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 5, 2021 (the "Record Date") will be entitled to notice of and to cast votes at the Annual Meeting. Article XIII of the Company's Restated 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 4,385,031 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 submitted or 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 submitting a valid, later-dated proxy card/voting instruction form, submitting a valid, subsequent vote by telephone or the internet, filing with the Secretary of the Company written instructions revoking the proxy or completing a written ballot at the Annual Meeting. If your shares are held in a brokerage account in your broker or nominee's name, you should follow the instructions for changing or revoking your vote provided by your broker or nominee.

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 on the Record Date 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 Three, 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 Three. Proposals One and Two 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 and Two 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 officers' 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 ratification of BKD, LLP as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2021. 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 3 for it to be approved. Abstentions will have the same effect as a vote "against" Proposal 3. 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 3.

Article XIII of the Company's Restated Certificate of Incorporation restricts the voting of all shares of Common Stock beneficially owned by record holders who beneficially own in excess of the Limit unless the Board approved the acquisition of the shares that resulted in the record owner beneficially owning more than the Limit.

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 Restated 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.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Total Outstanding Common Shares
Castle Creek Capital Parners V, LP 6051 El Tordo Racho Santa Fe, CA 92067	918,804(1)	20.95%
FJ Capital Management, LLC 1313 Dolley Madison Blvd, Ste 306 McLean, VA 22101	429,959(2)	9.81%

(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 Restated 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 (“FJ Capital”), Financial Opportunity Fund LLC (“Financial Opportunity”), Financial Hybrid Opportunity Fund SPV I LLC (“Financial Hybrid Opportunity”), Martin Friedman(“Mr. Friedman”), Bridge Equities III, LLC (“Bridge III”), Bridge Equities VIII, LLC (“Bridge VIII”), Bridge Equities IX, LLC (“Bridge IX”), Bridge Equities X, LLC (“Bridge X”), Bridge Equities XI, LLC (“Bridge XI”), SunBridge Manager, LLC (“SunBridge Manager”), SunBridge Holdings, LLC (“SunBridge Holdings”) and Realty Investment Company, Inc. (“RIC”) as the “Reporting Persons.”
According to such Schedule 13G/A, each Reporting Person beneficially owns an aggregate of the following number of shares: FJ Capital - 429,959 shares, Financial Opportunity – 119,101 shares, Financial Hybrid Opportunity – 37,136 shares, Mr. Friedman – 429,959 shares, Bridge III – 240,591 shares, Bridge VIII – 2,730 shares, Bridge IX – 3,178 shares, Bridge X – 2,243 shares, Bridge XI – 8,551 shares, SunBridge Manager – 257,293 shares, SunBridge Holdings - 257,293 shares, and RIC – 257,293 shares.
According to such Schedule 13G/A, each Reporting Person shares voting power with respect to the following number of shares: FJ Capital - 429,959 shares, Financial Opportunity – 119,101 shares, Financial Hybrid Opportunity – 37,136 shares, Mr. Friedman – 429,959 shares, Bridge III – 240,591 shares, Bridge VIII – 2,730 shares, Bridge IX – 3,178 shares, Bridge X – 2,243 shares, Bridge XI – 8,551 shares, SunBridge Manager – 257,293 shares, SunBridge Holdings - 257,293 shares, and RIC – 257,293 shares. According to such Schedule 13G/A, each Reporting Person shares dispositive power with respect to the following number of shares: FJ Capital – 172,666 shares, Financial Opportunity – 119,101 shares, Financial Hybrid Opportunity – 37,136 shares, Mr. Friedman – 172,666 shares, Bridge III – 240,591 shares, Bridge VIII – 2,730 shares, Bridge IX – 3,178 shares, Bridge X – 2,243 shares, Bridge XI – 8,551 shares, SunBridge Manager – 257,293 shares, SunBridge Holdings - 257,293 shares, and RIC – 257,293 shares. According to such Schedule 13G/A, no Reporting Person has sole voting or dispositive power with respect to any of the shares.

