GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 13, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One) [X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

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	**43-1792717**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1341 West Battlefield	
Springfield, Missouri	**65807**
(Address of principal executive offices)	(Zip Code)

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

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 [X] No [ ]

Indicate by check mark 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 [X] No [ ]

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 2, 2017
Common Stock, Par Value $0.10 per share	4,421,775 Shares

GUARANTY FEDERAL BANCSHARES, INC.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2017 (UNAUDITED) AND DECEMBER 31, 2016

	9/30/17	12/31/16
ASSETS		
Cash and due from banks	$3,456,243	$3,769,478
Interest-bearing deposits in other financial institutions	7,264,941	5,318,963
Cash and cash equivalents	10,721,184	9,088,441
Available-for-sale securities	83,205,195	92,399,235
Held-to-maturity securities	18,424	27,528
Stock in Federal Home Loan Bank, at cost	4,137,500	4,611,000
Mortgage loans held for sale	2,516,520	2,183,633
Loans receivable, net of allowance for loan losses of September 30, 2017 - $7,009,097 - December 31, 2016 - $5,742,449	616,884,052	538,273,640
Accrued interest receivable	2,164,278	1,947,063
Prepaid expenses and other assets	4,283,144	2,961,336
Foreclosed assets held for sale	588,443	2,682,353
Premises and equipment, net	11,713,174	10,871,039
Bank owned life insurance	19,623,719	19,272,893
Deferred and income taxes receivable	3,483,169	3,661,658
	$759,338,802	$687,979,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$584,088,617	$505,362,750
Federal Home Loan Bank advances	82,800,000	95,700,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	515,087	192,460
Accrued expenses and other liabilities	1,562,509	1,077,396
Accrued interest payable	253,045	207,833
	684,684,258	618,005,439
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Common stock, $0.10 par value; authorized 10,000,000 shares; issued September 30, 2017 and December 31, 2016 - 6,875,503 shares	687,550	687,550

Additional paid-in capital	50,705,315	50,552,077
Retained earnings, substantially restricted	60,759,996	57,347,282
Accumulated other comprehensive loss	(372,776)	(1,309,241)
	111,780,085	107,277,668
Treasury stock, at cost; September 30, 2017 and December 31, 2016 - 2,453,728 and 2,465,476 shares, respectively	(37,125,541)	(37,303,288)
	74,654,544	69,974,380
	$759,338,802	$687,979,819

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Interest Income				
Loans	$7,052,544	$5,854,069	$20,042,667	$17,184,094
Investment securities	431,560	461,587	1,361,069	1,445,151
Other	41,083	38,647	134,361	134,417
	7,525,187	6,354,303	21,538,097	18,763,662
Interest Expense				
Deposits	893,197	560,168	2,261,752	1,715,179
FHLB and Federal Reserve advancese	419,918	349,575	1,269,543	963,847
Subordinated debentures	160,075	146,438	467,665	429,348
	1,473,190	1,056,181	3,998,960	3,108,374
Net Interest Income	6,051,997	5,298,122	17,539,137	15,655,288
Provision for Loan Losses	450,000	200,000	1,500,000	950,000
Net Interest Income After Provision for Loan Losses	5,601,997	5,098,122	16,039,137	14,705,288
Noninterest Income				
Service charges	311,070	303,958	869,102	849,026
Gain on sale of investment securities	11,199	44,060	73,473	155,465
Gain on sale of mortgage loans held for sale	618,732	528,521	1,550,880	1,260,978
Gain on sale of Small Business Administration loans	228,895	85,624	484,240	237,862
Net gain (loss) on foreclosed assets	47,787	(33,808)	56,051	(53,313)
Other income	353,186	387,146	1,133,548	1,153,718
	1,570,869	1,315,501	4,167,294	3,603,736
Noninterest Expense				
Salaries and employee benefits	3,052,417	2,694,069	8,844,836	7,950,867
Occupancy	591,961	465,237	1,563,344	1,343,062
FDIC deposit insurance premiums	63,522	117,311	176,011	362,025
Data processing	268,508	223,618	730,260	650,283
Advertising	131,250	131,250	393,750	393,750
Impairment on investment tax credits	146,857	-	146,857	-
Other expense	757,317	686,222	2,144,310	2,036,590
	5,011,832	4,317,707	13,999,368	12,736,577
Income Before Income Taxes	2,161,034	2,095,916	6,207,063	5,572,447
Provision for Income Taxes	443,651	554,009	1,467,866	1,497,783
Net Income Available to Common Shareholders	$1,717,383	$1,541,907	$4,739,197	$4,074,664
Basic Income Per Common Share	$0.39	$0.35	$1.08	$0.93
Diluted Income Per Common Share	$0.39	$0.35	$1.07	$0.92

