

GUARANTY FEDERAL BANCSHARES INC  
Form 10-Q  
November 09, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2018

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

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**Guaranty Federal Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**43-1792717**

(IRS Employer Identification No.)

**2144 E Republic Rd, Suite F200**

**Springfield, Missouri**

(Address of principal executive offices)

**65804**

(Zip Code)

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

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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [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.

<u>Class</u>	<u>Outstanding as of November 1, 2018</u>
Common Stock, Par Value \$0.10 per share	4,451,723 Shares

**GUARANTY FEDERAL BANCSHARES, INC.**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**GUARANTY  
FEDERAL  
BANCSHARES,  
INC.  
CONDENSED  
CONSOLIDATED  
BALANCE  
SHEETS  
SEPTEMBER 30,  
2018  
(UNAUDITED)  
AND DECEMBER  
31, 2017**

	<b>9/30/18</b>	<b>12/31/17</b>
<b>ASSETS</b>		
Cash and due from banks	\$5,222,458	\$4,094,694
Interest-bearing deposits in other financial institutions	25,989,332	33,312,236
Cash and cash equivalents	31,211,790	37,406,930
Available-for-sale securities	85,605,143	81,478,673
Held-to-maturity securities	12,722	16,457
Stock in Federal Home Loan Bank, at cost	5,043,200	4,597,500
Mortgage loans held for sale	961,654	1,921,819
Loans receivable, net of allowance for loan losses of September 30, 2018 - \$7,731,707 - December 31, 2017 - \$7,107,418	780,316,319	629,605,009
Accrued interest receivable	3,403,810	2,449,847
Prepaid expenses and other assets	7,518,208	3,846,686
Goodwill	2,615,352	-
Core deposit intangible	3,205,714	-
Foreclosed assets held for sale	1,133,160	282,785
Premises and equipment, net	22,158,095	10,607,094
Bank owned life insurance	20,083,039	19,740,623
Deferred and income taxes receivable	3,112,541	2,506,097
	<b>\$966,380,747</b>	<b>\$794,459,520</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES**

Deposits	\$760,729,322	\$607,364,350
Federal Home Loan Bank advances	96,700,000	94,300,000
Note payable to bank	5,000,000	-
Subordinated debentures	21,782,794	15,465,000
Advances from borrowers for taxes and insurance	730,438	180,269
Accrued expenses and other liabilities	2,032,290	1,962,865
Accrued interest payable	791,216	295,543
	887,766,060	719,568,027

**COMMITMENTS AND CONTINGENCIES**

- -

**STOCKHOLDERS' EQUITY**

Capital Stock:		
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued September 30, 2018 and December 31, 2017 - 6,895,503 and 6,878,503 shares; respectively	689,550	687,850
Additional paid-in capital	51,266,714	50,856,069
Retained earnings, substantially restricted	64,025,061	60,679,308
Accumulated other comprehensive loss	(391,610 )	(206,193 )
	115,589,715	112,017,034
Treasury stock, at cost; September 30, 2018 and December 31, 2017 - 2,443,780 and 2,453,728 shares, respectively	(36,975,028 )	(37,125,541 )
	78,614,687	74,891,493
	\$966,380,747	\$794,459,520

See Notes to Condensed Consolidated Financial Statements

**GUARANTY  
FEDERAL  
BANCSHARES,  
INC.  
CONDENSED  
CONSOLIDATED  
STATEMENTS  
OF INCOME  
THREE MONTHS  
AND NINE  
MONTHS ENDED  
SEPTEMBER 30,  
2018 AND 2017  
(UNAUDITED)**

