

GUARANTY FEDERAL BANCSHARES INC  
Form 10-K  
March 30, 2011

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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, 2010

- or -

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-23325

GUARANTY FEDERAL BANCSHARES, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or  
Organization)

43-1792717  
(I.R.S. Employer Identification No.)

1341 West Battlefield, Springfield, Missouri  
(Address of Principal Executive Offices)

65807  
(Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$.10 per share  
(Title of Class)

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

Indicate by check mark if the registrant is a 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 or 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 checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  x

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

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, 2010 (the last business day of the registrant's most recently completed second quarter) was \$12.5 million. As of March 1, 2011 there were 2,660,087 shares of the registrant's Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders (the "2010 Annual Report") for the fiscal year ended December 31, 2010 (Parts I and II).
2. Portions of the Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") to be held on May 25, 2011 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.

Form 10-K

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

GUARANTY FEDERAL BANCSHARES, INC. (THE "COMPANY") MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL "FORWARD-LOOKING STATEMENTS", INCLUDING STATEMENTS CONTAINED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS THERETO), IN ITS REPORTS TO STOCKHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. WHEN USED IN THIS ANNUAL REPORT ON FORM 10-K, WORDS SUCH AS "ANTICIPATES," "ESTIMATES," "BELIEVES," "EXPECTS," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING SUCH STATEMENTS.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY'S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, TRADE, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATES, MARKET AND MONETARY FLUCTUATIONS; 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 WILLINGNESS OF USERS TO SUBSTITUTE COMPETITORS' PRODUCTS AND SERVICES FOR THE COMPANY'S PRODUCTS AND SERVICES; THE SUCCESS OF THE COMPANY IN GAINING REGULATORY APPROVAL OF ITS PRODUCTS AND SERVICES, WHEN REQUIRED; THE IMPACT OF CHANGES IN FINANCIAL SERVICES' LAWS AND REGULATIONS (INCLUDING LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; ACQUISITIONS; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; 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 SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. FOR FURTHER INFORMATION ABOUT THESE AND OTHER RISKS, UNCERTAINTIES AND FACTORS, PLEASE REVIEW THE DISCLOSURE INCLUDED IN ITEM 1A. OF THIS FORM 10-K.

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.

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PART I

Item 1. Business

Business of the Company

Guaranty Federal Bancshares, Inc. (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 bank with trust 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.

Business of the 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 "Regulation" in this report. The Bank is a member of the Federal Home Loan Bank of Des Moines (the "FHLB"), which is one of twelve regional Federal Home Loan Banks.

Information regarding (i) average balances related to interest earning assets and interest bearing liabilities and an analysis of net interest income for the last three fiscal years and (ii) changes in interest income and interest expense resulting from changes in average balances and average rates for the last two fiscal years is provided under the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operation – Average Balances, Interest and Averages Yields" of the 2010 Annual Report, which is incorporated herein by reference.





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## Internet Website

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

## Market Area

The Bank's primary market areas are Greene and Christian Counties, which are in the southwestern corner of Missouri and includes the cities of Springfield, Nixa and Ozark, Missouri. There is a large regional health care presence with two large regional hospitals. There also are four accredited colleges and one major university. Part of the area's growth can be attributed to its proximity to Branson, Missouri, which has developed a strong tourism industry related to country music and entertainment. Branson is located 30 miles south of Springfield, and attracts between five and six million tourists each year, many of whom pass through Springfield.

## Lending Activities

Management continually monitors the loan portfolio mix, attempting to stay well diversified in both product and customer type. Although there is a concentration, currently, in commercial real estate, Management continues to seek the best mix of loan products for the portfolio. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

|  | 2010       |       | As of December 31,<br>2009 |       | 2008       |       |
|--|------------|-------|----------------------------|-------|------------|-------|
|  | \$         | %     | \$                         | %     | \$         | %     |
| Dollars in Thousands                           |            |       |                            |       |            |       |
| Mortgage loans (includes loans held for sale): |            |       |                            |       |            |       |
| One to four family                             | \$ 105,737 | 20 %  | \$ 111,587                 | 21 %  | \$ 109,940 | 19 %  |
| Multi-family                                   | 44,138     | 9 %   | 35,904                     | 7 %   | 35,202     | 6 %   |
| Construction                                   | 63,308     | 12 %  | 75,391                     | 14 %  | 138,749    | 24 %  |
| Commercial real estate                         | 195,890    | 38 %  | 196,727                    | 36 %  | 154,398    | 27 %  |
| Total mortgage loans                           | 409,073    | 79 %  | 419,609                    | 77 %  | 438,289    | 76 %  |
| Commercial business loans                      | 85,428     | 16 %  | 92,534                     | 17 %  | 98,549     | 17 %  |
| Consumer loans                                 | 23,426     | 5 %   | 30,568                     | 6 %   | 38,390     | 7 %   |
| Total consumer and other loans                 | 108,854    | 21 %  | 123,102                    | 23 %  | 136,939    | 24 %  |
| Total loans                                    | 517,927    | 100 % | 542,711                    | 100 % | 575,228    | 100 % |
| Less:  |            |       |                            |       |            |       |
| Deferred loan fees/costs, net                  | 179        |       | 132                        |       | 173        |       |
| Allowance for loan losses                      | 13,083     |       | 14,076                     |       | 16,728     |       |
| Total Loans, net                               | \$ 504,665 |       | \$ 528,503                 |       | \$ 558,327 |       |

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The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2010. 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.

| Loan Maturities           | Due in One<br>Year or<br>Less | Due After<br>One<br>Through |            | Total     |
|---------------------------|-------------------------------|-----------------------------|------------|-----------|
|                           |                               | Five Years                  | Five Years |           |
| (Dollars in thousands)    |                               |                             |            |           |
| One to four family        | \$28,179                      | \$31,740                    | \$45,818   | \$105,737 |
| Multi-family              | 19,218                        | 12,466                      | 12,454     | 44,138    |
| Construction              | 43,055                        | 19,385                      | 868        | 63,308    |
| Commercial real estate    | 53,266                        | 130,052                     | 12,572     | 195,890   |
| Commercial loans          | 44,890                        | 33,157                      | 7,381      | 85,428    |
| Consumer loans            | 3,299                         | 7,725                       | 12,402     | 23,426    |
| Total loans (1)           | \$191,907                     | \$234,525                   | \$91,495   | \$517,927 |
| Less:                     |                               |                             |            |           |
| Deferred loan fees/costs  |                               |                             |            | 179       |
| Allowance for loan losses |                               |                             |            | 13,083    |
| Loans receivable net      |                               |                             |            | \$504,665 |

(1) Includes mortgage loans held for sale of \$2,685

The following table sets forth the dollar amount, before deductions for unearned discounts, deferred loan fees/costs and allowance for loan losses, as of December 31, 2010 of all loans due after December 2011, which have pre-determined interest rates and which have adjustable interest rates.

|                        | Fixed Rates | Adjustable |           | %<br>Adjustable |   |
|------------------------|-------------|------------|-----------|-----------------|---|
|                        |             | Rates      | Total     |                 |   |
| (Dollars in Thousands) |             |            |           |                 |   |
| One to four family     | \$19,114    | \$58,444   | \$77,558  | 75              | % |
| Multi-family           | 16,594      | 8,326      | 24,920    | 33              | % |
| Construction           | 7,484       | 12,769     | 20,253    | 63              | % |
| Commercial real estate | 48,487      | 94,137     | 142,624   | 66              | % |
| Commercial loans       | 10,364      | 30,174     | 40,538    | 74              | % |
| Consumer loans         | 3,260       | 16,867     | 20,127    | 84              | % |
| Total loans (1)        | \$105,303   | \$220,717  | \$326,020 | 68              | % |

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

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.

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**One- to Four-Family Mortgage Loans.** The Bank offers fixed- and adjustable-rate ("ARM") first mortgage loans secured by one- to four-family residences in the Bank's primary lending area. Typically, such residences are single family homes that serve as the primary residence of the owner. However, there are a number of loans originated by the Bank which are secured by non-owner occupied properties. Loan originations are generally obtained from existing or past customers, members of the local community, attorney referrals, established builders and realtors within the Bank's 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, 2010, \$105.7 million or 20% of the Bank's total loan portfolio consisted of one- to four-family residential loans. The Bank currently offers ARM and balloon loans that have fixed interest rate periods of one to seven years. Generally, ARM loans provide for limits on the maximum interest rate adjustment ("caps") that can be made at the end of each applicable period and throughout the duration of the loan. ARM loans are originated for a term of up to 30 years on owner-occupied properties and generally up to 25 years on non-owner occupied properties. Typically, interest rate adjustments are calculated based on U.S. treasury securities adjusted to a constant maturity of one year (CMT), plus a 2.50% to 2.75% margin. Interest rates charged on fixed-rate loans are competitively priced based on market conditions and the cost of funds existing at the time the loan is committed. The Bank's fixed-rate mortgage loans are made for terms of 15 to 30 years which are currently being sold on the secondary market.

