GUARANTY BANCSHARES INC /TX/
Form 10-Q
November 13, 2017

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

FORM 10-Q

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: 001-38087

GUARANTY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Texas	75-1656431
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
201 South Jefferson Avenue Mount Pleasant, Texas	75455
(Address of principal executive offices)	(Zip code)

(903) 572 - 9881
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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

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 the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for 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

As of November 13, 2017, there were 11,058,956 outstanding shares of the registrant’s common stock, par value $1.00 per share.

GUARANTY BANCSHARES, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GUARANTY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)

	(Unaudited) September 30, 2017	(Audited) December 31, 2016
ASSETS		
Cash and due from banks	$ 33,736	$ 39,605
Federal funds sold	34,250	60,600
Interest-bearing deposits	27,075	27,338
Total cash and cash equivalents	95,061	127,543
Securities available for sale	238,133	156,925
Securities held to maturity	179,081	189,371
Loans held for sale	3,400	2,563
Loans, net	1,294,847	1,233,651
Accrued interest receivable	6,440	7,419
Premises and equipment, net	43,958	44,810
Other real estate owned	1,929	1,692
Cash surrender value of life insurance	18,376	17,804
Deferred tax asset	4,267	4,892
Core deposit intangible, net	2,870	3,308
Goodwill	18,742	18,742
Other assets	16,949	19,616
Total assets	$ 1,924,053	$ 1,828,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 405,678	$ 358,752
Interest-bearing	1,211,624	1,218,039
Total deposits	1,617,302	1,576,791
Securities sold under agreements to repurchase	12,920	10,859
Accrued interest and other liabilities	7,601	6,006
Other debt	—	18,286
Federal Home Loan Bank advances	65,157	55,170
Subordinated debentures	13,810	19,310
Total liabilities	1,716,790	1,686,422
Commitments and contingent liabilities		
KSOP-owned shares	—	31,661

See accompanying notes to consolidated financial statements.

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GUARANTY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)

	(Unaudited) September 30, 2017	(Audited) December 31, 2016
Shareholders' equity		
Preferred stock, $5.00 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, $1.00 par value, 50,000,000 shares authorized, 11,921,298 and 9,616,275 shares issued, 11,058,956 and 8,751,923 shares outstanding, respectively	11,921	9,616
Additional paid-in capital	155,493	101,736
Retained earnings	64,778	57,160
Treasury stock, 862,342 and 864,352 shares at cost	(20,087)	(20,111)
Accumulated other comprehensive loss	(4,842)	(6,487)
	207,263	141,914
Less KSOP-owned shares	—	31,661
Total shareholders' equity	207,263	110,253
Total liabilities and shareholders' equity	$ 1,924,053	$ 1,828,336

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income				
Loans, including fees	$15,486	$14,294	$45,115	$40,857
Securities				
Taxable	1,545	1,038	4,257	4,298
Nontaxable	919	923	2,761	2,308
Federal funds sold and interest-bearing deposits	215	172	960	528
Total interest income	18,165	16,427	53,093	47,991
Interest expense				
Deposits	2,730	2,329	7,761	6,791
FHLB advances and federal funds purchased	157	109	294	277
Subordinated debentures	164	217	559	656
Other borrowed money	12	104	337	452
Total interest expense	3,063	2,759	8,951	8,176
Net interest income	15,102	13,668	44,142	39,815
Provision for loan losses	800	840	2,250	3,240
Net interest income after provision for loan losses	14,302	12,828	41,892	36,575
Noninterest income				
Service charges	986	914	2,801	2,625
Net realized gain on securities transactions	—	64	25	82
Net realized gain on sale of loans	589	486	1,490	1,231
Other income	2,127	1,938	6,184	5,664
Total noninterest income	3,702	3,402	10,500	9,602
Noninterest expense				
Employee compensation and benefits	6,729	6,370	20,156	19,057
Occupancy expenses	1,938	1,720	5,552	5,196
Other expenses	3,499	3,390	10,409	10,087
Total noninterest expense	12,166	11,480	36,117	34,340
Income before income taxes	5,838	4,750	16,275	11,837
Income tax provision	1,699	1,380	4,644	3,290
Net earnings	$4,139	$3,370	$11,631	$8,547
Basic earnings per share	$0.37	$0.38	$1.17	$0.95
Diluted earnings per share	$0.37	$0.38	$1.16	$0.95

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings	$4,139	$3,370	$11,631	$8,547
Other comprehensive income:				
Unrealized (losses) gains on securities				
Unrealized holding (losses) gains arising during the period	(264)	(115)	2,422	3,990
Amortization of net unrealized gains on held to maturity securities	23	48	58	98
Reclassification adjustment for net gains included in net earnings	—	(105)	(25)	(123)
Tax effect	92	—	(839)	(1,083)
Unrealized (losses) gains on securities, net of tax	(149)	(172)	1,616	2,882
Unrealized holding gains (losses) arising during the period on interest rate swaps	35	34	29	(289)
Total other comprehensive (loss) income	(114)	(138)	1,645	2,593
Comprehensive income	$4,025	$3,232	$13,276	$11,140