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (UNAUDITED)

	Three months ended		Nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
NET INCOME	$1,717,383	$1,541,907	$4,739,197	$4,074,664
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(39,661)	(272,470)	1,408,504	2,174,594
Change in unrealized gain (loss) on interest rate swaps, before income taxes	(76,222)	-	151,420	-
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(11,199)	(44,060)	(73,473)	(155,465)
Total other items of comprehensive income	(127,082)	(316,530)	1,486,451	2,019,129
Income tax expense (benefit) related to other items of comprehensive income	(47,022)	(117,115)	549,986	747,078
Other comprehensive income (loss)	(80,060)	(199,415)	936,465	1,272,051
TOTAL COMPREHENSIVE INCOME	$1,637,323	$1,342,492	$5,675,662	$5,346,715

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2017 (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	$687,550	$50,552,077	$(37,303,288)	$57,347,282	$(1,309,241)	$69,974,380
Net income	-	-	-	4,739,197	-	4,739,197
Change in unrealized gain on available-for-sale securities and effect of interest rate swaps, net of income taxes					936,465	936,465
Dividends on common stock ($0.30 per share)	-	-	-	(1,326,483)	-	(1,326,483)
Stock award plans	-	153,238	177,747	-	-	330,985
Balance, September 30, 2017	$687,550	$50,705,315	$(37,125,541)	$60,759,996	$(372,776)	$74,654,544

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (UNAUDITED)

	9/30/2017	9/30/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$4,739,197	$4,074,664
Items not requiring (providing) cash:		
Deferred income taxes	(603,683)	(88,504)
Depreciation	791,473	615,224
Provision for loan losses	1,500,000	950,000
Gain on sale of mortgage loans held for sale and investment securities	(1,624,353)	(1,416,443)
(Gain) loss on sale of foreclosed assets	(119,157)	2,798
Gain on sale of Small Business Administration Loans	(484,240)	(237,862)
Amortization of deferred income, premiums and discounts	728,144	469,088
Stock award plan expense	330,985	293,998
Origination of loans held for sale	(52,757,873)	(47,274,120)
Proceeds from sale of loans held for sale	53,975,866	47,873,689
Increase in cash surrender value of bank owned life insurance	(350,826)	(369,695)
Changes in:		
Accrued interest receivable	(217,215)	177,712
Prepaid expenses and other assets	44,393	307,528
Accounts payable and accrued expenses	529,150	707,875
Income taxes receivable	232,186	703,175
Net cash provided by operating activities	6,714,047	6,789,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of loans receivable	-	(11,132,508)
Proceeds on sale of loans	24,919,859	-
Net change in loans	(105,083,322)	(24,782,137)
Principal payments on available-for-sale securities	5,153,878	6,385,019
Principal payments on held-to-maturity securities	9,104	12,736
Proceeds from calls/maturities of available-for-sale securities	-	535,000
Purchase of premises and equipment	(1,633,608)	(939,191)
Purchase of available-for-sale securities	(13,350,996)	(71,652,913)
Proceeds from sale of available-for-sale securities	18,388,216	67,177,538
Redemption (purchase) of Federal Home Loan Bank stock	473,500	(929,500)
Purchase of tax credit investments	(1,214,781)	-
Proceeds from sale of foreclosed assets held for sale	2,433,660	463,863
Net cash used in investing activities	(69,904,490)	(34,862,093)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid on common stock	(1,325,308)	(1,060,619)
Net increase in demand deposits, NOW accounts and savings accounts	50,768,740	5,344,326
Net increase (decrease) in certificates of deposit	27,957,127	(6,965,873)
Proceeds from Federal Home Loan Bank advances	333,700,000	173,400,000