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

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

**Multi-Family Mortgage Loans.** The Bank originates multi-family mortgage loans in its primary lending area. As of December 31, 2010, \$44.1 million or 9% 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, \$11.4 million as of December 31, 2010, 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.



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Construction Loans. As of December 31, 2010, construction loans totaled \$63.3 million or 12% 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 predominantly 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 to a borrower who will occupy a home, or to a builder who has pre-sold the home, typically have loan to value ratios of up to 80%. 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.

Commercial Real Estate Loans. As of December 31, 2010, the Bank has commercial real estate loans totaling \$195.9 million or 38% 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 Prime rate for the initial fixed rate period with subsequent adjustments at a spread to the Wall Street 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 \$11.4 million as of December 31, 2010, as its maximum commercial real estate loan amount. Because of the small number of commercial real estate loans and the relationship of each borrower to the Bank, each such loan has differing terms and conditions applicable to the particular borrower.

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.

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As of December 31, 2010, the Bank's commercial real estate loan portfolio included approximately \$23.9 million, or 4.6% 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, 2010, the Bank has commercial business loans totaling \$85.4 million or 16% 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.

**Consumer and Other Loans.** The Bank also offers consumer loans, primarily consisting of loans secured by certificates of deposit, automobiles, boats and home equity loans. As of December 31, 2010, the Bank has such loans totaling \$23.4 million or 5% of the Bank's total loan portfolio. The Bank expects to continue to expand its consumer lending as opportunities present themselves.

**Delinquencies, Non-Performing and Problem Assets.**

**Delinquent Loans.** As of December 31, 2010, the Bank has fourteen loans 90 days or more past due with a principal balance of \$3,952,154 and thirty-eight loans between 30 and 89 days past due with an aggregate principal balance of \$6,708,800. 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.

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| Delinquency Summary   | As of December 31,     |          |          |
|---|------------------------|----------|----------|
|   | 2010                   | 2009     | 2008     |
|   | (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  | \$3,120                | \$5,060  | \$2,907  |
| Multi-family  | -                      | 6,042    | 6,552    |
| Construction  | 8,935                  | 11,254   | 6,010    |
| Commercial real estate  | 2,980                  | 921      | 517      |
|   | 15,035                 | 23,277   | 15,986   |
| Non-mortgage loans:   |                        |          |          |
| Commercial loans  | 7,743                  | 5,640    | 4,629    |
| Consumer and other loans  | 234                    | 5,368    | 79       |
|   | 7,977                  | 11,008   | 4,708    |
| Total non-accrual loans   | 23,012                 | 34,285   | 20,694   |
| Accruing loans which are contractually past maturity or past due 90 days or more:   |                        |          |          |
| Mortgage Loans:   |                        |          |          |
| One to four family  | -                      | -        | -        |
| Multi-family  | -                      | -        | -        |
| Construction  | -                      | -        | 443      |
| Commercial real estate  | -                      | -        | -        |
|   | -                      | -        | 443      |
| Non-mortgage loans:   |                        |          |          |
| Commercial loans  | -                      | -        | -        |
| Consumer and other loans  | -                      | -        | -        |
|   | -                      | -        | -        |
| Total past maturity or past due accruing loans  | -                      | -        | 443      |
| Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due                                 | \$23,012               | \$34,285 | \$21,137 |
| 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    | 4.55                   | % 6.49   | % 3.79   |
| 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 | 3.37                   | % 4.65   | % 3.13   |

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.

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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 assets (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,     |          |          |   |
|---|------------------------|----------|----------|---|
|   | 2010                   | 2009     | 2008     |   |
|   | (Dollars in Thousands) |          |          |   |
| Non-accrual loans:  |                        |          |          |   |
| Mortgage loans:   |                        |          |          |   |
| One to four family  | \$3,120                | \$5,060  | \$2,907  |   |
| Multi-family  | -                      | 6,042    | 6,552    |   |
| Construction  | 8,935                  | 11,254   | 6,010    |   |
| Commercial real estate  | 2,980                  | 921      | 517      |   |
|   | 15,035                 | 23,277   | 15,986   |   |
| Non-mortgage loans:   |                        |          |          |   |
| Commercial loans  | 7,743                  | 5,640    | 4,629    |   |
| Consumer and other loans  | 234                    | 5,368    | 79       |   |
|   | 7,977                  | 11,008   | 4,708    |   |
| Total non-accrual loans   | 23,012                 | 34,285   | 20,694   |   |
| Real estate and other assets acquired in settlement of loans        | 10,540                 | 6,760    | 5,655    |   |
| Total non-performing assets   | \$33,552               | \$41,045 | \$26,349 |   |
| Total non-accrual loans as a percentage of net loans                | 4.55                   | % 6.49   | % 3.71   | % |
| Total non-performing assets as a percentage of total assets         | 4.91                   | % 5.56   | % 3.90   | % |
| Impact on interest income for the period:                           |                        |          |          |   |
| Interest income that would have been recorded on non-accruing loans | \$855                  | \$1,400  | \$791    |   |



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

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

The following table shows the aggregate amounts of the Bank's classified assets as of December 31, 2010.

| Classification of Assets                | Special Mention |                 | Substandard |                 | Doubtful |            | Loss     |             | Total      |                 |
|---|-----------------|-----------------|-------------|-----------------|----------|------------|----------|-------------|------------|-----------------|
|   | Number          | Amount          | Number      | Amount          | Number   | Amount     | Number   | Amount      | Number     | Amount          |
| (Dollars in Thousands)                  |                 |                 |             |                 |          |            |          |             |            |                 |
| <b>Loans:</b>                           |                 |                 |             |                 |          |            |          |             |            |                 |
| One to four family                      | 15              | \$2,966         | 81          | \$7,950         | -        | \$-        | -        | -           | 96         | \$10,916        |
| Multi-family                            | -               | -               | -           | -               | -        | -          | -        | -           | -          | -               |
| Construction                            | 4               | 4,621           | 16          | 13,380          | -        | -          | -        | -           | 20         | 18,001          |
| Commercial real estate                  | 9               | 7,604           | 19          | 15,076          | -        | -          | -        | -           | 28         | 22,680          |
| Commercial                              | 9               | 1,028           | 25          | 11,109          | -        | -          | -        | -           | 34         | 12,137          |
| Land                                    | -               | -               | -           | -               | -        | -          | -        | -           | -          | -               |
| Other loans                             | -               | -               | 9           | 130             | -        | -          | 1        | 36          | 10         | 166             |
| <b>Total loans</b>                      | <b>37</b>       | <b>16,219</b>   | <b>150</b>  | <b>47,645</b>   | <b>-</b> | <b>-</b>   | <b>1</b> | <b>36</b>   | <b>188</b> | <b>63,900</b>   |
| <b>Foreclosed assets held-for-sale:</b> |                 |                 |             |                 |          |            |          |             |            |                 |
| One to four family                      | -               | -               | 17          | 1,503           | -        | -          | -        | -           | 17         | 1,503           |
| Land and other assets                   | -               | -               | 17          | 9,037           | -        | -          | -        | -           | 17         | 9,037           |
| <b>Total foreclosed assets</b>          | <b>-</b>        | <b>-</b>        | <b>34</b>   | <b>10,540</b>   | <b>-</b> | <b>-</b>   | <b>-</b> | <b>-</b>    | <b>34</b>  | <b>10,540</b>   |
| <b>Total</b>                            | <b>37</b>       | <b>\$16,219</b> | <b>184</b>  | <b>\$58,185</b> | <b>-</b> | <b>\$-</b> | <b>1</b> | <b>\$36</b> | <b>222</b> | <b>\$74,440</b> |

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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, 2010, the Bank's total allowance for loan losses was \$13.1 million or 2.65% of gross loans outstanding (excluding mortgage loans held for sale), a decrease of \$993 thousand from December 31, 2009. The Bank experienced loan charge offs in excess of recoveries as Management charged off specific loans that had been identified and classified as impaired at December 31, 2009. Also, the Bank experienced a significant decline in loan balances during 2010 that has reduced allowance for loan loss reserve requirements. 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 2010, the Bank recorded a provision for loan loss expense, as shown in the table below. Management anticipates the need to continue adding to the allowance through charges to provision for loan losses as growth in the loan portfolio or other circumstances warrant.