	Three months ended		Nine months ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
<b>Interest Income</b>				
Loans	\$ 12,773,881	\$ 7,052,544	\$ 29,971,163	\$ 20,042,667
Investment securities	523,736	431,560	1,466,036	1,361,069
Other	80,258	41,083	276,117	134,361
	13,377,875	7,525,187	31,713,316	21,538,097
<b>Interest Expense</b>				
Deposits	1,825,559	893,197	4,967,743	2,261,752
FHLB advances	481,968	419,918	1,221,312	1,269,543
Subordinated debentures	282,393	160,075	728,954	467,665
Other	58,949	-	62,782	-
	2,648,869	1,473,190	6,980,791	3,998,960
<b>Net Interest Income</b>	10,729,006	6,051,997	24,732,525	17,539,137
<b>Provision for Loan Losses</b>	200,000	450,000	925,000	1,500,000
<b>Net Interest Income After Provision for Loan Losses</b>	10,529,006	5,601,997	23,807,525	16,039,137
<b>Noninterest Income</b>				
Service charges	475,484	311,070	1,344,661	869,102
Net gain (loss) on sale of investment securities	(885 )	11,199	(8,090 )	73,473
Gain on sale of mortgage loans held for sale	595,384	618,732	1,591,869	1,550,880
Gain on sale of Small Business Administration loans	263,755	228,895	659,996	484,240
Net gain (loss) on foreclosed assets	(459,308 )	47,787	(338,496 )	56,051
Other income	587,328	353,186	1,484,669	1,133,548
	1,461,758	1,570,869	4,734,609	4,167,294
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,887,582	3,052,417	11,162,747	8,844,836
Occupancy	1,112,702	591,961	2,920,774	1,563,344
FDIC deposit insurance premiums	101,762	63,522	296,897	176,011
Impairment on investment tax credits	-	146,857	-	146,857
Data processing	328,692	268,508	1,095,584	730,260
Advertising	131,250	131,250	397,150	393,750

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Merger costs	150,877	-	3,570,927	-
Other expense	952,984	757,317	2,920,262	2,144,310
	6,665,849	5,011,832	22,364,341	13,999,368
<b>Income Before Income Taxes</b>	5,324,915	2,161,034	6,177,793	6,207,063
<b>Provision for Income Taxes</b>	1,390,673	443,651	1,230,790	1,467,866
<b>Net Income Available to Common Shareholders</b>	\$3,934,242	\$1,717,383	\$4,947,003	\$4,739,197
<b>Basic Income Per Common Share</b>	\$0.89	\$0.39	\$1.12	\$1.08
<b>Diluted Income Per Common Share</b>	\$0.88	\$0.39	\$1.10	\$1.07

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,  
2018 AND 2017  
(UNAUDITED)**

	Three months ended		Nine months ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
<b>NET INCOME</b>	\$3,934,242	\$1,717,383	\$4,947,003	\$4,739,197
<b>OTHER ITEMS OF COMPREHENSIVE INCOME:</b>				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(766,021 )	(39,661 )	(2,455,951)	1,408,504
Change in unrealized gain (loss) on interest rate swaps, before income taxes	430,248	(76,222 )	2,198,977	151,420
Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes	885	(11,199 )	8,090	(73,473 )
Total other items of comprehensive income (loss)	(334,888 )	(127,082 )	(248,884 )	1,486,451
Income tax expense related to other items of comprehensive income (loss)	(85,397 )	(47,022 )	(63,467 )	549,986
Other comprehensive income (loss)	(249,491 )	(80,060 )	(185,417 )	936,465
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$3,684,751</b>	<b>\$1,637,323</b>	<b>\$4,761,586</b>	<b>\$5,675,662</b>

See Notes to Condensed Consolidated Financial Statements

**GUARANTY  
FEDERAL  
BANCSHARES,  
INC.  
CONDENSED  
CONSOLIDATED  
STATEMENT OF  
STOCKHOLDERS'  
EQUITY  
NINE MONTHS  
ENDED  
SEPTEMBER 30,  
2018 (UNAUDITED)**