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 (as defined below in the 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	99,854	2.3%
Tim Rosenbury	25,566	*
Jamie Sivils, III	27,408	*
James Batten	26,363	*
John Griesemer	131,189	3.0%
David Moore	7,617	*
Greg Horton	6,233	*
Tony Scavuzzo	918,804 (2)	21.0%
Carter Peters	34,325	*
Sheri Biser	20,874	*
Robin Robeson	17,291	*
Craig Dunn	1,500	*
Total owned by all directors and executive officers as a group (Thirteen persons)	1,384,020	31.6%

(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. Burke, Hellweg and Batten) are expiring at the Annual Meeting.

Messrs. Burke, Hellweg and Batten 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 2024 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 each properly executed or submitted proxy 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 2024**

Name	Age (1)	Director Since	Current Term Expires
Shaun Burke	57	2004	2021
Kurt Hellweg	63	2000	2021
James R Batten, Chairman	58	2006	2021

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
Greg A. Horton	61	2016	2022
Tim Rosenbury	64	2002	2022
Tony Scavuzzo	39	2018	2022
David T. Moore	49	2014	2023
James L. Sivils	56	2002	2023
John F. Griesemer	53	2008	2023

(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 Gilsbar, LLC 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 long tenure with a publicly-traded company, along with strong community service makes him a valuable member of the Board.

John F. Griesemer has been President and 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 Chairman of the Board of IsoNova Technologies, L.L.C. ("IsoNova"), which is a joint venture with Rembrandt Enterprises, Inc., and past Chairman of the Board of International Dehydrated Foods, Inc. ("IDF"), American Dehydrated Foods, Inc. ("ADF") and Food Ingredients Technology Company, L.L.C. ("FITCO"), which is a joint venture with Mars Petcare. IsoNova, IDF, ADF and FITCO 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 and Chief Operating Officer. 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 in addition to IsoNova: CoxHealth, the Darr Family Foundation and 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, has been the Chief Executive Officer of Environmental Works, Inc., a privately-held environmental consulting firm with offices in Springfield, Missouri, Kansas City, Missouri and St. Louis, Missouri, since 2013. 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 company with over 200 employees 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 privately-held multi-line home health care enterprise that has over 2,000 employees and serves over 5,000 clients in Missouri and Kansas, and co-founder of its affiliate, Integrity Pharmacy. Prior to launching Integrity Home Care & Hospice 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.

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. Mr. Scavuzzo currently serves on the boards of directors of Enterprise Financial Services Corp. (Nasdaq: EFSC) and SouthCrest Financial Group, Inc. (OTC Pink: SGSC). Mr. Scavuzzo also currently serves on the boards of directors of the following private banking institutions: First Bancshares of Texas, Inc., McGregor Bancshares and Lincoln Bancshares Inc. Mr. Scavuzzo previously served on the boards of directors of other public and privately-owned financial and banking institutions. Most recently, he served as a member of the board of directors of Trinity Capital Corp (OTC: TRIN) until it was acquired by Enterprise Financial Services Corp in March 2019 and the board of directors of MBT Financial Corp. (previously Nasdaq: MBFT). 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.

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 in February 2005. He has over 37 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 and 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.

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. Mr. Batten has held 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, risks of natural disasters and pandemics and other public health crises. 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, 2020, the Board held twelve regular meetings. All directors attended at least 75% of the aggregate of the total number of those meetings and the number of 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 27, 2020 with the exception of Mr. 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 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 Exchange Act. 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 "Corporate Information" under "Investor Menu".

During the twelve months ended December 31, 2020, the Audit Committee met five times.

PROXY STATEMENT

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 is 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, 2020, 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 "Corporate Information" 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. 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" below. 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, 2020, 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 "Corporate Information" under "Investor Menu".

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the year ended December 31, 2020, 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 2020. 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. 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 2020 Say on Pay

At the Company's 2020 annual meeting of stockholders, 95.50% 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 2020 advisory vote on executive compensation but not for specific 2020 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 NEOs' compensation for 2021.

Report on 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 public-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 NEOs' 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 other NEOs' 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, 2020.