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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, |           |           |   |
|---|-------------------------|-----------|-----------|---|
|   | 2010                    | 2009      | 2008      |   |
|   | (Dollars in Thousands)  |           |           |   |
| Beginning balance   | \$ 14,076               | \$ 16,728 | \$ 5,963  |   |
| Gross loan charge offs  |                         |           |           |   |
| Mortgage Loans:   |                         |           |           |   |
| One to four family  | (906 )                  | (1,256 )  | (631 )    |   |
| Multi-family  | -                       | (556 )    | (401 )    |   |
| Construction  | (3,893 )                | (690 )    | (2,147 )  |   |
| Commercial real estate  | (373 )                  | (37 )     | (33 )     |   |
|   | (5,172 )                | (2,539 )  | (3,212 )  |   |
| Non-mortgage loans:   |                         |           |           |   |
| Commercial loans  | (1,847 )                | (999 )    | (677 )    |   |
| Consumer and other loans  | (366 )                  | (6,229 )  | (225 )    |   |
|   | (2,213 )                | (7,228 )  | (902 )    |   |
| Total charge offs   | (7,385 )                | (9,767 )  | (4,114 )  |   |
| Recoveries  |                         |           |           |   |
| Mortgage Loans:   |                         |           |           |   |
| One to four family  | 25                      | 24        | 21        |   |
| Multi-family  | -                       | -         | -         |   |
| Construction  | 10                      | 163       | 63        |   |
| Commercial real estate  | 12                      | -         | -         |   |
|   | 47                      | 187       | 84        |   |
| Non-mortgage loans:   |                         |           |           |   |
| Commercial loans  | 60                      | 8         | 13        |   |
| Consumer and other loans  | 1,085                   | 20        | 38        |   |
|   | 1,145                   | 28        | 51        |   |
| Total recoveries  | 1,192                   | 215       | 135       |   |
| Net loan charge-offs  | (6,193 )                | (9,552 )  | (3,979 )  |   |
| Provision charged to expense  | 5,200                   | 6,900     | 14,744    |   |
| Ending balance  | \$ 13,083               | \$ 14,076 | \$ 16,728 |   |
| Net charge-offs as a percentage of average loans, net                   | 1.25                    | % 1.86    | % 0.70    | % |
| Allowance for loan losses as a percentage of average loans, net         | 2.65                    | % 2.74    | % 2.92    | % |
| Allowance for loan losses as a percentage of total non-performing loans | 57                      | % 41      | % 81      | % |

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## 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.

|                    | 2010                   |     | December 31, 2009 |     |            |     | 2008   |   |
|--------------------|------------------------|-----|-------------------|-----|------------|-----|--------|---|
|                    | Amount                 | %   | Amount            | %   | Amount     | %   | Amount | % |
|                    | (Dollars in thousands) |     |                   |     |            |     |        |   |
| Mortgage Loans     | \$9,913                | 76  | % \$10,883        | 77  | % \$12,746 | 76  | %      |   |
| Non-Mortgage Loans | 3,170                  | 24  | % 3,193           | 23  | % 3,982    | 24  | %      |   |
| Total              | \$13,083               | 100 | % \$14,076        | 100 | % \$16,728 | 100 | %      |   |

## 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, 2010, the Company has investment securities with an amortized cost of \$94.2 million and an estimated fair value of \$97.1 million. See Note 1 of the Notes to Consolidated Financial Statements for description of the accounting policy for investments. Based on the carrying value of these securities, \$96.8 million, or 99.7%, of the Company's investment securities portfolio are available-for-sale.

From time to time, the Company will sell a security to change its interest rate risk profile. In 2010, the Company sold \$17.3 million in securities and recognized \$275,125 of gain. In each instance, securities were bought back in to the portfolio. These bond swaps are executed to restructure the portfolio or its cash flows.

In addition to the securities described above, the Company held \$12.8 million in insured certificates of deposit. These were purchased because of the spread advantage to traditional debt, and low risk weighting. For financial statement reporting purposes, the Company considers these certificates interest bearing deposits.

The Company has the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, 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.

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|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Approximate<br>Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of December 31, 2010                         |                   |                              |                                 |                           |
| <b>AVAILABLE-FOR-SALE SECURITIES:</b>           |                   |                              |                                 |                           |
| Equity Securities                               | \$ 102,212        | \$ 7,089                     | \$(31,381 )                     | \$ 77,920                 |
| Debt Securities:                                |                   |                              |                                 |                           |
| U. S. government agencies                       | 27,409,482        | 222,014                      | (128,414 )                      | 27,503,082                |
| Government sponsored mortgage-backed securities | 66,407,555        | 2,865,745                    | (9,649 )                        | 69,263,651                |
| <b>HELD-TO-MATURITY SECURITIES:</b>             |                   |                              |                                 |                           |
| Government sponsored mortgage-backed securities | 260,956           | 20,828                       | -                               | 281,784                   |
|   | \$ 94,180,205     | \$ 3,115,676                 | \$(169,444 )                    | \$ 97,126,437             |

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Approximate<br>Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of December 31, 2009                         |                   |                              |                                 |                           |
| <b>AVAILABLE-FOR-SALE SECURITIES:</b>           |                   |                              |                                 |                           |
| Equity Securities                               | \$ 102,212        | \$ 4,055                     | \$(41,219 )                     | \$ 65,048                 |
| Debt Securities:                                |                   |                              |                                 |                           |
| U. S. government agencies                       | 30,528,386        | 98,160                       | (86,326 )                       | 30,540,220                |
| Government sponsored mortgage-backed securities | 69,844,555        | 2,209,428                    | -                               | 72,053,983                |
| <b>HELD-TO-MATURITY SECURITIES:</b>             |                   |                              |                                 |                           |
| U. S. government agencies                       | 114,119           | -                            | (535 )                          | 113,584                   |
| Government sponsored mortgage-backed securities | 358,664           | 27,470                       | -                               | 386,134                   |
|   | \$ 100,947,936    | \$ 2,339,113                 | \$(128,080 )                    | \$ 103,158,968            |

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|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Approximate<br>Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of December 31, 2008                         |                   |                              |                                 |                           |
| AVAILABLE-FOR-SALE SECURITIES:                  |                   |                              |                                 |                           |
| Equity Securities:                              |                   |                              |                                 |                           |
| FHLMC stock                                     | \$26,057          | \$-                          | \$(6,639)                       | \$19,418                  |
| Other   | 572,087           | 4,157                        | (34,611)                        | 541,633                   |
| Debt Securities:                                |                   |                              |                                 |                           |
| U. S. government agencies                       | 2,450,000         | 24,130                       | -                               | 2,474,130                 |
| Government sponsored mortgage-backed securities | 61,304,310        | 1,173,274                    | (7,426)                         | 62,470,158                |
| HELD-TO-MATURITY SECURITIES:                    |                   |                              |                                 |                           |
| U. S. government agencies                       | 135,538           | -                            | (3,236)                         | 132,302                   |
| Government sponsored mortgage-backed securities | 420,927           | 24,565                       | (1,395)                         | 444,097                   |
|   | \$64,908,919      | \$1,226,126                  | \$(53,307)                      | \$66,081,738              |

The following table sets forth certain information regarding the weighted average yields and maturities of the Bank's investment securities portfolio as of December 31, 2010.

| Investment Portfolio Maturities and Average Weighted Yields                       | Amortized<br>Cost | Weighted<br>Average<br>Yield |   | Approximate<br>Fair Value |
|---|-------------------|------------------------------|---|---------------------------|
| Due in two to five years  | \$26,409,482      | 2.30                         | % | \$26,549,593              |
| Due after five years  | 1,000,000         | 2.25                         | % | 953,489                   |
| Equity securities not due on a single maturity date                               | 102,212           | 0.00                         | % | 77,920                    |
| Government sponsored mortgage-backed securities not due on a single maturity date | 66,668,511        | 4.67                         | % | 69,545,434                |
|   | \$94,180,205      | 4.12                         | % | \$97,126,436              |

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Sources of Funds

General. The Company's primary sources of funds are deposits, borrowings (including issuances of subordinated debentures), amortization and prepayments of loans and amortization, and prepayments and maturities of investment securities.

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 a greater percent of funding than in the past. The Bank offers fixed-term certificates of deposit, savings, money market, individual retirement accounts, and NOW (checking) accounts.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, local competition, and competition from non-bank financial service providers. The Company closely manages its deposit position and mix to manage interest rate risk and improve its net interest margin. The Bank's deposits are typically obtained from the areas in which its offices are located. The Bank relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits.

The Bank seeks to maintain a high level of stable core deposits by providing high quality service through its employees and its convenient office and branch locations.