	Common Stock	Additional Paid- In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance, January 1, 2018</b>	\$687,850	\$50,856,069	\$(37,125,541)	\$60,679,308	\$ (206,193 )	\$74,891,493
Net income	-	-	-	4,947,003	-	4,947,003
Other comprehensive income (loss)	-	-	-	-	(185,417 )	(185,417 )
Dividends on common stock (\$0.36 per share)	-	-	-	(1,601,250 )	-	(1,601,250 )
Stock award plans	-	125,878	150,513	-	-	276,391
Stock options exercised	1,700	284,767	-	-	-	286,467
<b>Balance, September 30, 2018</b>	\$689,550	\$51,266,714	\$(36,975,028)	\$64,025,061	\$ (391,610 )	\$78,614,687

See Notes to Condensed Consolidated Financial Statements

**GUARANTY  
FEDERAL  
BANCSHARES,  
INC.  
CONDENSED  
CONSOLIDATED  
STATEMENTS  
OF CASH FLOWS  
NINE MONTHS  
ENDED  
SEPTEMBER 30,  
2018 AND 2017  
(UNAUDITED)**

	<b>9/30/2018</b>	<b>9/30/2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$4,947,003	\$4,739,197
Items not requiring (providing) cash:		
Deferred income taxes	706,286	(603,683 )
Depreciation	1,096,490	791,473
Provision for loan losses	925,000	1,500,000
Gain on sale of mortgage loans held for sale and investment securities	(1,583,779 )	(1,624,353 )
Gain (loss) on sale of foreclosed assets	308,811	(119,157 )
Gain on sale of Small Business Administration Loans	(659,996 )	(484,240 )
Amortization of deferred income, premiums and discounts	453,575	728,144
Amortization of intangible assets	314,286	-
Accretion of purchase accounting adjustments	(3,282,074 )	-
Stock award plan expense	276,391	330,985
Origination of loans held for sale	(52,789,116 )	(52,757,873 )
Proceeds from sale of loans held for sale	55,341,150	53,975,866
Increase in cash surrender value of bank owned life insurance	(342,416 )	(350,826 )
Changes in:		
Accrued interest receivable	(953,963 )	(217,215 )
Prepaid expenses and other assets	6,203,190	44,393
Accounts payable and accrued expenses	(1,441,136 )	529,150
Income taxes receivable	(8,972 )	232,186
Net cash provided by operating activities	9,510,730	6,714,047
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds on sale of loans	9,489,176	24,919,859
Net change in loans	(13,591,488 )	(105,083,322)
Principal payments on available-for-sale securities	12,202,207	5,153,878
Principal payments on held-to-maturity securities	3,735	9,104
Purchase of premises and equipment	(2,581,491 )	(1,633,608 )
Net cash received for acquisition	2,455,964	-
Purchase of available-for-sale securities	(25,151,079 )	(13,350,996 )
Proceeds from sale of available-for-sale securities	13,602,508	18,388,216

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Redemption (purchase) of Federal Home Loan Bank stock	(445,700 )	473,500
Purchase of tax credit investments	(3,617,366 )	(1,214,781 )
Proceeds from sale of foreclosed assets held for sale	187,468	2,433,660
Net cash used in investing activities	(7,446,066 )	(69,904,490 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid on common stock	(1,598,016 )	(1,325,308 )
Net increase in demand deposits, NOW accounts and savings accounts	69,132,414	50,768,740
Net increase (decrease) in certificates of deposit	(76,871,838 )	27,957,127
Proceeds from Federal Home Loan Bank advances	470,835,000	333,700,000
Repayments of Federal Home Loan Bank and Federal Reserve advances	(470,435,000)	(346,600,000)
Proceeds from issuance of notes payable	5,000,000	-
Repayment of notes payable	(3,000,000 )	-
Net decrease of securities sold under agreements to repurchase	(2,159,000 )	-
Advances from borrowers for taxes and insurance	550,169	322,627
Stock options exercised	286,467	-
Net cash provided by (used in) financing activities	(8,259,804 )	64,823,186
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(6,195,140 )</b>	<b>1,632,743</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>37,406,930</b>	<b>9,088,441</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$31,211,790</b>	<b>\$10,721,184</b>