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(Dollars in thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Less: KSOP-Owned Shares	Total Shareholders' Equity
For the Nine Months Ended September 30, 2016								
Balance at December 31, 2015	$ —	$ 9,616	$ 101,525	$ 49,654	$ (16,486)	$ (6,573)	$ (35,384)	$ 102,352
Net earnings	—	—	—	8,547	—	—	—	8,547
Other comprehensive income	—	—	—	—	—	2,593	—	2,593
Purchase of treasury stock	—	—	—	—	(7,261)	—	(3,000)	(10,261)
Sale of treasury stock	—	—	—	—	8,557	—	—	8,557
Stock based compensation	—	—	162	—	—	—	—	162
Net change in fair value of KSOP shares	—	—	—	—	—	—	(1,539)	(1,539)
Dividends:								
Common - $0.26 per share	—	—	—	(2,328)	—	—	—	(2,328)
Balance at September 30, 2016	$ —	$ 9,616	$ 101,687	$ 55,873	$ (15,190)	$ (3,980)	$ (39,923)	$ 108,083
For the Nine Months Ended September 30, 2017								
Balance at December 31, 2016	$ —	$ 9,616	$ 101,736	$ 57,160	$ (20,111)	$ (6,487)	$ (31,661)	$ 110,253
Net earnings	—	—	—	11,631	—	—	—	11,631
Other comprehensive income	—	—	—	—	—	1,645	—	1,645
Terminated KSOP put option	—	—	—	—	—	—	34,300	34,300
Exercise of stock options	—	5	55	—	24	—	—	84
Sale of common stock	—	2,300	53,455	—	—	—	—	55,755
Stock based compensation	—	—	247	—	—	—	—	247
Net change in fair value of KSOP shares	—	—	—	—	—	—	(2,639)	(2,639)
Dividends:								
Common - $0.39 per share	—	—	—	(4,013)	—	—	—	(4,013)
Balance at September 30, 2017	$ —	$ 11,921	$ 155,493	$ 64,778	$ (20,087)	$ (4,842)	$ —	$ 207,263

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net earnings	$11,631	$8,547
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation	2,385	2,262
Amortization	782	779
Deferred taxes	(214)	(1,228)
Premium amortization, net of discount accretion	3,581	3,528
Net realized gain on securities transactions	(25)	(82)
Gain on sale of loans	(1,490)	(1,231)
Provision for loan losses	2,250	3,240
Origination of loans held for sale	(50,230)	(43,146)
Proceeds from loans held for sale	50,883	45,158
Write-down of other real estate and repossessed assets	9	107
Net loss (gain) on sale of premises, equipment, other real estate owned and other assets	111	(1,214)
Stock based compensation	247	162
Net change in accrued interest receivable and other assets	1,680	(1,633)
Net change in accrued interest payable and other liabilities	1,624	1,342
Net cash provided by operating activities	23,224	16,591
Cash flows from investing activities		
Securities available for sale:		
Purchases	(313,177)	(26,140)
Proceeds from sales	213,813	103,942
Proceeds from maturities and principal repayments	18,925	54,021
Securities held to maturity:		
Purchases	—	(86,642)
Proceeds from sales	923	1,866
Proceeds from maturities and principal repayments	7,497	15,121
Acquisition of Denton branch, net of cash paid	—	2,399
Net purchases of premises and equipment	(1,678)	(634)
Net proceeds from sale of premises, equipment, other real estate owned and other assets	1,830	2,826
Net increase in loans	(64,438)	(168,154)
Net cash used in investing activities	(136,305)	(101,395)
Cash flows from financing activities		
Net change in deposits	40,511	64,536
Net change in securities sold under agreements to repurchase	2,061	(254)
Proceeds from FHLB advances	60,000	120,178
Repayment of FHLB advances	(50,013)	(81,346)
Proceeds from other debt	2,000	10,000
Repayment of other debt	(20,286)	(18,357)
Repayments of debentures	(5,500)	(1,000)

Purchase of treasury stock	—	(7,261)

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2017	2016
Sale of treasury stock	—	8,557
Exercise of stock options	84	—
Sale of common stock	55,755	—
Cash dividends	(4,013)	(2,329)
Net cash provided by financing activities	80,599	92,724
Net change in cash and cash equivalents	(32,482)	7,920
Cash and cash equivalents at beginning of period	127,543	111,379
Cash and cash equivalents at end of period	$95,061	$119,299
Supplemental disclosures of cash flow information		
Interest paid	$8,958	$1,839
Income taxes paid	4,910	4,610
Supplemental schedule of noncash investing and financing activities		
Transfer loans to other real estate owned and repossessed assets	$992	$5,862
Terminated KSOP put option	34,300	—
Net change in fair value of KSOP shares	2,639	1,539

See accompanying notes to consolidated financial statements.

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GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Guaranty Bancshares, Inc. (“Guaranty”) is a bank holding company headquartered in Mount Pleasant, Texas that provides, through its wholly-owned subsidiary, Guaranty Bank & Trust, N.A. (the “Bank”), a broad array of financial products and services to individuals and corporate customers, primarily in its markets of East Texas, Bryan/College Station and the Dallas/Fort Worth metroplex. The terms “the Company,” “we,” “us” and “our” mean Guaranty and its subsidiaries, when appropriate. The Company’s main sources of income are derived from granting loans throughout its markets and investing in securities issued by the U.S. Treasury, U.S. government agencies and state and political subdivisions. The Company’s primary lending products are real estate, commercial and consumer loans. Although the Company has a diversified loan portfolio, a substantial portion of its debtors’ abilities to honor contracts is dependent on the economy of the State of Texas and primarily the economies of East Texas, Bryan/College Station and the Dallas/Fort Worth metroplex. The Company primarily funds its lending activities with deposit operations. The Company’s primary deposit products are checking accounts, money market accounts and certificates of deposit.