Repayments of Federal Home Loan Bank and Federal Reserve advances	(346,600,000)	(150,900,000)
Advances from borrowers for taxes and insurance	322,627	343,618
Stock options exercised	-	85,800
Net cash provided by financing activities	64,823,186	20,247,252
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,632,743	(7,825,714)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,088,441	18,774,419
CASH AND CASH EQUIVALENTS, END OF PERIOD	$10,721,184	$10,948,705

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Annual Report") filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2016, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Securities

The amortized cost and approximate fair values of securities classified as available-for-sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of September 30, 2017				
Debt Securities:				
Municipals	$34,012,067	$210,255	$(328,991)	$33,893,331
Corporates	3,000,000	70,000	-	3,070,000
Government sponsored mortgage-backed securities and SBA loan pools	46,936,147	32,472	(726,755)	46,241,864
	$83,948,214	$312,727	$(1,055,746)	$83,205,195

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2016				
Debt Securities:				
Municipals	$39,357,506	$65,673	$(1,085,654)	$38,337,525
Corporates	7,003,986	54,050	(4,514)	7,053,522
Government sponsored mortgage-backed securities and SBA loan pools	48,115,793	19,432	(1,127,037)	47,008,188
	$94,477,285	$139,155	$(2,217,205)	$92,399,235

Maturities of available-for-sale debt securities as of September 30, 2017:

	Amortized Cost	Approximate Fair Value
1-5 years	564,554	581,359
6-10 years	9,254,809	9,317,277
After 10 years	27,192,704	27,064,695
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	46,936,147	46,241,864
	$83,948,214	$83,205,195

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of September 30, 2017				
Debt Securities:				
Government sponsored mortgage-backed securities	$ 18,424	$ 215	$ (57)	$ 18,582

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2016				
Debt Securities:				
Government sponsored mortgage-backed securities	$ 27,528	$ 625	$ -	$ 28,153

Maturities of held-to-maturity securities as of September 30, 2017:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	$ 18,424	$ 18,582

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $48,651,661 and $48,723,259 as of September 30, 2017 and December 31, 2016, respectively. The approximate fair value of pledged securities amounted to $48,125,394 and $47,617,900 as of September 30, 2017 and December 31, 2016, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of $73,473 and $155,465 as of September 30, 2017 and September 30, 2016, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was $27,185 and $57,522 as of September 30, 2017 and September 30, 2016, respectively.

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

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2017 and December 31, 2016, was $63,471,654 and $79,361,229, respectively, which is approximately 76% and 86% of the Company’s investment portfolio.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017 and December

31, 2016.

	September 30, 2017					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	$10,507,517	$(91,926)	$10,671,807	$(237,065)	$21,179,324	$(328,991)
Government sponsored mortgage-backed securities and SBA loan pools	21,281,498	(219,697)	21,010,832	(507,115)	42,292,330	(726,812)
	$31,789,015	$(311,623)	$31,682,639	$(744,180)	$63,471,654	$(1,055,803)

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	$33,084,816	$(1,082,021)	$179,402	$(3,633)	$33,264,218	$(1,085,654)
Corporates	1,996,172	(3,828)	881,100	(686)	2,877,272	(4,514)
Government sponsored mortgage-backed securities and SBA loan pools	39,570,463	(1,022,511)	3,649,276	(104,526)	43,219,739	(1,127,037)
	$74,651,451	$(2,108,360)	$4,709,778	$(108,845)	$79,361,229	$(2,217,205)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at September 30, 2017 and December 31, 2016 include:

	September 30, 2017	December 31, 2016
Real estate - residential mortgage:		
One to four family units	$107,750,990	$106,410,559
Multi-family	74,653,469	48,483,523
Real estate - construction	62,046,871	40,912,307
Real estate - commercial	266,292,510	249,580,873
Commercial loans	90,186,600	75,404,732
Consumer and other loans	23,661,618	23,606,306
Total loans	624,592,058	544,398,300
Less:		
Allowance for loan losses	(7,009,097)	(5,742,449)
Deferred loan fees/costs, net	(698,909)	(382,211)
Net loans	$616,884,052	$538,273,640

Classes of loans by aging at September 30, 2017 and December 31, 2016 were as follows:

As of September 30, 2017

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$1,542	$644	$249	$2,435	$105,316	$ 107,751	$ -
Multi-family	783	-	-	783	73,870	74,653	-
Real estate - construction	-	-	-	-	62,047	62,047	-
Real estate - commercial	-	-	215	215	266,077	266,292	-
Commercial loans	-	-	1,384	1,384	88,803	90,187	-
Consumer and other loans	10	4	-	14	23,648	23,662	-
Total	$2,335	$648	$1,848	$4,831	$619,761	$ 624,592	$ -

As of December 31, 2016

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$367	$495	$103	$965	$105,446	$ 106,411	$ -
Multi-family	-	-	-	-	48,483	48,483	-
Real estate - construction	-	-	-	-	40,912	40,912	-
Real estate - commercial	-	-	-	-	249,581	249,581	-
Commercial loans	-	-	593	593	74,812	75,405	-
Consumer and other loans	-	-	38	38	23,568	23,606	-
Total	$367	$495	$734	$1,596	$542,802	$ 544,398	$ -

Nonaccruing loans are summarized as follows:

	September 30, 2017	December 31, 2016
Real estate - residential mortgage:		
One to four family units	$2,274,040	$2,060,180
Multi-family	-	-
Real estate - construction	5,309,728	5,446,896
Real estate - commercial	376,091	161,491
Commercial loans	1,610,950	925,281
Consumer and other loans	124,161	37,791
Total	$9,694,970	$8,631,639

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three and nine months ended September 30, 2017 and 2016:

Three months ended September 30, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
	$1,739	$ 1,954	$ 936	$ 323	$ 1,226	$ 335	$ 127	$6,640

Balance, beginning of period								
Provision charged to expense	524	(116)	(81)	52	(99)	126	44	$450
Losses charged off	-	(71)	-	-	-	(46)	-	$(117)
Recoveries	16	-	1	-	7	12	-	$36
Balance, end of period	$2,279	$ 1,767	$ 856	$ 375	$ 1,134	$ 427	$ 171	$7,009

Nine months ended September 30, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of period	$1,377	$ 1,687	$ 856	$ 206	$ 1,168	$ 337	$ 111	$5,742
Provision charged to expense	847	151	2	169	40	231	60	$1,500
Losses charged off	-	(71)	(11)	-	(85)	(169)	-	$(336)
Recoveries	55	-	9	-	11	28	-	$103
Balance, end of period	$2,279	$ 1,767	$ 856	$ 375	$ 1,134	$ 427	$ 171	$7,009

Three months ended September 30, 2016	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of period	$1,668	$ 1,613	$ 862	$ 157	$ 1,366	$ 288	$ 227	$6,181
Provision charged to expense	282	86	6	6	(40)	33	(173)	$200
Losses charged off	-	-	-	-	(11)	(58)	-	$(69)
Recoveries	46	-	17	-	8	14	-	$85
Balance, end of period	$1,996	$ 1,699	$ 885	$ 163	$ 1,323	$ 277	$ 54	$6,397