MEMBERS OF THE COMPENSATION COMMITTEE

Kurt D. Hellweg, Chairman **John F. Griesemer**
David T. Moore **Greg A. Horton**
Tony Scavuzzo

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 Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO"), the Chief Operating Officer ("COO"), the Chief Credit Officer ("CCO") and the Chief Commercial Banking Officer ("CCBO"). These executive officers are collectively referred to as the "Named Executive Officers" or "NEOs". During the fiscal year ended December 31, 2020, 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	2020	$ 326,655	$ 81,932	$ 63,995	$ -	$ -	$ -	$ 12,959	(4)	$ 485,541
President/CEO	2019	320,300	95,266	-	-	-	-	16,977	(4)	432,543
	2018	314,167	108,282	-	-	-	-	17,041	(4)	439,490
Carter Peters	2020	217,770	54,621	35,551	-	-	-	15,006	(5)	322,948
EVP/CFO	2019	213,500	63,510	-	-	-	-	16,613	(5)	293,623
	2018	208,333	72,188	-	-	-	-	13,447	(5)	293,968
Robin Robeson	2020	237,473	59,563	38,769	-	-	-	8,630	(6)	344,435
EVP/COO	2019	232,817	69,257	-	-	-	-	11,200	(6)	313,274
	2018	226,667	78,719	-	-	-	-	8,276	(6)	313,662
Sheri Biser	2020	197,825	49,689	32,349	-	-	-	7,913	(7)	287,776
EVP/CCO	2019	191,333	57,225	-	-	-	-	10,170	(7)	258,728
	2018	181,833	62,907	-	-	-	-	7,273	(7)	252,013
Craig Dunn EVP/CCBO	2020	157,670	56,250	36,613	-	-	-	8,100	(8)	258,633

(1) No director fees were paid to Mr. Burke for any of the years presented. Mr. Dunn was employed by the Company as its Chief Commercial Banking Officer in April 2020.

(2) Cash bonuses were awarded to NEOs for 2020 in accordance with established annual incentive compensation arrangements as described in more detail below under "Executive Incentive Compensation Annual Plan".

(3) This column represents compensation related to performance share unit awards granted in accordance with established long-term incentive performance share arrangements as described in more detail below under "Long-Term Incentive Performance Share Arrangements". 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 threshold level incentive. The number of shares used and grant price to each executive was as follows: Mr. Burke: – 4,097 shares at a per share grant price of $15.62; Mr. Peters – 2,276 shares at a per share grant price of $15.62; Ms. Robeson – 2,482 shares at a per share grant price of $15.62; Ms. Biser – 2,071 shares at a per share grant price of $15.62; and Mr. Dunn – 2,344 shares at a per share grant price of $14.34. The performance share unit awards will vest on December 31, 2022.

(4) Amount is comprised of payments to Mr. Burke of $7,589, $11,200, and $11,000 in 2020, 2019, and 2018, respectively, for the Company's 401(k) matching contribution and payments of $5,370, $5,777, and $6,041, respectively, for country club dues.

(5) Amount is comprised of payments to Mr. Peters of $8,711, $8,333 and $7,900 in 2020, 2019, and 2018, respectively, for the Company's 401(k) matching contribution and payments of $6,295, $5,413, and $5,114, respectively, for country club dues.

(6) Amount is comprised of payments to Ms. Robeson of $8,630, $11,200, and $8,276 in 2020, 2019, and 2018, respectively, for the Company's 401(k) matching contribution.

(7) Amount is comprised of payments to Ms. Biser of $7,913, $10,170, and $7,273 in 2020, 2019, and 2018, respectively, for the Company's 401(k) matching contribution.

(8) Amount is comprised of payments to Mr. Dunn of $4,500 in 2020 for the Company's 401(k) matching contributions and payments of $3,600 for county club dues

Employment Agreements, Potential Payments Upon Termination or Change-in-Control

In March 2014, the Company entered into employment agreements with the NEOs then in office, namely Mr. Burke, Mr. Peters, Ms. Robeson and Ms. Biser, and were amended in June 2016. In April 2020, the Company entered into an employment agreement with Mr. Dunn. 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 6 months base pay. Mr. Burke would receive 12 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 24 months base pay. Mr. Burke would receive 36 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.

Executive Incentive Compensation Annual Plan

On March 24, 2020, the Company entered into incentive compensation arrangements for Mr. Burke, Mr. Peters, Ms. Robeson, and Ms. Biser and, on May 11, 2020, for Mr. Dunn with respect to bonuses payable in 2021 for the calendar year 2020. Pursuant to these plans, a maximum amount of 50% of base pay may be paid to each of them, 100% of which bonus amount will be paid in cash. There are 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 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 (50%); (ii) net interest margin (25%); and (iii) efficiency ratio (25%). Certain criteria, however, must be satisfied before an award is paid under these plans. The Board may adjust the incentive based on achievement of the above measurements and other criteria and other pertinent factors including, but not limited to, the executive's contribution to the Bank's goals and objective, attitude, teamwork, initiative, interpersonal relationships and adherence to policies. The Board will also consider the executive's overall compensation relevant to peer group.