Basis of Presentation: The consolidated financial statements in this Quarterly Report on Form 10-Q (this “Report”) include the accounts of Guaranty, the Bank, and their respective other direct and indirect subsidiaries and any other entities in which Guaranty has a controlling interest. The Bank has five wholly-owned non-bank subsidiaries, Guaranty Company, Inc., G B COM, INC., 2800 South Texas Avenue LLC, Pin Oak Realty Holdings, Inc. and Pin Oak Energy Holdings, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices within the financial services industry.
The consolidated financial statements in this Report have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company’s financial position and results of operations. All such adjustments were of a normal and recurring nature.
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company’s consolidated financial statements, and notes thereto, for the year ended December 31, 2016, included in the Guaranty’s Prospectus filed with the SEC under Rule 424(b) on May 9, 2017, relating to its initial public offering. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.
All dollar amounts referenced and discussed in the notes to the consolidated financial statements in this Report are presented in thousands, unless noted otherwise.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

KSOP Repurchase Right: In accordance with applicable provisions of the Internal Revenue Code, the terms of Guaranty’s employee stock ownership plan with 401(k) provisions (“KSOP”), provided that, for so long as Guaranty was a privately-held company without a public market for its common stock, KSOP participants would have the right, for

a specified period of time, to require Guaranty to repurchase shares of its common stock that are distributed to them by the KSOP. This repurchase obligation terminated upon the consummation of Guaranty's initial public offering and listing of its common stock on the NASDAQ Global Select Market in May 2017. However, because Guaranty was privately-held without a public market for its common stock as of and for the year ended December 31, 2016, the shares of common stock held by the KSOP are reflected in the Company's consolidated balance sheet as of December 31, 2016 as a line item called "KSOP-owned shares," appearing between total liabilities and shareholders' equity. As a result, the KSOP-owned shares are deducted from shareholders' equity in the Company's consolidated balance sheet

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as of December 31, 2016. For all periods following Guaranty's initial public offering and continued listing of the Company's common stock on the NASDAQ Global Select Market, the KSOP-owned shares will be included in, and not be deducted from, shareholders' equity. The termination of the repurchase obligation following the listing of Guaranty's common stock on the NASDAQ Global Select Market is also reflected in the statement of changes in shareholders' equity as "terminated KSOP put option."

Recent Accounting Pronouncements:

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU is intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. In addition, the amendments in this ASU provide a detailed framework to assist entities in evaluating whether a set of assets and activities constitutes a business, as well as clarify the definition of the term output so the term is consistent with how outputs are described in Topic 606. ASU 2017-01 is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company does not expect this pronouncement to have a significant impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment changes to be based on the first step in today's two-step impairment test, thus eliminating step two from the goodwill impairment test. In addition, the amendment eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step two of the goodwill impairment test. For pubic companies, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public companies, ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following nine specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned; 6) life insurance policies; 7) distributions received from equity method investees; 8) beneficial interests in securitization transactions; and 9) separately identifiable cash flows and application of the predominance principle. The amendments are effective for public companies for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to be material to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which sets forth a "current expected credit loss" ("CECL") model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. For public companies, the amendments in this update are effective for fiscal

(Continued)

years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has assembled a transition team to assess the adoption of this ASU, and has developed a project plan regarding implementation.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption of this ASU is permitted for all entities. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.
In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, which is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This ASU permits early adoption of the instrument-specific credit risk provision. The Company is in the process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), followed by various amendments: ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in these updates amend existing guidance related to revenue from contracts with customers. The amendments supersede and replace nearly all existing revenue recognition guidance, including industry-specific guidance, establish a new control-based revenue recognition model, change the basis for deciding when revenue is recognized over a time or point in time, provide new and more detailed guidance on specific topics and expand and improve disclosures about revenue. In addition, these amendments specify the accounting for some costs to obtain or fulfill a contract with a customer. The amendments are effective for annual and interim periods beginning after December 15, 2017, and must be retrospectively applied. The majority of the Company's income consists of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of the amendments. The Company continues to

evaluate the impact of the amendments on the components of noninterest income that have recurring revenue streams; however, the Company does not expect any recognition changes to have a significant impact to its consolidated financial statements.

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GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

NOTE 2 - ACQUISITIONS

On August 6, 2016, the Company purchased certain assets and assumed certain liabilities associated with a former branch location of a non-related bank in Denton, Texas (Denton), which resulted in the addition of approximately $4,659 in assets and the assumption of approximately $4,658 in liabilities. The Company acquired the bank premises at 4101 Wind River Lane in Denton and recorded it at fair market value of $2,075. Other assets acquired, at fair value, included cash of $2,399, core deposit intangible of $42, goodwill of $141 and loans of $2. Liabilities assumed included non-interest bearing deposits of $581, interest bearing deposits of $4,047 and other liabilities of $30. As a result of the transaction, the Company paid $66 to the seller, representing the difference in the value of the acquired assets less the value of the liabilities assumed by the Company in the transaction.

Goodwill of $141 arising from the Denton acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies and is expected to be deductible for income taxes purposes.
NOTE 3 - MARKETABLE SECURITIES

The following tables summarize the amortized cost and fair value of securities available for sale and securities held to maturity as of September 30, 2017 and December 31, 2016 and the corresponding amounts of gross unrealized gains and losses:

September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$ 18,842	$ 178	$ —	$ 19,020
Municipal securities	7,769	—	305	7,464
Mortgage-backed securities	91,801	20	863	90,958
Collateralized mortgage obligations	120,580	493	382	120,691
Total available for sale	$ 238,992	$ 691	$ 1,550	$ 238,133
Held to maturity:				
Municipal securities	$ 146,993	$ 2,696	$ 516	$ 149,173
Mortgage-backed securities	23,337	278	66	23,549
Collateralized mortgage obligations	8,751	181	503	8,429
Total held to maturity	$ 179,081	$ 3,155	$ 1,085	$ 181,151

(Continued)

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$ 25,254	$ 6	$ 377	$ 24,883
Municipal securities	7,841	—	622	7,219
Mortgage-backed securities	61,298	—	1,608	59,690
Collateralized mortgage obligations	65,789	10	666	65,133
Total available for sale	$ 160,182	$ 16	$ 3,273	$ 156,925
Held to maturity:				
Municipal securities	$ 149,420	$ 901	$ 3,889	$ 146,432
Mortgage-backed securities	28,450	318	290	28,478
Collateralized mortgage obligations	11,501	265	521	11,245
Total held to maturity	$ 189,371	$ 1,484	$ 4,700	$ 186,155

The Company’s held to maturity mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a carrying value of $1,470, which had unrealized losses of $503 as of September 30, 2017. These non-agency mortgage-backed securities were rated AAA at purchase. The Company monitors these securities to ensure it has adequate credit support, and the Company records other than temporary impairment (OTTI) as appropriate. The Company does not have the intent to sell these securities and does not expect to sell the securities before their anticipated recovery.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company did not record any OTTI losses on any of its securities during the nine months ended September 30, 2017 or for the year ended December 31, 2016.