Nine months ended September 30, 2016	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of period	$1,246	$ 1,526	$ 821	$ 177	$ 1,382	$ 223	$ 437	$5,812
Provision charged to expense	922	141	80	(14)	102	102	(383)	$950
Losses charged off	(252)	-	(47)	-	(170)	(132)	-	$(601)
Recoveries	80	32	31	-	9	84	-	$236
Balance, end of period	$1,996	$ 1,699	$ 885	$ 163	$ 1,323	$ 277	$ 54	$6,397

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2017 and December 31, 2016:

As of September 30, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	$830	$ -	$56	$ -	$ 310	$ 130	$ -	$1,326
Ending balance: collectively evaluated for impairment	$1,449	$ 1,767	$800	$ 375	$ 824	$ 297	$ 171	$5,683

Loans:								
Ending balance: individually evaluated for impairment	$5,310	$ 161	$2,274	$ -	$ 931	$ 187	$ -	$8,863
Ending balance: collectively evaluated for impairment	$56,737	$ 266,131	$105,477	$ 74,653	$ 89,256	$ 23,475	$ -	$615,729

December 31, 2016	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	$302	$ -	$14	$ -	$ 241	$45	$ -	$602
Ending balance: collectively evaluated for impairment	$1,075	$ 1,687	$842	$ 206	$ 927	$292	$ 111	$5,140
Loans:								
Ending balance: individually evaluated for impairment	$5,447	$ 161	$2,060	$ -	$ 925	$ 106	$ -	$8,699
Ending balance: collectively evaluated for impairment	$35,465	$ 249,420	$104,351	$ 48,483	$ 74,480	$ 23,500	$ -	$535,699

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

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

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

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

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

The following table summarizes the recorded investment in impaired loans at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
	(In Thousands)					
Loans without a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	$1,815	$ 1,815	$ -	$2,006	$ 2,006	$ -
Multi-family	-	-	-	-	-	-
Real estate - construction	2,937	2,937	-	3,017	3,017	-
Real estate - commercial	161	161	-	161	161	-
Commercial loans	500	500	-	622	622	-
Consumer and other loans	4	4	-	3	3	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	$459	$ 459	$ 56	$54	$ 54	$ 14
Multi-family	-	-	-	-	-	-
Real estate - construction	2,373	3,606	830	2,430	3,663	302
Real estate - commercial	-	72	-	-	-	-
Commercial loans	431	932	310	303	755	241
Consumer and other loans	183	183	130	103	103	45
Total						
Real estate - residential mortgage:						
One to four family units	$2,274	$ 2,274	56	$2,060	$ 2,060	$ 14
Multi-family	-	-	-	-	-	-
Real estate - construction	5,310	6,543	830	5,447	6,680	302
Real estate - commercial	161	233	-	161	161	-
Commercial loans	931	1,432	310	925	1,377	241
Consumer and other loans	187	187	130	106	106	45
Total	$8,863	$ 10,669	$ 1,326	$8,699	$ 10,384	$ 602

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30, 2017		For the Three Months Ended September 30, 2016	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$1,946	$ -	$2,153	$ -
Multi-family	-	-	-	-
Real estate - construction	2,937	-	5,597	-
Real estate - commercial	161	-	244	-
Commercial loans	504	-	657	-
Consumer and other loans	2	-	185	-
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$183	$ -	$28	$ -
Multi-family	-	-	-	-
Real estate - construction	2,373	-	2,051	-
Real estate - commercial	-	-	278	-
Commercial loans	431	-	375	-
Consumer and other loans	123	-	110	-
Total				
Real estate - residential mortgage:				
One to four family units	$2,129	$ -	$2,181	$ -
Multi-family	-	-	-	-
Real estate - construction	5,310	-	7,648	-
Real estate - commercial	161	-	522	-
Commercial loans	935	-	1,032	-
Consumer and other loans	125	-	295	-
Total	$8,660	$ -	$11,678	$ -