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## 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,<br>2010  |            |                                    | As of December 31,<br>2009  |            |                                    | As of December 31,<br>2008  |            |                                    |
|---|-----------------------------|------------|------------------------------------|-----------------------------|------------|------------------------------------|-----------------------------|------------|------------------------------------|
|   | Average<br>Interest<br>Rate | Amount     | Percent<br>of<br>Total<br>Deposits | Average<br>Interest<br>Rate | Amount     | Percent<br>of<br>Total<br>Deposits | Average<br>Interest<br>Rate | Amount     | Percent<br>of<br>Total<br>Deposits |
| NOW   | 0.78 %                      | \$ 74,985  | 16 %                               | 1.19 %                      | \$ 55,453  | 11 %                               | 1.13 %                      | \$ 42,949  | 9 %                                |
| Savings   | 0.69 %                      | 19,189     | 4 %                                | 0.99 %                      | 14,644     | 3 %                                | 0.94 %                      | 12,253     | 3 %                                |
| Money Market                                      | 1.20 %                      | 183,692    | 38 %                               | 3.32 %                      | 199,967    | 38 %                               | 1.85 %                      | 52,083     | 12 %                               |
| Non-interest<br>bearing                           |                             |            |                                    |                             |            |                                    |                             |            |                                    |
| demand  | 0.00 %                      | 26,634     | 5 %                                | 0.00 %                      | 28,931     | 6 %                                | 0.00 %                      | 31,220     | 7 %                                |
| Total   |                             | 304,500    | 63 %                               |                             | 298,995    | 58 %                               |                             | 138,505    | 31 %                               |
| Certificates of Deposit: (fixed-rate, fixed-term) |                             |            |                                    |                             |            |                                    |                             |            |                                    |
| 1-11 months                                       | 2.02 %                      | 113,602    | 24 %                               | 2.57 %                      | 123,880    | 24 %                               | 3.69 %                      | 216,141    | 48 %                               |
| 12-23 months                                      | 1.89 %                      | 7,401      | 1 %                                | 3.46 %                      | 16,406     | 3 %                                | 4.06 %                      | 10,260     | 2 %                                |
| 24-35 months                                      | 2.64 %                      | 37,010     | 8 %                                | 3.32 %                      | 50,622     | 10 %                               | 4.14 %                      | 58,249     | 13 %                               |
| 36-47 months                                      | 2.60 %                      | 13,067     | 3 %                                | 4.23 %                      | 15,999     | 3 %                                | 4.76 %                      | 10,042     | 2 %                                |
| 48-59 months                                      | 2.92 %                      | 3,180      | 1 %                                | 4.75 %                      | 4,518      | 1 %                                | 5.01 %                      | 8,897      | 2 %                                |
| 60-71 months                                      | 2.46 %                      | 1,866      | 0 %                                | 3.69 %                      | 1,834      | 1 %                                | 5.00 %                      | 3,771      | 1 %                                |
| 72-95 months                                      | 2.37 %                      | 68         | 0 %                                | 2.90 %                      | 797        | 0 %                                | 3.94 %                      | 1,214      | 1 %                                |
| Total   |                             | 176,194    | 37 %                               |                             | 214,056    | 42 %                               |                             | 308,574    | 69 %                               |
| Total Deposits                                    |                             | \$ 480,694 | 100 %                              |                             | \$ 513,051 | 100 %                              |                             | \$ 447,079 | 100 %                              |

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

Management placed great emphasis on reducing the dependence on jumbo deposits (\$100,000 or more) in 2010. The following table indicates the approximate amount of the Bank's certificate of deposit accounts of \$100,000 or more by time remaining until maturity as of December 31, 2010.

|                                | (Dollars in<br>thousands)<br>As of<br>December<br>31, 2010 |
|--------------------------------|--|
| Three months or less           | \$ 28,457  |
| Over three through six months  | 3,899  |
| Over six through twelve months | 14,109   |
| Over twelve months             | 20,799   |
| Total                          | \$ 67,264  |



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## Borrowings

The Company's borrowings consist primarily of FHLB advances, issuances of junior subordinated debentures and securities sold under agreements to repurchase.

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

|   | 2010       | As of December 31,     |  | 2008       |
|---|------------|------------------------|--|------------|
|   |            | 2009                   |  |            |
|   |            | (Dollars in Thousands) |  |            |
| Remaining maturity:                     |            |                        |  |            |
| Less than one year                      | \$ 25,000  | \$ 23,000              |  | \$ 21,386  |
| One to two years                        | -          | 25,000                 |  | 18,000     |
| Two to three years                      | 15,700     | -                      |  | 25,000     |
| Three to four years                     | -          | 15,700                 |  | -          |
| Four to five years                      | 250        | -                      |  | 15,700     |
| Over five years                         | 52,100     | 52,350                 |  | 52,350     |
| Total                                   | \$ 93,050  | \$ 116,050             |  | \$ 132,436 |
| Weighted average rate at end of period  | 2.58 %     | 2.68 %                 |  | 2.49 %     |
| For the period:                         |            |                        |  |            |
| Average outstanding balance             | \$ 109,967 | \$ 112,851             |  | \$ 119,957 |
| Weighted average interest rate          | 2.66 %     | 2.79 %                 |  | 2.70 %     |
| Maximum outstanding as of any month end | \$ 116,050 | \$ 116,050             |  | \$ 148,436 |

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



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

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

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

|   | 2010                   | As of December 31, |           | 2008      |
|---|------------------------|--------------------|-----------|-----------|
|   |                        | 2009               |           |           |
|   | (Dollars in Thousands) |                    |           |           |
| Subordinated debentures                                   | \$ 15,465              | \$ 15,465          | \$ 15,465 | \$ 15,465 |
| Weighted average interest rate of subordinated debentures | 6.62 %                 | 6.62 %             | 6.62 %    | 6.62 %    |

## Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank has the ability to borrow \$39.0 million as of December 31, 2010. 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, 2010 and 2009. The line is regarded by management as a contingency source of funds, and is not utilized in day to day operating activity except for planning.

## Securities Sold Under Agreements to Repurchase

The Company borrowed \$9.8 million under a structured repurchase agreement in September 2007. Interest was based on a variable rate indexed to the three month LIBOR until September 12, 2009 and converted into a fixed rate of 3.56% thereafter until maturity in September 2014. The counterparty, Barclay's Capital, Inc., has the right to terminate the agreement on a quarterly basis until maturity.

The Company borrowed \$30.0 million under three structured repurchase agreements in January 2008. Interest is based on a fixed weighted average rate of 2.65% until maturity in January 2018. The counterparty, Barclay's Capital, Inc., has the right to terminate the agreements on a quarterly basis until maturity.



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The Company has pledged certain investment securities with a fair value of \$46.9 million as of December 31, 2010 to secure certain of its obligations under these repurchase agreements.

Management monitors these transactions closely, and management has determined to keep them in place due to the net income relief these types of transactions provide in the low interest rate environment. The spread and interest rate risk on the transactions remain healthy.

## Subsidiary Activity and Segment Information

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

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

The Company's banking operation conducted through its principal subsidiary, the Bank, is the Company's only reportable segment. Other information about the Company's business segment is contained in the section captioned "Segment Information" in Note 1 to the consolidated financial statements in the 2010 Annual Report. This information is incorporated herein by reference.

## Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 of this report 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 and judgments that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. 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.



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The Company has identified the accounting policies for the allowance for loan losses and 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 to the Consolidated Financial Statements in the 2010 Annual 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<br>December<br>31,<br>2010 |   | Year ended<br>December<br>31,<br>2009 |    | Year ended<br>December<br>31,<br>2008 |    |
|--------------------------------|---------------------------------------|---|---------------------------------------|----|---------------------------------------|----|
| Common Dividend Payout Ratio   | 0                                     | % | 0                                     | %  | (17                                   | %) |
| Return on Average Assets       | 0.00                                  | % | (0.45                                 | %) | (0.83                                 | %) |
| Return on Average Equity       | 0.01                                  | % | (6.45                                 | %) | (13.13                                | %) |
| Stockholders' Equity to Assets | 7.62                                  | % | 6.97                                  | %  | 5.52                                  | %  |
| EPS Diluted                    | \$ -                                  |   | \$ (1.29                              | )  | \$ (2.06                              | )  |
| Dividends on Common Shares     | \$ -                                  |   | \$ -                                  |    | \$ 0.36                               |    |

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### Employees

As of December 31, 2010, the Bank had 146 full-time employees and 34 part-time employees. As of December 31, 2010, the Company had no salaried employees. None of the Bank's employees are represented by a collective bargaining group. The Bank believes that its relationship with its employees is good.

### Competition

The Bank experiences substantial competition both in attracting and retaining deposit accounts and in the making of mortgage and other loans. The Bank's primary competitors are the financial institutions near each of the Bank's offices. In the Springfield metropolitan area, where the Bank's main office and branch offices are located, 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 its primary market area. Significant competition for the Bank's other deposit products and services come from money market mutual funds, brokerage firms, insurance companies, and retail stores. Recently, online firms have offered attractive financial service products to consumers, irrespective of location. The primary factors in competing for loans are interest rates and loan origination fees and the range of services offered by various financial institutions. Competition for origination of real estate and other loans normally comes from commercial banks, savings institutions, mortgage bankers, mortgage brokers, and insurance companies.

The Bank believes it is able to compete effectively in its primary market area by offering competitive interest rates and loan fees, and a variety of deposit products, and by emphasizing personal customer service.

### Regulation

Set forth below is a brief description of certain laws which relate to the regulation of the Company and the Bank. These laws, and regulations adopted under these laws, are primarily intended for the protection of the Bank's customers and depositors and not for the benefit of the stockholders of the Company. The following description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

#### Dodd-Frank Act

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act is sweeping legislation intended to overhaul regulation of the financial services industry. Its goals are to establish a new council of "systemic risk" regulators, create a new consumer protection division within the Federal Reserve, empower the Federal Reserve to supervise the largest, most complex financial companies, allow the government to seize and liquidate failing financial companies, and give regulators new powers to oversee the derivatives market. The provisions of the Dodd-Frank Act are so extensive and far reaching that full implementation may require several years, and an assessment of its full effect on the Company is not possible at this time. However, some provisions of the Dodd-Frank Act will impact the Bank's current and future operations, including but not limited to:

- An independent Consumer Financial Protection Bureau will be created to have authority with respect to new and existing consumer financial protection laws.
- Deposit insurance is permanently increased to \$250,000 and unlimited deposit insurance for noninterest-bearing transaction accounts is extended through December 31, 2013.