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Information pertaining to securities with gross unrealized losses as of September 30, 2017 and December 31, 2016 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is detailed in the following tables:

	Less Than 12 Months		12 Months or Longer		Total	
September 30, 2017	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available for sale:						
Corporate bonds	$—	$—	$—	$—	$—	$—
Municipal securities	—	—	(305)	7,464	(305)	7,464
Mortgage-backed securities	(556)	72,802	(307)	13,913	(863)	86,715
Collateralized mortgage obligations	(244)	42,825	(138)	7,522	(382)	50,347
Total available for sale	$(800)	$115,627	$(750)	$28,899	$(1,550)	$144,526
Held to maturity:						
Municipal securities	$(258)	$39,090	$(258)	$13,085	$(516)	$52,175
Mortgage-backed securities	(66)	10,562	—	—	(66)	10,562
Collateralized mortgage obligations	—	—	(503)	2,272	(503)	2,272
Total held to maturity	$(324)	$49,652	$(761)	$15,357	$(1,085)	$65,009

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2016	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available for sale:						
Corporate bonds	$(377)	$22,529	$—	$—	$(377)	$22,529
Municipal securities	(622)	7,219	—	—	(622)	7,219
Mortgage-backed securities	(1,047)	44,420	(561)	15,270	(1,608)	59,690
Collateralized mortgage obligations	(437)	55,435	(229)	9,049	(666)	64,484
Total available for sale	$(2,483)	$129,603	$(790)	$24,319	$(3,273)	$153,922
Held to maturity:						
Municipal securities	$(3,889)	$98,943	$—	$—	$(3,889)	$98,943
Mortgage-backed securities	(290)	19,983	—	—	(290)	19,983
Collateralized mortgage obligations	—	—	(521)	2,350	(521)	2,350
Total held to maturity	$(4,179)	$118,926	$(521)	$2,350	$(4,700)	$121,276

The number of investment positions in an unrealized loss position totaled 104 and 177 at September 30, 2017 and December 31, 2016, respectively. The securities in a loss position were composed of tax-exempt municipal bonds, corporate bonds, collateralized mortgage obligations and mortgage backed securities. Management believes the unrealized loss on the remaining securities is a function of the movement of interest rates since the time of purchase. Based on evaluation of available evidence, including recent changes in interest rates, credit rating information and

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information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment would be reduced and the resulting loss recognized in net income in the period the OTTI is identified. The Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The Company does not consider these securities to be OTTI at September 30, 2017.
Mortgage-backed securities and collateralized mortgage obligations are backed by pools of mortgages that are insured or guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association.

As of September 30, 2017, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with fair values of approximately $221,777 and $259,499 at September 30, 2017 and December 31, 2016, respectively, were pledged to secure public fund deposits and for other purposes as required or permitted by law.

The proceeds from sales of securities and the associated gains and losses are listed below for:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Proceeds	$199,974	$31,969	$214,736	$109,056
Gross gains	—	96	38	243
Gross losses	—	(32)	(13)	(161)

During the nine months ended September 30, 2017 and 2016, the Company sold three held-to-maturity securities each year. The Company sold these municipal securities based upon internal credit analysis, under the belief that they had experienced significant deterioration in creditworthiness. The risk exposure presented by these municipalities had increased beyond acceptable levels, and the Company determined that it was reasonably possible that all amounts due would not be collected. The credit analysis determined that the municipalities had been significantly impacted because their tax bases are heavily reliant on the energy industry relative to other sectors of the economy. Specifically, the revenues of these municipalities have been adversely impacted by the significant decline in energy prices since 2014. The Company believes the sale of these securities were merited and permissible under the applicable accounting guidelines because of the significant deterioration in the creditworthiness of the issuers.

Sale of securities held to maturity were as follows for:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Proceeds from sales	$ —	$ —	$923	$1,866
Amortized cost	—	—	907	1,842
Gross realized gains	—	—	16	24

Tax expense related to securities gains/losses	—	—	(4)	(7)

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The contractual maturities at September 30, 2017 of available for sale and held to maturity securities at carrying value and estimated fair value are shown below. The Company invests in mortgage-backed securities and collateralized mortgage obligations that have expected maturities that differ from their contractual maturities. These differences arise because borrowers and/or issuers may have the right to call or prepay their obligation with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$—	$—	$2,683	$2,693
Due after one year through five years	1,086	1,096	5,126	5,292
Due after five years through ten years	17,756	17,924	43,228	44,785
Due after ten years	7,769	7,464	95,956	96,403
Mortgage-backed securities	91,801	90,958	23,337	23,549
Collateralized mortgage obligations	120,580	120,691	8,751	8,429
Total Securities	$238,992	$238,133	$179,081	$181,151

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the Company's loan portfolio by type of loan as of:

	September 30, 2017	December 31, 2016
Commercial and industrial	$ 192,663	$ 223,997
Real estate:		
Construction and development	201,067	129,366
Commercial real estate	393,314	367,656
Farmland	54,349	62,362
1-4 family residential	365,889	362,952
Multi-family residential	23,235	26,079
Consumer	51,711	53,505
Agricultural	24,449	18,901
Overdrafts	698	317
Total loans	1,307,375	1,245,135
Less:		
Allowance for loan losses	12,528	11,484
Total net loans	$ 1,294,847	$ 1,233,651

As of September 30, 2017 and December 31, 2016, included in total loans above were $1,089 and $1,210 in unamortized loan costs, net of loan fees, respectively.