In February 2021, the Board upon recommendation of the Compensation Committee approved the grant of bonuses for 2020 to each of the NEOs as set forth in "Bonus" column for 2020 in the Summary Compensation Table above and such bonuses were paid in cash.

Long-Term Incentive Performance Share Arrangements

On March 19, 2020, the Company entered into long-term incentive performance share arrangements for Mr. Burke, Mr. Peters, Ms. Robeson, and Ms. Biser and, on May 11, 2020, for Mr. Dunn. As used herein, "Grant Date" shall mean May 11, 2020 for Mr. Dunn and March 19, 2020 for the other NEOs. The performance period under the plans began May 11, 2020 for Mr. Dunn and March 19, 2020 for the other NEOs and ends December 31, 2022 (the "Performance Period"). One hundred percent (100%) of the incentive amount is granted in performance units (the "Units"), representing the right to receive, on a one-for-one basis, shares of the Company's Common Stock to the extent earned. The plan is to pay a maximum number of shares of which there are 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 is 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 are as follows: (i) Return on Average Assets (50%) and (ii) Earnings Per Share (50%). There are also other minimum criteria that must all have been satisfied before an award is to be paid under the plan. These plans are to pay a maximum number of shares per individual as follows: Mr. Burke – 16,386 shares; Mr. Peters – 9,104 shares; Ms. Robeson – 9,927 shares; Ms. Biser – 8,283 shares; and Mr. Dunn – 9,375 shares.

Outstanding Equity Awards at Fiscal Year End 2020

The following table summarized the option and stock awards the Company has made to the NEOs which were outstanding as of December 31, 2020.

	OPTION AWARDS					STOCK AWARDS	
Name and Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price	Option Expiration Date	Equity Incentive Plan Awards:Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards:Market or Payout Value Unearned of Shares, Units or Other Rights That Have Not Vested ($)(6)
Shaun A. Burke President/CEO	-	-	-	$ -	-	16,386 (1)	$ 286,100
Carter Peters EVP/CFO	-	-	-	-	-	9,104 (2)	$ 158,956
Sheri Biser EVP/CCO	-	-	-	-	-	8,283 (3)	$ 144,621
Robin Robeson EVP/COO	-	-	-	-	-	9,927 (4)	$ 173,325
Craig Dunn EVP/CCBO	-	-	-	-	-	9,375 (5)	$ 163,688

(1) Restricted stock awards vest as follows: 16,386 – 12/31/22
(2) Restricted stock awards vest as follows: 9,104 – 12/31/22
(3) Restricted stock awards vest as follows: 8,283 – 12/31/22
(4) Restricted stock awards vest as follows: 9,927 – 12/31/22
(5) Restricted stock awards vest as follows: 9,375 – 12/31/22
(6) Represents aggregate unvested stock awards at a per share price of $17.46, the closing price of the Company's Common Stock on December 31, 2020.

Directors' Compensation

During 2020, 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 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 2020, 2019, and 2018, restricted stock awards of 797 shares, 786 shares, and 836 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 2020, 2019, and 2018 for serving as a non-employee director of the Company and the Bank.

Name	Year	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Total Compensa-tion ($)
James Batten	2020	15,350	18,730	34,080
	2019	14,215	18,746	32,961
	2018	14,060	18,735	32,795
Kurt Hellweg	2020	13,795	18,730	32,525
	2019	11,030	18,746	29,776
	2018	13,215	18,735	31,950
Tim Rosenbury	2020	12,920	18,730	31,650
	2019	12,340	18,746	31,086
	2018	13,500	18,735	32,235
James Sivils	2020	10,880	18,730	29,610
	2019	11,005	18,746	29,751
	2018	12,210	18,735	30,945
John Griesemer	2020	11,695	18,730	30,425
	2019	14,435	18,746	33,181
	2018	13,685	18,735	32,420
David Moore	2020	15,184	18,730	33,914
	2019	15,798	18,746	34,544
	2018	13,250	18,735	31,985
Greg Horton	2020	11,210	18,730	29,940
	2019	11,410	18,746	30,156
	2018	10,960	18,735	29,695
Tony Scavuzzo	2020	12,560	-	12,560
	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 2020 per director of $18,730 represents 797 shares granted at a per share price of $23.50. 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.