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- A Bank's deposit insurance assessments will be based on the institution's total average assets less its average tangible equity for the assessment period, rather than total deposits.
  - Repeal the prohibition on payment of interest on demand deposits effective July 21, 2011.
- Increase the minimum ratio of net worth to insured deposits of the Deposit Insurance Fund from 1.15% to 1.35% and require the FDIC to offset the effect of the increase on institutions with assets of less than \$10 billion.
- Provide for new disclosure relating to executive compensation and corporate governance and a prohibition on compensation arrangements that encourage inappropriate risks or that could provide excessive compensation.

Emergency Economic Stabilization Act and American Recovery and Reinvestment Act

In response to the financial crisis affecting the banking system and financial markets, the Emergency Economic Stabilization Act ("EESA") was signed into law on October 3, 2008 and authorized the U.S. Department of the Treasury (the "Treasury") to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments under the Troubled Asset Relief Program ("TARP"). As part of TARP, the Treasury established the Capital Purchase Program ("CPP") to provide up to \$250 billion of funding to eligible financial institutions through the purchase of debt or equity securities from participating institutions.

On January 30, 2009, the Company issued and sold, and the Treasury purchased, (1) 17,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock Series A, and (2) a ten-year warrant to purchase up to 459,459 shares of the Company's common stock at an exercise price of \$5.55 per share, for an aggregate purchase price of \$17.0 million. The Series A preferred shares pay a dividend at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter.

The Series A preferred shares qualify as Tier 1 capital. The Company may redeem the shares for \$1,000 per share, plus accrued and unpaid dividends, in whole or in part, subject to regulatory approval.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law. The ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future CPP recipients that are in addition to those previously announced by the Treasury, until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury's consultation with the recipient's appropriate regulatory agency. As a result of our participation in the CPP, the restrictions and standards established in the ARRA are applicable to the Company. The ARRA restrictions do not apply to any TARP recipient during such time when the federal government (i) only holds any warrants to purchase common stock of such recipient or (ii) holds no preferred stock or warrants to purchase common stock of such recipient.

The Treasury released an interim final rule (the "IFR") on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed on executive compensation and corporate governance by EESA and AARA. The rules clarify prohibitions on bonus payments, provide guidance on the use of restricted stock units, expand restrictions on golden parachute payments, mandate enforcement of clawback provisions unless unreasonable to do so, outline the steps compensation committees must take when evaluating risks posed by compensation arrangements, and require the adoption and disclosure of a luxury expenditure policy, among other things. New requirements under the rules include enhanced disclosure of perquisites and the use of compensation consultants, and prohibitions on tax gross-up payments. The Treasury has not yet published a final version of the IFR.



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Regulation of the Bank

General. The Bank is regulated as a bank under state and federal law, including being regulated and supervised by the MDF. Its deposits are insured by the Depository Insurance Fund (“DIF”) of the FDIC, which was created in 2006 in the merger of the Bank Insurance Fund and the Savings Association Insurance Fund under the Federal Deposit Insurance Reform Act. Lending activities and other investments must comply with various federal statutory and regulatory requirements. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Bank (“FRB”).

The MDF, in conjunction with the FDIC, will regularly examine the Bank and provide reports to the Bank's Board of Directors on any deficiencies that are found in the Bank's operations. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal and state law, especially in such matters as the ownership of deposit accounts and the form and content of the Bank's loan documents.

The Bank must 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. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the DIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Insurance of Deposit Accounts and Assessments. The deposit accounts held by the Bank are insured by the DIF generally up to a maximum of \$250,000 for each insured account (as defined by law and regulation).

Under current rules, the FDIC imposes an assessment against institutions for deposit insurance quarterly based on annualized rates for one of four risk categories applied to its deposits. This assessment is based on the risk category of the institution.

Effective April 1, 2011, the FDIC has adopted rules in which insurance assessments will be based on the institution's average total assets less its average tangible equity, rather than total deposits which are used in the current assessment calculation.

On November 12, 2009, the FDIC adopted a final rule to collect, in advance, insurance premiums for 2010, 2011 and 2012 in lieu of an additional special assessment. The payment in the amount of \$4,135,875 was made on December 30, 2009, which represents total premiums for these three years as estimated by the FDIC. The unamortized balance remaining as of December 31, 2010 was \$2,977,356.

The FDIC may terminate its insurance of deposits 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.

Temporary Liquidity Guarantee Program. On October 14, 2008, the Temporary Liquidity Guarantee Program was enacted by the FDIC. The program provided for the guarantee of newly-issued senior unsecured debt of financial institutions and bank holding companies and provided full deposit insurance coverage for all non-interest bearing deposit accounts. The Bank participated in the program up and through its extension period of December 31, 2010. Effective with the Dodd-Frank Act, all non-interest bearing transaction accounts receive unlimited deposit insurance through December 31, 2012 with no additional cost to our institution.



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Prompt Corrective Action. The FDIC is required to take prompt corrective action if a depository institution for which it is the regulator, including the Bank, does not meet its minimum capital requirements. The FDIC establishes five capital tiers: “well capitalized”, “adequately capitalized”, “under capitalized”, “significantly under capitalized” and “critically under capitalized”. A depository institution’s capital tier will depend upon where its capital levels are 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. A depository institution is considered to be significantly undercapitalized if it has a Total Capital Ratio of less than 6.0%; a Tier I Capital ratio of less than 3.0%; or a Leverage Ratio of less than 3.0%. An institution that has a tangible equity capital to assets ratio equal to or less than 2.0% is deemed to be critically undercapitalized. "Tangible equity" includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards, plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets, with certain exceptions.

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 the 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.

As stated previously, the Company and the Bank met their minimum capital adequacy guidelines, and the Bank was categorized as well capitalized, as of December 31, 2010. Applicable capital and ratio information is contained under the section titled “Regulatory Matters” in Note 1 to the Consolidated Financial Statements in the 2010 Annual Report.

Safety and Soundness Standards. Federal bank regulators are required to prescribe standards, by regulations or guidelines, relating to the 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 such other operational and managerial standards as the agencies may deem appropriate. The federal bank regulatory agencies have adopted guidelines prescribing safety and soundness standards, which require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines.

Federal Home Loan Bank System. The Bank is a member of the FHLB, which is one of 12 regional Federal Home Loan Banks. As a member, the Bank is required to purchase and maintain stock in FHLB in an amount equal to 0.12% of assets plus 4.45% of Federal Home Loan Bank advances. At December 31, 2010, the Bank had \$5,025,200 in FHLB stock, which was in compliance with this requirement.

Anti-Terrorism Legislation. The USA PATRIOT Act of 2001, of which the majority was reauthorized into law in March 2006, contains anti-money laundering measures affecting insured depository institutions, broker-dealers and certain other financial institutions. U.S. financial institutions are required to adopt policies and procedures to combat money laundering and the Treasury Secretary is granted broad authority to establish regulations and to impose requirements and restrictions on financial institutions' operations. The Bank is in compliance with this Act.

Dividend Limitations. The amount of dividends that the Bank may pay is subject to various regulatory limitations. In addition, under Missouri law dividends paid by banks 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.



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Regulation of the Company

General. The Company is a registered bank holding company subject to regulation and supervision of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 ("BHCA").

Capital. The FRB has adopted risk-based capital guidelines for bank holding companies. The minimum guideline for the ratio ("Risk-Based Capital Ratio") of total capital ("Total Capital") to risk-weighted assets (including certain off-balance-sheet commitments such as standby letters of credit) is 8%. At least one-half of Total Capital must be composed of Tier 1 Capital which generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and certain nonfinancial equity investments, less goodwill and certain other intangible assets. The remainder, denominated "Tier 2 Capital," generally consists of limited amounts of subordinated debt, qualifying hybrid capital instruments, other preferred stock, loan loss reserves and unrealized gains on certain equity securities.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets less goodwill ("Leverage Ratio") of 3% for bank holding companies that meet certain specified criteria, including those having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 4%. The guidelines also provide that bank holding companies anticipating or experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance upon intangible assets. Furthermore, the FRB has indicated that it will consider a "tangible Tier 1 Leverage Ratio" (after deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

The Bank is subject to Risk-Based Capital and Leverage Ratio requirements adopted by the FDIC, which are substantially similar to those adopted by the FRB. See "Regulation of the Bank – Prompt Corrective Action." In addition, a bank's capital classifications may affect its activities. For example, under regulations adopted by the FDIC governing the receipt of brokered deposits, a bank may not lawfully accept, roll over or renew brokered deposits unless either (i) it is well capitalized or (ii) it is adequately capitalized and receives a waiver from the FDIC.

As of December 31, 2010, the Company met its minimum capital adequacy guidelines. Applicable capital and ratio information is contained under the section titled "Regulatory Matters" in Note 1 to the Consolidated Financial Statements in the 2010 Annual Report.

Dividend Restrictions and Share Repurchases. The Company's source of cash flow (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.