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The following tables present the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the nine months ended September 30, 2017, for the year ended December 31, 2016 and for the nine months ended September 30, 2016:

For the nine months ended September 30, 2017	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for loan losses:										
Beginning balance	$1,592	$1,161	$3,264	$482	$3,960	$281	$585	$153	$6	$11,484
Provision for loan losses	602	762	1,019	(24)	(585)	(15)	149	258	84	2,250
Loans charged-off	(737)	—	(84)	—	(307)	—	(230)	(4)	(117)	(1,479)
Recoveries	116	—	—	—	21	—	95	—	41	273
Ending balance	$1,573	$1,923	$4,199	$458	$3,089	$266	$599	$407	$14	$12,528
Allowance ending balance:										
Individually evaluated for impairment	$19	$—	$31	$85	$145	$—	$—	$240	$—	$520
Collectively evaluated for impairment	1,554	1,923	4,168	373	2,944	266	599	167	14	12,008
Ending balance	$1,573	$1,923	$4,199	$458	$3,089	$266	$599	$407	$14	$12,528
Loans:										
Individually evaluated for impairment	$354	$—	$4,029	$276	$1,097	$228	$—	$696	$—	$6,680
Collectively evaluated for impairment	192,309	201,067	389,285	54,073	364,792	23,007	51,711	23,753	698	1,300,695
Ending balance	$192,663	$201,067	$393,314	$54,349	$365,889	$23,235	$51,711	$24,449	$698	$1,307,375

For the year ended December 31, 2016	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for loan losses:										
Beginning balance	$1,878	$1,004	$2,106	$400	$2,839	$325	$562	$138	$11	$9,263
Provision for loan losses	910	162	1,158	82	1,117	(44)	171	15	69	3,640
Loans charged-off	(1,213)	(9)	—	—	(71)	—	(269)	—	(200)	(1,762)
Recoveries	17	4	—	—	75	—	121	—	126	343
Ending balance	$1,592	$1,161	$3,264	$482	$3,960	$281	$585	$153	$6	$11,484
Allowance ending balance:										
Individually evaluated for impairment	$64	$—	$—	$47	$108	$—	$34	$—	$—	$253
Collectively evaluated for impairment	1,528	1,161	3,264	435	3,852	281	551	153	6	11,231
Ending balance	$1,592	$1,161	$3,264	$482	$3,960	$281	$585	$153	$6	$11,484
Loans:										
Individually evaluated for impairment	$231	$1,825	$1,196	$258	$2,588	$5	$200	$15	$—	$6,318
Collectively evaluated for impairment	223,766	127,541	366,460	62,104	360,364	26,074	53,305	18,886	317	1,238,817
Ending balance	$223,997	$129,366	$367,656	$62,362	$362,952	$26,079	$53,505	$18,901	$317	$1,245,135

(Continued)

For the nine months ended September 30, 2016	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for loan losses:										
Beginning balance	$1,878	$1,004	$2,106	$400	$2,839	$325	$562	$138	$11	$9,263
Provision for loan losses	949	134	993	74	916	46	74	(10)	64	3,240
Loans charged-off	(1,196)	(9)	—	—	(25)	—	(170)	—	(119)	(1,519)
Recoveries	14	4	—	—	—	—	103	—	61	182
Ending balance	$1,645	$1,133	$3,099	$474	$3,730	$371	$569	$128	$17	$11,166
Allowance ending balance:										
Individually evaluated for impairment	$139	$—	$—	$47	$82	$—	$29	$1	$—	$298
Collectively evaluated for impairment	1,506	1,133	3,099	427	3,648	371	540	127	17	10,868
Ending balance	$1,645	$1,133	$3,099	$474	$3,730	$371	$569	$128	$17	$11,166
Loans:										
Individually evaluated for impairment	$236	$—	$1,464	$259	$2,177	$—	$208	$319	$—	$4,663
Collectively evaluated for impairment	224,381	125,045	359,212	61,643	346,224	34,538	54,137	18,904	594	1,224,678
Ending balance	$224,617	$125,045	$360,676	$61,902	$348,401	$34,538	$54,345	$19,223	$594	$1,229,341

Credit Quality

The Company closely monitors economic conditions and loan performance trends to manage and evaluate the exposure to credit risk. Key factors tracked by the Company and utilized in evaluating the credit quality of the loan portfolio include trends in delinquency ratios, the level of nonperforming assets, borrower's repayment capacity, and collateral coverage.

Assets are graded "pass" when the relationship exhibits acceptable credit risk and indicates repayment ability, tolerable collateral coverage and reasonable performance history. Lending relationships exhibiting potentially significant credit risk and marginal repayment ability and/or asset protection are graded "special mention." Assets classified as "substandard" are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. Substandard graded loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets graded "doubtful" are substandard graded loans that have added characteristics that make collection or liquidation in full improbable. The Company typically measures impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or based on the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent.

The following tables summarize the credit exposure in the Company's consumer and commercial loan portfolios as of:

September 30, 2017	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer and Overdrafts	Agricultural	Total
Grade:									
Pass	$ 188,440	$ 181,879	$ 388,007	$ 53,649	$ 357,814	$ 21,659	$ 51,631	$ 22,525	$ 1,265,604
Special mention	3,705	19,188	1,030	413	3,059	1,348	362	1,147	30,252
Substandard	518	—	4,277	287	5,016	228	416	777	11,519
Total	$ 192,663	$ 201,067	$ 393,314	$ 54,349	$ 365,889	$ 23,235	$ 52,409	$ 24,449	$ 1,307,375