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 GAAP 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, 2017 ("2017 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, 2017, 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 GAAP 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: Acquisition**

On April 2, 2018, the Company completed the acquisition of Carthage, Missouri-based Hometown Bancshares, Inc. ("Hometown"), including its wholly owned bank subsidiary, Hometown Bank, National Association. Under the terms of

the Agreement and Plan of Merger, each share of Hometown common stock was exchanged for \$20.00 in cash and the transaction was valued at approximately \$4.6 million. Hometown's subsidiary bank, Hometown Bank, National Association, was merged into Guaranty Bank on June 8, 2018.

Including the effects of the acquisition method accounting adjustments, the Company acquired approximately \$178.8 million in assets, including approximately \$143.9 million in loans (inclusive of loan discounts) and approximately \$161.2 million in deposits. Goodwill of \$2.6 million was recorded as a result of the transaction. The merger strengthened the Company's position in Southwest Missouri and the Company will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

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

**Guaranty Federal Bancshares, Inc.**

**Net Assets Acquired from Hometown**

**April 2, 2018**

(In Thousands)

	<b>Acquired from Hometown</b>	<b>Fair Value Adjustments</b>	<b>Fair Value</b>
<b>Assets Acquired</b>			
Cash and Due From Banks	\$ 7,083	\$ -	\$7,083
Investment Securities	7,521	-	7,521
Loans	150,390	(6,471 )	143,919
Allowance for Loan Losses	(2,348 )	2,348	-
Net Loans	148,042	(4,123 )	143,919
Fixed Assets	9,268	798	10,066
Foreclosed Assets held for sale	1,647	(400 )	1,247
Core Deposit Intangible	-	3,520	3,520
Other Assets	4,146	1,283	5,429
<b>Total Assets Acquired</b>	<b>\$ 177,707</b>	<b>\$ 1,078</b>	<b>\$178,785</b>
<b>Liabilities Assumed</b>			
Deposits	161,001	247	161,248
Federal Home Loan Bank advances	2,000	-	2,000
Securities Sold Under Agreements to Repurchase	2,159	-	2,159
Other borrowings	3,000	-	3,000
Subordinated debentures	6,186	176	6,362
Other Liabilities	2,003	-	2,003
<b>Total Liabilities Assumed</b>	<b>176,349</b>	<b>\$ 423</b>	<b>176,772</b>
<b>Stockholders' Equity</b>			
Common Stock	231	(231 )	-
Capital Surplus	18,936	(18,936 )	-
Retained Earnings	(17,587 )	17,587	-
Accumulated Other Comprehensive Loss	(222 )	222	-
Treasury Stock	-	-	-

<b>Total Stockholders' Equity Assumed</b>	1,358	\$ (1,358	) -
<b>Total Liabilities and Stockholders' Equity Assumed</b>	\$ 177,707	\$ (935	) \$176,772
<b>Net Assets Acquired</b>			\$2,013
<b>Purchase Price</b>			4,628
<b>Goodwill</b>			<b>\$2,615</b>



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

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

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

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

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

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

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

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

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

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

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

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

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

**Pro Forma Financial Information**

The results of operations of Hometown have been included in the Company's consolidated financial statements since the acquisition date. The following schedule includes pro forma results (unaudited) for the three and nine months ended September 30, 2018 and 2017, as if the Hometown acquisition occurred as of the beginning of the reporting periods presented.