The amount of dividends that the Company may pay is subject to various regulatory limitations. Future dividends will depend primarily upon the level of earnings of the Bank. Banking regulators also have the authority to prohibit banks and bank holding companies from paying a dividend if they should deem such payment to be an unsafe or unsound practice.



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Unless a bank holding company is well capitalized immediately before and after the repurchase of its equity securities, is well managed and is not subject to any unresolved supervisory issues, it 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 combined with the net consideration (gross consideration paid minus the gross consideration received from the sale of equity securities) paid by the Company during the preceding twelve months, is equal to 10% or more of the Company's consolidated net worth. 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. 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.** Under the BHCA, the Company must obtain the prior approval of the FRB before it may acquire all or substantially all of the assets of any bank, acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank, 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 issues includes the involved institutions' performance under the Community Reinvestment Act of 1977, as amended (the "CRA"). Under the CRA, all financial institutions have a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of their entire communities, including low-to-moderate income neighborhoods. Based on its most recent CRA compliance examinations, the Bank has received a "satisfactory" CRA rating.

**Transactions With Affiliates.** There are various legal restrictions on the extent to which a bank holding company may borrow or otherwise obtain credit from or sell assets or affiliate securities to its bank subsidiary. In general, covered transactions with a bank subsidiary must be on nonpreferential terms and cannot exceed, as to any one of the holding company or the holding company's nonbank subsidiaries, 10% of the bank's capital stock and surplus, and as to the holding company and all of its nonbank subsidiaries in the aggregate, 20% of such capital stock and surplus. Special collateral requirements also apply to covered extensions of credit.

## Executive Officers of the Registrant

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. Mr. Burke was previously with Signature Bank for seven years where he served as executive vice president and senior credit officer and was a member of the board of directors. He has a total of 25 years of banking experience. Mr. Burke is a board member and Vice President of the Springfield Business Development Corporation, the economic development subsidiary of the Springfield Area Chamber of Commerce. 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.

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Carter Peters is Executive Vice President and Chief Financial Officer of the Bank and the Company. He joined the Bank and the Company in August 2005. Mr. Peters has over 19 years of experience in the financial services and public accounting industries. Prior to joining the Company, 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 advising firm, for approximately 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. He is a current Board member of the Springfield chapter of the Make-A-Wish Foundation of Missouri.

Mark McFatrige is Executive Vice President and Chief Operating Officer of the Bank after joining the organization in April of 2010. Mr. McFatrige has over 15 years of banking experience with regional banks Fifth Third Bank and Regions Financial Corporation as well as with community based OakStar Bank. McFatrige has a Bachelor of Science Degree in Accounting and a Masters in Business Administration in Finance from Butler University. Mark is the current President of the Board of Directors of Isabel's House, the Crisis Nursery of the Ozarks. Additionally, he serves as the Vice President of the Board of Directors for Friends of the Zoo. McFatrige is a member of Young Presidents' Organization, currently serving as Education Chair for the Ozarks Chapter.

H. Michael Mattson is Executive Vice President and Chief Lending Officer of the Bank. He joined the Bank in June 2006. Mr. Mattson has over 30 years of commercial banking experience. He was previously with Liberty Bank for six years, including four as Senior Loan Officer. Mr. Mattson is currently a member of the Springfield Area Chamber of Commerce and has served on its board nominating committee and venture capital committee. He is a member of Leadership Springfield Class XI and a graduate of Rockhurst University and the Graduate School of Banking of The South at Baton Rouge, LA.

Sheri Biser is Executive Vice President and Chief Credit Officer of the Bank. She joined the Bank in February 2009. Ms. Biser has 25 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.

As of December 31, 2010, the age of these individuals was 47 for Mr. Burke, 43 for Mr. McFatrige, 41 for Mr. Peters, 57 for Mr. Mattson and 47 for Ms. Biser.

Item 1A. Risk Factors

The Company's 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.

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The Company could experience an increase in loan losses, which would reduce the Company's earnings.

As the nation continues to recover from the economic downturn, real estate prices remain under pressure in the Company's market. Furthermore, elevated levels of unemployment have made it difficult for many consumers to meet their monthly obligations. As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and our industry has seen above average loan loss levels for approximately eighteen months. While the Company believes that its loan underwriting standards have been and remain sound, the Company has experienced an increase in charge offs and non-performing loans. To the extent charge offs exceed our financial models, increased amounts charged to the provision for loan losses would reduce net income.

Rapidly changing interest rate environments could reduce our net interest margin, net interest income, fee income and net income.

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 the Company's net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in the maturities of the Company's assets and liabilities. Furthermore, substantially higher rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income.

Liquidity needs could adversely affect the Company's results of operations and financial condition.

The Bank's primary source of funds is customer deposits and cash flows from investment instruments and loan repayments. While scheduled loan repayments are a relatively stable source, they are subject to the ability of the borrowers to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors, including changes in the economic conditions, adverse trends or events affecting the business environment, natural disasters and various other factors. 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. Deposit levels may be affected by a number of factors, including both the national market and local competitive interest rate environment, local and national economic conditions, natural disasters and other various events. Accordingly, the Company 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.

The Company may also pledge investments as collateral to borrow money from third parties. In certain cases, the Company may sell investment instruments for sizable losses to meet liquidity needs, reducing net income. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity needs.

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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 Guaranty Federal Bancshares, Inc.

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

We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting, hiring, and training expenses, resulting in lower net income.

The Company is subject to extensive regulation that can limit or restrict its activities.

The Company operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various agencies, including the MDF and FDIC. The Company's regulatory compliance is costly.

The Company is also subject to capitalization guidelines established by its regulators, which require it and the Bank to maintain adequate capital to support its and the Bank's growth.

The laws and regulations applicable to the banking industry could change at any time, and the Company cannot predict the effects of these changes on its business. To the extent activities of the Company and/or the Bank are restricted or limited by regulation or regulators' supervisory authority, the Company's future profitability may be adversely affected.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and NASDAQ Global Market that are now and will be applicable to the Company, have increased the scope, complexity, and cost of corporate governance, reporting and disclosure practices. As a result, the Company has experienced, and may continue to experience, greater compliance cost.

Even though the Company's common stock is currently traded on The NASDAQ National Market, the trading volume in the Company's common stock has been low and the sale of substantial amounts of its common stock in the public market could depress the price of the Company's common stock.

The trading volume of the Company's common stock on The NASDAQ Global Market has been relatively low when compared with larger companies listed on The NASDAQ Global Market or other stock exchanges. Thinly traded stocks, such as the Company's, can be more volatile than stocks trading in an active public market. Because of this, the Company stockholders may not be able to sell their shares at the volumes, prices, or times that they desire.

The Company cannot predict the effect, if any, that future sales of its common stock in the market, or availability of shares of its common stock for sale in the market, will have on the market prices of the Company's common stock. The Company, therefore, can give no assurance that sales of substantial amounts of its common stock in the market, or the potential for large amounts of sale in the market, would not cause the price of its common stock to decline or impair the Company's ability to raise capital through sales of its common stock.



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The market price of the Company's common stock may fluctuate in the future, and these fluctuations may be unrelated to its performance. General market price declines or overall market volatility in the future could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

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 shareholders and regulators. If negative changes to the performance of the Company's loan portfolio were to occur, management may find it necessary or be required to fund the allowance for loan loss account through additional charges to the Company's provision for loan loss expense. These changes may occur suddenly and be dramatic in nature. These changes are likely to affect the Company's financial performance, capital levels and stock price.

If we are unable to redeem our Series A Preferred Stock after five years, the cost of this capital to us will increase substantially.

If we are unable to redeem the Series A Preferred Stock prior to January 30, 2014, the cost of this capital to us will increase substantially on that date, from 5% per annum (\$850,000 annually) to 9% per annum (\$1,530,000 annually). Depending on our financial condition at the time, this increase in the annual dividend rate on the Series A Preferred Stock could have a material negative effect on our earnings.

The Series A Preferred Stock impacts net income available to our common shareholders and earnings per common share, and the warrant we issued to Treasury may be dilutive to holders of our common stock.

The dividends declared on the Series A Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of Guaranty Federal Bancshares, Inc. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the warrant we issued to Treasury in conjunction with the sale to Treasury of the Series A Preferred Stock is exercised.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table sets forth certain information concerning the Bank's facilities as of December 31, 2010. All buildings owned are free of encumbrances or mortgages. The Bank's facilities are well maintained and considered adequate for the foreseeable future.