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December 31, 2016	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer and Overdrafts	Agricultural	Total
Grade:									
Pass	$ 218,975	$ 127,537	$ 360,264	$ 61,713	$ 353,483	$ 25,871	$ 52,648	$ 17,965	$ 1,218,456
Special mention	4,299	4	1,927	248	4,311	—	524	478	11,791
Substandard	706	1,825	5,465	401	5,121	208	568	458	14,752
Doubtful	17	—	—	—	37	—	82	—	136
Total	$ 223,997	$ 129,366	$ 367,656	$ 62,362	$ 362,952	$ 26,079	$ 53,822	$ 18,901	$ 1,245,135

The following tables summarize the payment status of loans in the Company's total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming as of:

September 30, 2017	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial and industrial	$ 246	$ 60	$ 30	$ 336	$ 192,327	$ 192,663	$ —
Real estate:							
Construction and development	77	—	—	77	200,990	201,067	—
Commercial real estate	—	38	1,521	1,559	391,755	393,314	—
Farmland	2	—	6	8	54,341	54,349	—
1-4 family residential	2,701	838	1,894	5,433	360,456	365,889	—
Multi-family residential	—	—	228	228	23,007	23,235	—
Consumer	617	201	94	912	50,799	51,711	—
Agricultural	66	—	4	70	24,379	24,449	—
Overdrafts	—	—	—	—	698	698	—
Total	$ 3,709	$ 1,137	$ 3,777	$ 8,623	$ 1,298,752	$ 1,307,375	$ —

December 31, 2016	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial and industrial	$ 941	$ 105	$ 25	$ 1,071	$ 222,926	$ 223,997	$ —
Real estate:							
Construction and development	73	—	1,825	1,898	127,468	129,366	—
Commercial real estate	1,629	32	134	1,795	365,861	367,656	—
Farmland	100	26	7	133	62,229	62,362	—
1-4 family residential	3,724	803	1,041	5,568	357,384	362,952	—
Multi-family residential	207	49	—	256	25,823	26,079	—
Consumer	613	205	87	905	52,600	53,505	—
Agricultural	59	—	15	74	18,827	18,901	—
Overdrafts	—	—	—	—	317	317	—
Total	$ 7,346	$ 1,220	$ 3,134	$ 11,700	$ 1,233,435	$ 1,245,135	$ —

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The following table presents information regarding nonaccrual loans as of:

	September 30, 2017	December 31, 2016
Commercial and industrial	$ 57	$ 82
Real estate:		
Construction and development	—	1,825
Commercial real estate	2,113	415
Farmland	162	176
1-4 family residential	2,716	1,699
Multi-family residential	228	5
Consumer	164	192
Agricultural	315	15
Total	$ 5,755	$ 4,409

Impaired Loans and Troubled Debt Restructurings
A troubled debt restructuring ("TDR") is a restructuring in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with original contractual terms of the loan. Loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance nonperforming loans and TDRs.

The outstanding balances of TDRs are shown below:

	September 30, 2017	December 31, 2016
Nonaccrual TDRs	$ —	$ 43
Performing TDRs	316	462
Total	$ 316	$ 505
Specific reserves on TDRs	$ 19	$ 4

The following tables present loans by class modified as TDRs that occurred during the nine months ended September 30, 2017 and 2016:

Nine Months Ended September 30, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	1	$ 34	$ 15
1-4 family residential	1	11	11
Total	2	$ 45	$ 26

There were no TDRs that have subsequently defaulted through September 30, 2017. The TDRs described above increased the allowance for loan losses by $19 and resulted in no charge-offs during the nine months ended September 30, 2017.

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Nine Months Ended September 30, 2016	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	1	$ 90	$ 90
Commercial real estate	1	796	796
1-4 family residential	2	189	189
Total	4	$ 1,075	$ 1,075

There were no TDRs that subsequently defaulted in 2016. The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the nine months ended September 30, 2016.

The following table presents information about the Company's impaired loans as of:

September 30, 2017	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial and industrial	$ 325	$ 325	$ —	$ 381
Real estate:				
Construction and development	—	—	—	415
Commercial real estate	3,746	3,746	—	4,363
Farmland	120	120	—	106
1-4 family residential	231	231	—	1,288
Multi-family residential	228	228	—	166
Consumer	—	—	—	81
Agricultural	397	397	—	380
Subtotal	5,047	5,047	—	7,180
With allowance recorded:				
Commercial and industrial	29	29	19	411
Real estate:				
Construction and development	—	—	—	10
Commercial real estate	283	283	31	580
Farmland	156	156	85	122
1-4 family residential	866	866	145	867
Multi-family residential	—	—	—	26
Consumer	—	—	—	56
Agricultural	299	299	240	176
Subtotal	1,633	1,633	520	2,248
Total	$ 6,680	$ 6,680	$ 520	$ 9,428

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The following table presents information about the Company's impaired loans as of:

December 31, 2016	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial and industrial	$ 28	$ 28	$ —	$ 809
Real estate:				
Construction and development	1,825	1,825	—	172
Commercial real estate	1,196	1,196	—	871
Farmland	89	89	—	109
1-4 family residential	1,799	1,799	—	1,575
Multi-family residential	5	5	—	2
Consumer	105	105	—	89
Agricultural	15	15	—	68
Subtotal	5,062	5,062	—	3,695
With allowance recorded:				
Commercial and industrial	203	203	64	3,153
Real estate:				
Farmland	169	169	47	169
1-4 family residential	789	789	108	639
Consumer	95	95	34	155
Agricultural	—	—	—	2
Subtotal	1,256	1,256	253	4,118
Total	$ 6,318	$ 6,318	$ 253	$ 7,813

During the nine months ended September 30, 2017 and 2016, total interest income and cash-based interest income recognized on impaired loans was minimal.

NOTE 5 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER DEBT

At September 30, 2017 and December 31, 2016, securities sold under agreements to repurchase totaled $12,920 and $10,859, respectively.

The Company has a $25.0 million revolving line of credit, which had an outstanding balance of $0 at quarter end, bears interest at the prime rate plus 0.50%, with interest payable quarterly, and matures in March 2018.