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, 2020 except as noted in the following table.

Name	Position	Date of Loan	Largest Principal Amount Outstanding Since 01/01/20	Principal Balance as of 12/31/20	Interest Rate at 12/31/20	Type
The Burke Family Trust (Shaun A. Burke)	President, CEO & Director	1/14/2011	$ 212,215	$ -	N/A	Home Mortgage
The Burke Family Trust (Shaun A. Burke)	President, CEO & Director	8/25/2020	$ 335,200	$ 332,802	1.00%	Home Mortgage
Carter M. Peters	EVP, CFO	7/18/2016	$ 325,302	$ -	N/A	Home Mortgage
Carter M. Peters	EVP, CFO	9/22/2020	$ 400,000	$ 396,986	1.00%	Home Mortgage
James R. Batten	Director	10/27/2008	$ 363,413	$ 346,242	1.00%	Home Mortgage
James L. Sivils III	Director	6/1/2014	$ 335,636	$ 323,759	1.00%	Home Mortgage
James L. Sivils III	Director	6/13/2017	$ 219,651	$ 212,908	1.00%	Home Mortgage
John F. Griesemer	Director	5/9/2016	$ 702,010	$ -	N/A	Home Mortgage
John F. Griesemer	Director	9/4/2020	$ 1,080,000	$ 1,074,850	1.00%	Home Mortgage
Kurt Hellwegg	Director	6/28/2018	$ 1,081,778	$ 1,022,089	1.00%	Home Mortgage
George Timothy Rosenbury	Director	6/19/2008	$ 106,376	$ 93,161	1.00%	Home Mortgage

Hedging Transactions

Under the Company's Insider Trading Policy, Directors and Officers are prohibited from engaging in hedging transactions related to Company stock, such as puts, calls, other derivative transactions, forward sale contracts, swaps, and other arrangements intended to hedge exposure to Company stock or provide protection against declines in the value of Company stock.

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 Section 14A of the Exchange Act require that we permit 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. At our 2020 annual meeting of stockholders, our stockholders approved, on an advisory basis, that an advisory vote on named executive officer compensation should be held annually. Based on such result, our Board determined that the advisory vote on our named executive officers' compensation will be held every year until the next advisory vote on the frequency of future advisory votes on our named executive officers' compensation. As a result, the following proposal will be presented at the Annual 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.

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") and the SEC.

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, 2020 for filing with the SEC.

MEMBERS OF THE AUDIT COMMITTEE
David T. Moore, Chairman
Greg A. Horton
Kurt D. Hellweg
James R. Batten

PRINCIPAL ACCOUNTANT FEES AND SERVICES

During the calendar years ended December 31, 2020 and 2019, 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 $264,295 for the calendar year ended December 31, 2020 and $281,433 for the calendar year ended December 31, 2019.

(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 $6,795 for the calendar year ended December 31, 2020 and $9,364 for the calendar year ended December 31, 2019.

(c) Tax fees: Aggregate fees billed for professional services rendered related to tax compliance, tax advice and tax planning were $35,970 for the calendar year ended December 31, 2020 and $46,170 for the calendar year ended December 31, 2019.

(d) All other fees: Aggregate fees billed for all other professional services, were $2,370 for the calendar year ended December 31, 2020, and $1,430 for the calendar year ended December 31, 2019.

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 3

RATIFICATION OF BKD, LLP AS

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The independent registered public accounting firm for the period ended December 31, 2020 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, 2021. 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, 2021.

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, 2021, 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 26, 2021 will be mailed on April 13, 2021, 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 16, 2021.

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 14, 2021.

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 25, 2022, then stockholder proposals would have to be delivered to the Company between March 26, 2022 and April 25, 2022. 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, 2020, 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 13, 2021

LOCAL ISN'T JUST WHERE WE ARE, IT'S WHO WE ARE.