	For the Nine Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$1,886	$ -	$2,200	$ -
Multi-family	-	-	-	-
Real estate - construction	2,964	-	5,661	-
Real estate - commercial	360	-	657	-
Commercial loans	557	-	960	-
Consumer and other loans	8	-	114	1
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$90	$ -	$23	$ -
Multi-family	-	-	-	-
Real estate - construction	2,395	-	2,222	-
Real estate - commercial	-	-	93	-
Commercial loans	481	-	489	-
Consumer and other loans	94	-	105	-
Total				
Real estate - residential mortgage:				
One to four family units	$1,976	$ -	$2,223	$ -
Multi-family	-	-	-	-
Real estate - construction	5,359	-	7,883	-
Real estate - commercial	360	-	750	-
Commercial loans	1,038	-	1,449	-
Consumer and other loans	102	-	219	1
Total	$8,835	$ -	$12,524	$ 1

At September 30, 2017, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDR"). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

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

The following table summarizes, by class, loans that were newly classified as TDRs for the three months ended September 30, 2017:

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	$ -	$ -
Multi-family	-	-	-
Real estate - construction	-	-	-
Real estate - commercial	-	-	-
Commercial loans	-	-	-
Consumer and other loans	1	119,459	119,459
Total	1	$ 119,459	$ 119,459

The following table summarizes, by type of concession, loans that were newly classified as TDRs for the three months ended September 30, 2017:

	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units	$ -	$ -	$ -	$ -
Multi-family	-	-	-	-
Real estate - construction	-	-	-	-
Real estate - commercial	-	-	-	-
Commercial loans	-	-	-	-
Consumer and other loans	-	119,459	-	119,459
Total	$ -	$ 119,459	$ -	$ 119,459

The following table presents the carrying balance of TDRs as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Real estate - residential mortgage:		
One to four family units	$ 1,313,598	$ 1,564,468
Multi-family	-	-
Real estate - construction	5,309,728	5,446,895

Real estate - commercial	5,701,518	5,736,849
Commercial loans	246,150	401,403
Consumer and other loans	119,717	-
Total	$12,690,711	$13,149,615

The Bank has allocated $947,843 and $329,734 of specific reserves to customers whose loan terms have been modified in TDR as of September 30, 2017 and December 31, 2016, respectively.

There were no TDRs for which there was a payment default within twelve months following the modification during the three and nine months ending September 30, 2017 and 2016. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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

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

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

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

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

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

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

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

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

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

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

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of September 30, 2017 and December 31, 2016:

September 30, 2017	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	$56,737	$ 259,020	$97,921	$ 73,870	$ 88,441	$ 23,475	$599,464
Special Mention	-	5,615	6,190	783	200	-	12,788
Substandard	5,310	1,657	3,640	-	862	187	11,656
Doubtful	-	-	-	-	684	-	684
Total	$62,047	$ 266,292	$107,751	$ 74,653	$ 90,187	$ 23,662	$624,592

December 31, 2016	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	$35,465	$ 242,200	$100,367	$ 48,483	$ 69,093	$ 23,380	$518,988
Special Mention	-	5,922	2,591	-	4,503	-	13,016
Substandard	5,447	1,459	3,453	-	1,225	226	11,810
Doubtful	-	-	-	-	584	-	584
Total	$40,912	$ 249,581	$106,411	$ 48,483	$ 75,405	$ 23,606	$544,398

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

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

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

Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's 2016 Annual Report.

The following tables below summarize transactions under the Company's equity plans for the nine months ended September 30, 2017:

Stock Options

	Number of shares Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2017	60,000	52,500	$ 20.15
Granted	-	-	-
Exercised	-	-	-
Forfeited	(11,000)	(25,000)	29.48
Balance outstanding as of September 30, 2017	49,000	27,500	$ 15.75
Options exercisable as of September 30, 2017	49,000	27,500	$ 15.75

The total intrinsic value of stock options exercised for the nine months ended September 30, 2017 and 2016 was $0 and $169,103, respectively. The total intrinsic value of outstanding stock options (including exercisable) was $669,800 and $438,800 at September 30, 2017 and 2016, respectively.