	<b>Three months ended September 30, 2018    2017</b>	
	<i>(In Thousands, Except Per Share Data)</i>	
<b>Summary of Operations</b>		
Net interest income	\$10,729	\$7,597
Provision for loan losses	200	437
Net interest income after provision for loan losses	10,529	7,160
Non interest income	1,462	1,753
Non interest expense	6,666	6,898
Income before income taxes	5,325	2,015
Provision for income taxes	1,391	680
Net income	\$3,934	\$1,335
Basic income per common share	\$0.89	\$0.31
Diluted income per common share	\$0.88	\$0.30

	<b>Nine months ended September 30, 2018    2017</b>	
	<i>(In Thousands, Except Per Share Data)</i>	
<b>Summary of Operations</b>		
Net interest income	\$26,445	\$22,792
Provision for loan losses	925	1,313
Net interest income after provision for loan losses	25,520	21,479
Non interest income	5,036	5,258
Non interest expense	24,391	20,693
Income before income taxes	6,165	6,044
Provision for income taxes	1,260	2,040
Net income	\$4,905	\$4,004
Basic income per common share	\$1.12	\$0.92

Diluted income per common share	\$1.10	\$0.90
---------------------------------	--------	--------

The pro forma information is presented for information purposes only and not indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results. The pro forma information includes net losses from Hometown of approximately (\$163,000) and (\$313,000) for the three and nine months ended September 30, 2017, respectively.

**Note 4: 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
<b>As of September 30, 2018</b>				
Debt Securities:				
Municipals	\$34,569,371	\$ 2,046	\$(1,231,864)	\$33,339,553
Corporates	3,000,000	-	(17,024 )	2,982,976
Government sponsored mortgage-backed securities and SBA loan pools	51,197,672	22,354	(1,937,412)	49,282,614
	\$88,767,043	\$ 24,400	\$(3,186,300)	\$85,605,143

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2017</b>				
Debt Securities:				
Municipals	\$33,908,207	\$ 253,872	\$(263,621 )	\$33,898,458
Corporates	3,000,000	65,000	-	3,065,000
Government sponsored mortgage-backed securities and SBA loan pools	45,414,845	9,283	(908,913 )	44,515,215
	\$82,323,052	\$ 328,155	\$(1,172,534)	\$81,478,673

Maturities of available-for-sale debt securities as of September 30, 2018:

	Amortized Cost	Approximate Fair Value
Less than 1 year	-	-
1-5 years	430,889	428,979

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6-10 years	11,928,256	11,601,504
After 10 years	25,210,226	24,292,046
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	51,197,672	49,282,614
	\$88,767,043	\$85,605,143

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
<b>As of September 30, 2018</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 12,722	\$ 154	\$ (71 )	\$ 12,805

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2017</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 16,457	\$ 327	\$ (55 )	\$ 16,729

Maturities of held-to-maturity securities as of September 30, 2018:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 12,722	\$ 12,805

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$29,466,642 and \$35,774,863 as of September 30, 2018 and December 31, 2017, respectively. The approximate fair value of pledged securities amounted to \$28,493,596 and \$35,355,969 as of September 30, 2018 and December 31, 2017, 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 (losses) of (\$8,090) and \$73,473 as of September 30, 2018 and September 30, 2017, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains (losses) was (\$2,063) and \$27,185 as of September 30, 2018 and September 30, 2017, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued 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, 2018 and December 31, 2017, was \$80,223,968 and \$62,107,660, respectively, which is approximately 94% and 76% 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, 2018 and December 31, 2017.

Description of Securities	September 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporates	\$2,982,976	\$(17,024 )	\$-	\$-	\$2,982,976	\$(17,024 )
Municipals	15,318,000	(360,210 )	16,854,043	(871,654 )	32,172,043	(1,231,864)
Government sponsored mortgage-backed securities and SBA loan pools	13,890,846	(324,934 )	31,178,103	(1,612,549)	45,068,949	(1,937,483)
	\$32,191,822	\$(702,168 )	\$48,032,146	\$(2,484,203)	\$80,223,968	\$(3,186,371)

Description of Securities	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	\$11,024,593	\$(103,747 )	\$8,802,796	\$(159,874 )	\$19,827,389	\$(263,621 )
Government sponsored mortgage-backed securities and SBA loan pools	20,088,694	(253,907 )	22,191,577	(655,006 )	42,280,271	(908,913 )
	\$31,113,287	\$(357,654 )	\$30,994,373	\$(814,880 )	\$62,107,660	\$(1,172,534)