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| Location                 |                          |       | Year<br>Opened | Owned or<br>Leased | Lease<br>Expiration<br>(Including any<br>renewal<br>options) |
|--------------------------|--------------------------|-------|----------------|--------------------|--|
| Main Office              |                          |       |                |                    |  |
| 1341 W Battlefield Road  | Springfield, Missouri    | 65807 | 1995           | Owned              | N/A  |
| Operations Center        |                          |       |                |                    |  |
| 1414 W Elfindale         | Springfield, Missouri    | 65807 | 2009           | Owned              | N/A  |
| Branch Offices           |                          |       |                |                    |  |
| 1510 E Sunshine          | Springfield, Missouri    | 65804 | 1979           | Owned              | N/A  |
| 2109 N Glenstone         | Springfield, Missouri    | 65803 | 1987           | Owned              | N/A  |
| 4343 S National          | Springfield, Missouri    | 65810 | 2000           | Owned              | N/A  |
| 1905 W Kearney           | Springfield, Missouri    | 65803 | 2004           | Leased*            | 2044   |
| 2155 W Republic Road     | Springfield, Missouri    | 65807 | 2006           | Leased*            | 2046   |
| 709 W Mt. Vernon         | Nixa, Missouri           | 65714 | 2005           | Leased*            | 2044   |
| 291 East Hwy CC          | Nixa, Missouri           | 65714 | 2008           | Leased*            | 2038   |
| 1701 W State Hwy J       | Ozark, Missouri          | 65721 | 2008           | Owned              | N/A  |
| Loan Production Offices  |                          |       |                |                    |  |
| 1001 Porter Wagoner Blvd | West Plains, Missouri    | 65775 | 2006           | Leased             | 2011   |
| 709 N Main St            | Mountain Grove, Missouri | 65711 | 2006           | Leased             | 2011   |
| 1100 Spur Dr.            | Marshfield, Missouri     | 65706 | 2007           | Leased             | 2012   |
| 1350 E Bradford Pkwy     | Springfield, Missouri    | 65804 | 2010           | Leased             | 2015   |

\* Building owned with land leased.





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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. After reviewing pending and threatened litigation with legal counsel, management believes that as of December 31, 2010, the outcome of any such litigation will not have a material adverse effect on the Company's results of operations. Management is not able to predict whether any actions may or may not have a material adverse effect on its results of operations in future periods as the timing and amount of any resolution is not known.

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

Not applicable.

Item 4. (Removed and Reserved)

PART II

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

The information contained in the section captioned "Investor Information-Common Stock Prices and Dividends" on page 2 of the 2010 Annual Report is incorporated herein by reference.

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 Company has a repurchase plan which was announced on August 20, 2007. This plan authorizes the purchase by the Company of up to 350,000 shares of the Company's common stock. There is no expiration date for this plan. There are no other repurchase plans in effect at this time. The Company had no repurchase activity of the Company's common stock during the fourth quarter ended December 31, 2010.

Item 6. Selected Financial Data

The information contained on page 4 under the section captioned "Selected Consolidated Financial and Other Data" of the 2010 Annual Report is incorporated herein by reference.

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

The information contained on pages 5 through 16 under the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2010 Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained on page 12 and 13 under the sections captioned "Asset/Liability Management" and "Interest Rate Sensitivity Analysis" of the 2010 Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements set forth on pages 17 to 50 of the 2010 Annual Report and the financial information contained under the section captioned "Summary of Unaudited Quarterly Operating Results" set forth on page 16 of the 2010 Annual Report are incorporated herein by reference.

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, 2010.

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, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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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, 2010, based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective.

Item 9B. Other Information

Not applicable.

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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](http://www.gbankmo.com) and may be accessed by logging onto the Company's website and clicking on the "About Us" 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 (i) in the Proxy Statement under the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference, and (ii) under the section captioned "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

Except as set forth below, 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.

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## Equity Compensation Plan Information

| Plan category  | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights | (c)<br>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     | 334,579  | \$ 15.90   | 176,000  |
| Equity compensation plans not approved by security holders | 31,000   | 18.74  | 608  |
| Totals   | 365,579  | \$ 16.14   | 176,608  |

## Description of Stock Plans Not Approved by Stockholders

2000 Stock Compensation Plan. During the year ended June 30, 2000, the directors of the Company established the 2000 Stock Compensation Plan (the "2000 SCP") with both a stock award component and a stock option component for a term of ten years. A committee of the Bank's Board of Directors (the "Committee") administers the 2000 SCP and the 2001 SCP (discussed below). Stock options awarded under the 2000 SCP are considered non-qualified for federal income tax purposes. Officers, directors and employees of the Company and its subsidiaries are eligible under the 2000 SCP. Stock awards and stock options vest at the rate of 20% per year over a five year period and become fully vested in the event of a "change in control" as defined in the 2000 SCP. In addition, the price of the stock options may not be less than the market value of the Company's common stock on the date of grant, and the stock options expire no later than ten years from the date of grant. Under the stock award component of the 2000 SCP, the committee awarded 7,125 restricted shares of the Company's common stock. As of December 31, 2010, there are no restricted shares in the 2000 SCP that are not vested. Options to acquire 17,875 shares of the Company's common stock have been granted under the 2000 SCP at an exercise price of \$10.50 per share. The maximum number of shares of the Company's common stock permitted to be awarded under the 2000 SCP (25,000) have been awarded. Previously issued awards or options which expire, become unexercisable, or are forfeited prior to their exercise may be granted as new awards or options under the 2000 SCP for the number of shares which were subject to such expired or forfeited awards or options.

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2001 Stock Compensation Plan. During the year ended June 30, 2001, the directors of the Company established the 2001 Stock Compensation Plan (the "2001 SCP") with both a stock award component and a stock option component for a term of ten years. Stock options awarded under the 2001 SCP are considered non-qualified for federal income tax purposes. Officers, directors and employees of the Company and its subsidiaries are eligible to receive awards under the 2001 SCP. Stock awards and stock options vest at the rate of 20% per year over a five year period and become fully vested in the event of a "change in control" as defined in the 2001 SCP. In addition, the price of the stock options may not be less than the market value of the Company's common stock on the date of grant, and the stock options expire no later than ten years from the date of grant. Under the stock award component of the 2001 SCP, the Committee awarded 10,239 restricted shares of the Company's common stock. As of December 31, 2010, all restricted shares in this plan are vested. Options to acquire 11,000 shares of the Company's common stock have been granted under the 2001 SCP at a weighted-average exercise price of \$23.23 per share. The maximum number of shares of the Company's Common Stock permitted to be awarded under the 2001 SCP is 25,000 shares. Previously issued awards or options which expire, become exercisable, or are forfeited prior to their exercise may be granted as new awards or options under the plan for the number of shares which were subject to such expired or forfeited awards or options.

2003 Stock Option Agreement. During the period ended December 31, 2003, the independent directors of the Company authorized the issuance of options to acquire 5,000 shares of the Company's common stock as an employment inducement to a new officer of the Bank pursuant to an individual stock option agreement. Stock options awarded under this agreement are considered non-qualified for federal income tax purposes, vest at the rate of 20% per year over a five year period, become fully vested in the event of a "change in control" as defined in the agreement and expire no later than ten years from the date of grant. In addition, pursuant to the term of the stock option agreement which requires that the price of the stock options granted thereunder may not be less than the market value of the Company's common stock on the date of grant, all of these options were granted at an exercise price of \$17.20 per share.

2004 Stock Option Agreement. Pursuant to the authorization of the independent directors of the Company, options to acquire 25,000 shares of the Company's common stock were issued by the Company on March 9, 2004 as an employment inducement to a new officer of the Bank under an individual stock option agreement. Stock options awarded under this agreement are considered non-qualified for federal income tax purposes, vest at the rate of 20% per year over a five year period, become fully vested in the event of a "change in control" as defined in the agreement and expire no later than ten years from the date of grant. In addition, pursuant to the term of the stock option agreement which requires that the price of the stock options granted thereunder may not be less than the market value of the Company's common stock on the date of grant, all of these options were granted at an exercise price of \$19.62 per share.

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 Accountant 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.

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PART IV

Item 15. Exhibits and Financial Schedules

1. The following financial statements and the report of independent registered public accounting firm included in the 2010 Annual Report are filed as part of this Report and incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2010 and 2009.

Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2010, 2009 and 2008.

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

|        |   |
|--------|---|
| 3(i).1 | Restated Certificate of Incorporation of Guaranty Federal Bancshares, Inc. (1)  |
| 3(i).2 | Certificate of Designations for the Series A Preferred Stock (21)   |
| 3(ii)  | Bylaws of Guaranty Federal Bancshares, Inc., as amended (7)   |
| 4.1    | Rights Agreement dated January 20, 1999 concerning the issuance of preferred stock and related rights. (2)  |
| 4.2    | Form of Certificate for the Series A Preferred Stock (22)   |
| 4.3    | Warrant to Purchase Common Stock (23)   |
|        | The Company hereby agrees to furnish the SEC upon request, copies of (i) the instruments defining the rights of the holders of each issue of its junior subordinated debentures and (ii) the repurchase agreements between the Company and Barclay's Capital, Inc. dated September 2007 and January 2008. |
| 10.1   | 1994 Stock Option Plan *(3)   |
| 10.2   | Recognition and Retention Plan *(4)   |
| 10.3   | 1998 Stock Option Plan *(5)   |
| 10.4   | Restricted Stock Plan *(6)  |