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NOTE 6 - SUBORDINATED DEBENTURES

Subordinated debentures are made up of the following as of:

	September 30, 2017	December 31, 2016
Trust II Debentures	$ 3,093	$ 3,093
Trust III Debentures	2,062	2,062
DCB Trust I Debentures	5,155	5,155
Other debentures	3,500	9,000
	$ 13,810	$ 19,310

The Company has three trusts, Guaranty (TX) Capital Trust II ("Trust II"), Guaranty (TX) Capital Trust III ("Trust III"), and DCB Financial Trust I ("DCB Trust I") ("Trust II", "Trust III" and together with "DCB Trust I," the "Trusts"). Upon formation, the Trusts issued pass-through securities ("TruPS") with a liquidation value of $1,000 per share to third parties in private placements. Concurrently with the issuance of the TruPS, the Trusts issued common securities to the Company. The Trusts invested the proceeds of the sales of securities to the Company ("Debentures"). The Debentures mature approximately 30 years after the formation date, which may be shortened if certain conditions are met (including the Company having received prior approval of the Federal Reserve and any other required regulatory approvals).

	Trust II	Trust III	DCB Trust I
Formation date	October 30, 2002	July 25, 2006	March 29, 2007
Capital trust pass-through securities			
Number of shares	3,000	2,000	5,000
Original liquidation value	$ 3,000	$ 2,000	$ 5,000
Common securities liquidation value	93	62	155

The securities held by the Trusts qualify as Tier 1 capital for the Company under Federal Reserve Board guidelines. The Federal Reserve's guidelines restrict core capital elements (including trust preferred securities and qualifying perpetual preferred stock) to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Because the Company's aggregate amount of trust preferred securities is less than the limit of 25% of Tier 1 capital, net of goodwill, the full amount is includable in Tier 1 capital at September 30, 2017 and December 31, 2016. Additionally, the terms provide that trust preferred securities would no longer qualify for Tier 1 capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the junior subordinated debentures.

With certain exceptions, the amount of the principal and any accrued and unpaid interest on the Debentures are subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company. Interest on the Debentures is payable quarterly. The interest is deferrable on a cumulative basis for up to five consecutive years following a suspension of dividend payments on all other capital stock. No principal payments are due until maturity for each of the Debentures.

	Trust II Debentures	Trust III Debentures	DCB Trust I Debentures
Original amount	$ 3,093	$ 2,062	$ 5,155
Maturity date	October 30, 2032	October 1, 2036	June 15, 2037
Interest due	Quarterly	Quarterly	Quarterly

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In accordance with ASC 810, "Consolidation," the junior subordinated debentures issued by the Company to the subsidiary trusts are shown as liabilities in the consolidated balance sheets and interest expense associated with the junior subordinated debentures is shown in the consolidated statements of earnings.

Trust II Debentures
Interest is payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 3.35%.

On any interest payment date on or after October 30, 2012 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

Trust III Debentures
Interest was payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 1.67%.

On any interest payment date on or after October 1, 2016 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

DCB Trust I Debentures
Interest is payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 1.80%.

On any interest payment date on or after June 15, 2012 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

Other debentures
In July 2015, the Company issued $4,000 in debentures, of which $3,000 were issued to directors and other related parties. The $3,000 of debentures to related parties were repaid in May 2017 and a $500 par value debenture, which carried a rate of 2.5%, matured and was repaid in July 2017. The remaining $500 debenture has a rate of 4.00% and a maturity date of January 1, 2019. At the Company's option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest.

In December 2015, the Company issued $5,000 in debentures, of which $2,500 were issued to directors and other related parties. In May 2017, $2,000 of the related party debentures were repaid with a portion of the proceeds of Guaranty's initial public offering. The remaining $3,000 of debentures were issued at par value of $500 each with rates ranging from 3.00% to 5.00% and maturity dates from July 1, 2018 to July 1, 2020. At the Company's option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest.

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NOTE 7 - STOCK OPTIONS

The Company’s 2015 Equity Incentive Plan (the “Plan”) which was adopted by the Company and approved by its shareholders in April 2015, amended and restated the Company’s 2014 Stock Option Plan. The maximum number of shares of common stock that may be issued pursuant to stock-based awards under the Plan equals 1,000,000 shares, all of which may be subject to incentive stock option treatment. Option awards are generally granted with an exercise price equal to the market price of the Company’s common stock at the date of grant. Currently outstanding option awards have vesting periods ranging from 5 to 10 years and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company’s common stock and similar peer group averages. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes in to account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on U.S. Treasury yield curve in effect at the time of the grant.

A summary of activity in the Plan during the nine months ended September 30, 2017 and 2016 follows:

Nine Months Ended September 30, 2017	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	340,377	$ 23.43	7.34	$ 194
Granted	150,598	27.64	9.62	657
Exercised	(7,033)	11.94	4.48	141
Forfeited	(6,000)	23.17	7.13	53
Balance, September 30, 2017	477,942	$ 24.93	7.57	$ 3,376
Exercisable at end of period	98,044	$ 23.45	6.17	$ 838

Nine Months Ended September 30, 2016	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	314,391	$ 23.28	8.00	$ 225
Granted	37,500	23.44	9.50	21
Forfeited	(19,000)	23.16	8.15	16
Balance, September 30, 2016	332,891	$ 23.31	7.45	$ 230
Exercisable at end of period	58,491	$ 21.24	6.53	$ 161

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A summary of nonvested activity in the Plan during the nine months ended September 30, 2017 and 2016 follows:

Nine Months Ended September 30, 2017	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	250,700	$ 23.73	7.65	$ 69
Granted	150,598	27.64	9.62	657
Vested	(17,400)	23.13	7.91	154
Forfeited	(4,000)	23.17	7.13	53
Balance, September 30, 2017	379,898	$ 25.31	7.93	$ 2,538

Nine Months Ended September 30, 2016	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	267,200	$ 23.72	8.22	$ 76
Granted	37,500	23.44	9.50	21
Vested	(13,500)	23.00	8.59	14
Forfeited	(16,800)	23.16	8.15	16
Balance, September 30, 2016	274,400	$ 23.75	7.65	$ 69

Information related to the Plan is as follows for the nine months ended:

	September 30, 2017
Intrinsic value of options exercised	$ 141
Cash received from options exercised	84
Tax benefit realized from options exercised	—
Weighted average fair value of options granted	5.40

As of September 30, 2017, there was $1,963 of total unrecognized compensation expense related to unvested stock options granted under the Plan. The expense is expected to be recognized over a weighted-average period of 4.43 years.