**Note 5: Loans and Allowance for Loan Losses**

Categories of loans at September 30, 2018 and December 31, 2017 include:

	September 30, 2018	December 31, 2017
Real estate - residential mortgage:		
One to four family units	\$ 135,292,752	\$ 106,300,790
Multi-family	93,320,376	85,225,074
Real estate - construction	90,819,134	64,743,582
Real estate - commercial	313,283,043	261,866,285
Commercial loans	122,288,207	94,522,840
Consumer and other loans	33,745,549	24,716,447
Total loans	788,749,061	637,375,018
Less:		
Allowance for loan losses	(7,731,707 )	(7,107,418 )
Deferred loan fees/costs, net	(701,035 )	(662,591 )
Net loans	\$ 780,316,319	\$ 629,605,009

Classes of loans by aging at September 30, 2018 and December 31, 2017 were as follows:

**As of September 30, 2018**

	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
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$68	\$181	\$2,238	\$2,487	\$132,806	\$ 135,293	\$ -
Multi-family	-	5,990	-	5,990	87,330	93,320	-
Real estate - construction	323	-	-	323	90,496	90,819	-
Real estate - commercial	2,667	1,054	698	4,419	308,864	313,283	-
Commercial loans	1,386	73	212	1,671	120,617	122,288	-
Consumer and other loans	909	9	7	925	32,821	33,746	-

Total \$5,353 \$7,307 \$3,155 \$15,815 \$772,934 \$788,749 \$ -

**As of December 31, 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
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$510	\$731	\$2,495	\$3,736	\$102,565	\$106,301	\$ -
Multi-family	775	-	-	775	84,450	85,225	-
Real estate - construction	-	-	-	-	64,744	64,744	-
Real estate - commercial	243	135	-	378	261,488	261,866	-
Commercial loans	276	-	588	864	93,659	94,523	-
Consumer and other loans	8	8	-	16	24,700	24,716	-
Total	\$1,812	\$874	\$3,083	\$5,769	\$631,606	\$637,375	\$ -

At September 30, 2018, there were purchased credit impaired loans of \$2,015,591 30-59 days past due, \$560,683 60-89 days past due and \$387,003 that were greater than 90 days past due.

Nonaccruing loans are summarized as follows:

	September 30, 2018	December 31, 2017
Real estate - residential mortgage:		
One to four family units	\$4,407,862	\$4,423,074
Multi-family	-	-
Real estate - construction	4,179,409	4,452,409
Real estate - commercial	4,212,886	161,491
Commercial loans	1,167,417	802,628
Consumer and other loans	16,561	121,915
Total	\$13,984,135	\$9,961,517

At September 30, 2018, purchased credit impaired loans comprised \$3.0 million of nonaccrual loans.

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, 2018 and 2017:

<b>Three months ended September 30, 2018</b>	Commercial Real Estate		One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	Construction	Estate	family	family				
<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>							
Balance, beginning of period	\$2,484	\$ 1,787	\$ 1,237	\$ 553	\$ 1,085	\$ 367	\$ 60	\$7,573
Provision charged to expense	(219 )	158	96	97	(44 )	65	47	\$200
Losses charged off	-	-	(3 )	-	(14 )	(74 )	-	\$(91 )
Recoveries	36	-	1	-	4	9	-	\$50
Balance, end of period	\$2,301	\$ 1,945	\$ 1,331	\$ 650	\$ 1,031	\$ 367	\$ 107	\$7,732

<b>Nine months ended September 30, 2018</b>	Commercial Real Estate		One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	Construction	Estate	family	family				

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<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>							
Balance, beginning of period	\$2,244	\$ 1,789	\$ 946	\$ 464	\$ 1,031	\$ 454	\$ 179	\$7,107
Provision charged to expense	(13 )	155	386	186	98	185	(72 )	\$925
Losses charged off	-	-	(3 )	-	(110 )	(301		