Guaranty Bank Retweeted

The Network for Springfield's Young Professionals @S... · Feb 10

Hey Network members! ICYMI, our second edition of our new "Mentor Meet Ups" was shared this morning! This one featured @DeeKingSGF_MO with @GBankMo & @cjdavisBBH with @BurrellCen... Trust us when we say you do not want to miss this interview! Check your inbox to watch it now!👏

2 · 4 · 17

Guaranty Bank
October 24, 2020

Beautiful fall run! So proud to support Habitat for Humanity of Springfield, MO and the awesome work they do in our community!

47 · 3 Comments 2 Shares

Like · Comment · Share

Guaranty Bank @GBankMo · Dec 1, 2020

Want to participate in Giving Tuesday? Here's where to start from our friends @CFOzarks. #GivingTuesday

Community Foundation of the Ozarks @CFOzarks · Dec 1, 2020

It's #GivingTuesday, and nonprofits across our region need your help. If you're not sure where to begin, we have links for more than 50 (and counting) local agencies addressing a wide variety of needs on our Holiday Charitable Giving Guide: cfozarks.org/giving-guide

#sgf #ozarks

2

Guaranty Bank Retweeted

Habitat for Humanity @HFHSpringfield · Sep 4, 2020

We are happy to announce we received a $750,000 grant to complete needed improvements for 40 homeowner occupied homes in Springfield. The grant is funded by the Federal Home Loan Bank of Des Moines' Competitive Affordable Housing Program and its member bank, @GBankMo.

3

Guaranty Bank
October 8, 2020

Proud to sponsor a 2x4 beam in Habitat for Humanity of Springfield, MO's under construction home for Team Wilmoth Home! Such a wonderful heartfelt idea 🪴

46 · 1 Comment 2 Shares

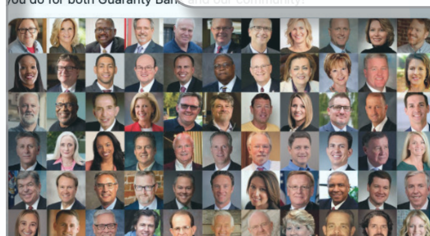
Like · Comment · Share

Guaranty Bank @GBankMo · Nov 28, 2020

This Small Business Saturday feels important. Make a difference and shop small today to support your local small businesses! #smallbizsaturday

Guaranty Bank @GBankMo · Nov 24, 2020

Congrats to President/CEO ... board members David Moor... being selected to the BIZ 10... you do for both Guaranty Ban...



Meet the 2020 Biz 100

Our annual list of the most esteemed business professionals is back and more impressive than ever. Meet 21 new faces and hear from pa...

biz417.com

1 · 1

BANK ON COMMUNITY.

Guaranty Bank
October 29, 2020

iCare supporting Harmony House starts tomorrow.
#askmewhyicare #changinglives #icare

34

Like Comment Share

guaranty_bank

View Insights Promote

Liked by **ozarksblood** and **17 others**

guaranty_bank A beautiful day for a blood drive! Thanks for coming to @farmerspark @ozarksblood ☀️ 🩸

ozarksblood We sure do appreciate you hosting once again!

June 12, 2020

Guaranty Bank Retweeted

Missouri Bankers @mobankers · Dec 9, 2020

Thanks to Craig Dunn with @GBankMo for serving as conference chair for #MBAemc20! That background looks sharp!

1 8

guaranty_bank

View Insights Promote

Liked by **pinnaclesigngroup** and **36 others**

guaranty_bank New signage from @pinnaclesigngroup at our Sunshine Banking Center looking 💯 💯 💯

View 1 comment

June 4, 2020

Guaranty Bank @GBankMo · Apr 17, 2020

In just 13 days, Guaranty Bank's commercial banking team funded more than $50 million in SBA Paycheck Protection Program loans, helping 7,000 Ozarks-area employees stay on the payroll. #417strong

2 6

Guaranty Bank @GBankMo · Apr 10, 2020

Today's a big day! It's the 25th anniversary of our public stock offering on the @Nasdaq. A special congratulatory message appeared on the NASDAQ's 7-story LED screen in Times Square yesterday, too! You can check out the full release at bit.ly/2Vm013Q.

3 7

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

Craig Dunn
Executive Vice President
Chief Commercial Banking Officer
Joined the Company in 2020

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