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|           |   |
|-----------|---|
| 10.5      | Form of Change in Control Severance Agreement *(6)  |
| 10.6      | 2000 Stock Compensation Plan *(6)   |
| 10.7      | 2001 Stock Compensation Plan *(6)   |
| 10.8      | 2003 Stock Option Agreement *(8)  |
| 10.9      | Employment Agreement effective as of March 9, 2004 by and between the Bank and Shaun A. Burke *(9)  |
| 10.10     | 2004 Stock Option Agreement dated March 9, 2004 between the Company and Shaun A. Burke *(10)  |
| 10.11     | 2004 Stock Option Plan *(11)  |
| 10.12     | Form of Incentive Stock Option Agreement under the 2004 Stock Option Plan *(15)   |
| 10.13     | Form of Non-Incentive Stock Option Agreement under the 2004 Stock Option Plan *(16)   |
| 10.14     | Form of Incentive Stock Option Agreement under the 1994 Stock Option Plan *(12)   |
| 10.15     | Form of Non-Incentive Stock Option Agreement under the 1994 Stock Option Plan *(13)   |
| 10.16     | Incentive Stock Option Agreement dated March 17, 2005 between the Company and Shaun A. Burke (issued pursuant to the 2001 Stock Option Plan) *(14)  |
| 10.19     | Written Description of Compensatory Arrangement with Chief Operating Officer and Chief Financial Officer *(17)  |
| 10.20     | Written Description of 2007 Executive Incentive Compensation Annual Plan-President and Chief Executive Officer *(18)  |
| 10.21     | Written Description of 2008 Executive Incentive Compensation Annual Plan-President and Chief Executive Officer *(19)  |
| 10.22     | Written Description of 2008 Executive Incentive Compensation Annual Plan-Chief Financial Officer *(20)  |
| 10.23     | Letter Agreement dated January 30, 2009, including Securities Purchase Agreement – standard terms incorporated by reference therein, between the Company and the United States Department of the Treasury, with respect to the issuance and sale of Series A Preferred Stock and the Warrant (24) |
| 10.24     | Amendment and Waiver Regarding Compensation Arrangements dated January 28, 2009 by and among the Bank, the Company and its Senior Executive Officers* (25)  |
| 10.25     | Written Description of 2009 Executive Incentive Compensation Annual Plan-President and Chief Executive Officer *(26)  |
| 10.26     | Written Description of 2009 Executive Incentive Compensation Annual Plan-Chief Financial Officer and Chief Operating Officer *(27)  |
| 10.27     | Written Description of 2009 Executive Incentive Compensation Annual Plan-Chief Lending Officer *(28)  |
| 10.28     | Written Description of 2010 Executive Incentive Compensation Annual Plans-Chief Financial, Chief Lending and Chief Credit Officers (29)   |
| 10.29     | Written Description of 2010 Executive Incentive Compensation Annual Plans-Chief Operating Officer (30)  |
| 10.30     | Guaranty Federal Bancshares, Inc. 2010 Equity Plan *(31)  |
| 11        | Computation of per share earnings is set forth in Note 1 of the Notes to the Consolidated Financial Statements under the section captioned “Earnings Per Common Share” in the 2010 Annual Report.   |
| <u>13</u> | Annual Report to Stockholders for the fiscal period ended December 31, 2010 (only those portions incorporated by reference in this document are deemed “filed”)   |
| 21        | Subsidiaries of the Registrant (See Item 1. Business – Subsidiary and Segment Information)  |



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|                |   |
|----------------|---|
| <u>23</u>      | Consent of BKD, LLP   |
| <u>31(i).1</u> | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act |
| <u>31(i).2</u> | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act |
| <u>32.1</u>    | CEO certification pursuant to 18 U.S.C. Section 1350  |
| <u>32.2</u>    | CFO certification pursuant to 18 U.S.C. Section 1350  |
| <u>99.1</u>    | CEO Certification pursuant to 31 C.F.R 30.15  |
| <u>99.2</u>    | CFO Certification pursuant to 31 C.F.R. 30.15   |

\* Management contract or compensatory plan or arrangement

- (1) Filed as an exhibit 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.
- (2) Filed as an exhibit to the Form 8A filed by Registrant on January 22, 1999 and incorporated herein by reference.
- (3) Filed as Exhibit 10.1 of the Registration Statement on Form S-1 filed by the Registrant on September 23, 1997 (SEC File No. 333-36141) and incorporated herein by reference.
- (4) Filed as Exhibit 10.2 of the Registration Statement on Form S-1 filed by the Registrant on September 23, 1997 (SEC File No. 333-36141) and incorporated herein by reference.
- (5) Filed as Exhibit 4 to the Form S-8 Registration Statement filed by the Registrant on March 6, 2002 (SEC File No. 333-83822) and incorporated herein by reference.
- (6) Filed as an exhibit to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001 (SEC File No. 0-23325) and incorporated herein by reference.
- (7) Filed as Exhibit 3.1 to the Current Report on Form 8-K filed by the Registrant on December 3, 2007 and incorporated herein by reference.
- (8) Filed as Exhibit 10.8 to the Annual Report on Form 10-K for the transition period ended December 31, 2003 filed by the Registrant on March 30, 2004 (SEC File No. 0-23325) and incorporated herein by reference.
- (9) Filed as Exhibit 10.9 to the Current Report on Form 8-K filed by the Registrant on January 24, 2005 (SEC File No. 0-23325) and incorporated herein by reference.
- (10) Filed as Exhibit 10.10 to the Current Report on Form 8-K filed by the Registrant on January 24, 2005 (SEC File No. 0-23325) and incorporated herein by reference.
- (11) Filed as Appendix A to the proxy statement for the annual meeting of stockholders held on May 19, 2004 (SEC File No. 0-23325) and incorporated herein by reference.
- (12) Filed as Exhibit 4.2 to the Form S-8 Registration Statement filed by the Registrant on March 3, 1998 (SEC File No. 333-47241) and incorporated herein by reference.
- (13) Filed as Exhibit 4.3 to the Form S-8 Registration Statement filed by the Registrant on March 3, 1998 (SEC File No. 333-47241) and incorporated herein by reference.
- (14) Filed as Exhibit 10.16 to the Current Report on Form 8-K filed by the Registrant on March 22, 2005 (SEC File No. 0-23325) and incorporated herein by reference.
- (15) Filed as Exhibit 10.12 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed by the Registrant on March 30, 2005 and incorporated herein by reference.
- (16) Filed as Exhibit 10.13 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed by the Registrant on March 30, 2005 and incorporated herein by reference.
- (17) Filed as Exhibit 10.19 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed by the Registrant on March 31, 2006 and incorporated herein by reference.
- (18) Filed as Exhibit 10.20 to the Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2007 filed by the Registrant on November 14, 2007 and incorporated herein by reference.
- (19) Filed as Exhibit 10.21 to the Current Report on Form 8-K filed by the Registrant on December 29, 2007 and incorporated herein by reference.

(20) Filed as Exhibit 10.22 to the Current Report on Form 8-K filed by the Registrant on December 29,2007 and incorporated herein by reference.

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- (21) Filed as Exhibit 3.1 to the Current Report on Form 8-K filed by the Registrant on February 3, 2009 and incorporated herein by reference.
- (22) Filed as Exhibit 4.1 to the Current Report on Form 8-K filed by the Registrant on February 3, 2009 and incorporated herein by reference.
- (23) Filed as Exhibit 4.2 to the Current Report on Form 8-K filed by the Registrant on February 3, 2009 and incorporated herein by reference.
- (24) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on February 3, 2009 and incorporated herein by reference.
- (25) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on February 3, 2009 and incorporated herein by reference.
- (26) Filed as Exhibit 10.23 to the Current Report on Form 8-K filed by the Registrant on February 9, 2009 and incorporated herein by reference.
- (27) Filed as Exhibit 10.24 to the Current Report on Form 8-K filed by the Registrant on February 9, 2009 and incorporated herein by reference.
- (28) Filed as Exhibit 10.25 to the Current Report on Form 8-K filed by the Registrant on February 9, 2009 and incorporated herein by reference.
- (29) Filed as Exhibits 10.1 through 10.3 to the Current Report on Form 8-K filed by the Registrant on February 2, 2010 and incorporated herein by reference.
- (30) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on April 26, 2010 and incorporated herein by reference.
- (31) 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.

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 30, 2011

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 30, 2011

By: /s/ Tim Rosenbury  
Tim Rosenbury  
Director  
Date: March 30, 2011

By: /s/ Carter Peters  
Carter Peters  
EVP and Chief Financial Officer

By: /s/ James R. Batten  
James R. Batten  
Director

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(Principal Accounting and Financial Officer)  
Date: March 30, 2011

Date: March 30, 2011

By: /s/ John Griesemer  
John Griesemer  
Director  
Date: March 30, 2011

By: /s/ Don M. Gibson  
Don M. Gibson  
Chairman of the Board and Director  
Date: March 30, 2011

By: /s/ Gregory V. Ostergren  
Gregory V. Ostergren  
Director  
Date: March 30, 2011

By: /s/ James L. Sivils, III  
James L. Sivils, III  
Director  
Date: March 30, 2011

By: /s/ Kurt D. Hellweg  
Kurt D. Hellweg  
Director  
Date: March 30, 2011

By: /s/ Jack L. Barham  
Jack L. Barham  
Director  
Date: March 30, 2011