The Company granted options under the Plan during the first nine months of 2016 and 2017. Expense of $247 and $162 was recorded during the nine months ended September 30, 2017 and 2016, respectively.

NOTE 8 - EMPLOYEE BENEFITS

KSOP
The Company maintains an Employee Stock Ownership Plan containing Section 401(k) provisions covering substantially all employees (“KSOP”). The plan provides for a matching contribution of up to 5% of a participant’s qualified compensation starting January 1, 2016. As of December 31, 2016, the plan included a repurchase obligation, or “put option”, which is a right to demand that the sponsor repurchase shares of employer stock distributed to the participant under the terms of the plan, for which there was no public market for such shares, of an established cash price. This put option was terminated upon completion of Guaranty’s initial public offering and listing of its common stock on the NASDAQ Global Select Market in May 2017. Guaranty’s total contributions accrued or paid during the nine months ended September 30, 2017 and 2016 totaled $739 and $727, respectively.

Benefits under the KSOP generally are distributed to participants in the form of cash, although participants have the right to receive distributions in the form of shares of common stock.

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As of December 31, 2016, the fair value of shares of common stock, held by the KSOP, was deducted from permanent shareholders' equity in the consolidated balance sheets, and reflected in a line item below liabilities and above shareholders' equity. This presentation was necessary in order to recognize the put option within the KSOP-owned shares, consistent with SEC guidelines, because the Company was not yet publicly traded. The Company used a valuation by an external third party to determine the maximum possible cash obligation related to those securities. Increases or decreases in the value of the cash obligation were included in a separate line item in the statements of changes in shareholders' equity. The fair value of allocated and unallocated shares subject to the repurchase obligation totaled $31,661 as of December 31, 2016.

As of September 30, 2017 and December 31, 2016, the number of shares held by the KSOP were 1,314,277 and 1,319,225, respectively. There were no unallocated shares to plan participants as of September 30, 2017 and there were 50,000 shares unallocated to plan participants as of December 31, 2016. During the nine months ended September 30, 2017 and 2016, the Company did not repurchase any shares from KSOP participants that received distributions of shares from the KSOP which were subject to the put option that applied to the KSOP shares before we were publicly traded. All shares held by the KSOP were treated as outstanding at each of the respective period ends.

Executive Incentive Retirement Plan
The Company established a non-qualified, non-contributory executive incentive retirement plan covering a selected group of key personnel to provide benefits equal to amounts computed under an "award criteria" at various targeted salary levels as adjusted for annual earnings performance of the Company. The plan is non-funded.

In connection with the Executive Incentive Retirement Plan, the Company has purchased life insurance policies on the respective officers. The cash surrender value of life insurance policies held by the Company totaled $18,376 and $17,804 as of September 30, 2017 and December 31, 2016, respectively.

Expense related to these plans totaled $381 and $329 for the nine months ended September 30, 2017 and 2016, respectively, and is included in employee compensation and benefits on the Company's consolidated statements of earnings. The recorded liability totaled approximately $2,361 and $2,002 as of September 30, 2017 and December 31, 2016, respectively and is included in accrued interest and other liabilities on the Company's consolidated balance sheets.

Bonus Plan
The Company has a bonus plan that rewards officers and employees based on performance of individual business units of the Company. Earnings and growth performance goals for each business unit and for the Company as a whole are established at the beginning of the calendar year and approved annually by Guaranty's board of directors. The Bonus Plan provides for a predetermined bonus amount to be contributed to the employee bonus pool based on (i) earnings target and growth for individual business units and (ii) achieving certain pre-tax return on average equity and pre-tax return on average asset levels for the Company as a whole. These bonus amounts are established annually by Guaranty's board of directors. The bonus expense under this plan for the nine months ended September 30, 2017 and 2016 totaled $1,718 and $1,451, respectively and is included in employee compensation and benefits on the consolidated statements of earnings.

NOTE 9 - INCOME TAXES

Income tax expenses were as follows for:

	Nine Months Ended September 30,	
	2017	2016
Income tax expense for the period	$4,644	$3,290
Effective tax rate	28.54 %	27.79 %

The effective tax rates differ from the statutory federal tax rate of 35% largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank owned life insurance.

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NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes certain derivative financial instruments. Stand-alone derivative financial instruments such as interest rate swaps, are used to economically hedge interest rate risk related to the Company's liabilities. These derivative instruments involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company's consolidated balance sheet in other liabilities.

The Company is exposed to credit related losses in the event of nonperformance by the counterparties to those agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail to perform their respective obligations.

The Company entered into interest rate swaps to receive payments at a fixed rate in exchange for paying a floating rate on the debentures discussed in Note 6. Management believes that entering into the interest rate swaps exposed the Company to variability in their fair value due to changes in the level of interest rates. It is the Company's objective to hedge the change in fair value of floating rate debentures at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this liability to other liabilities of the Company. To meet this objective, the Company utilizes interest rate swaps as an asset/liability management strategy to hedge the change in value of the cash flows due to changes in expected interest rate assumptions.

Interest rate swaps with notional amounts totaling $5,000 as of September 30, 2017 and December 31, 2016, were designated as cash flow hedges of the debentures and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income.

Therefore, the aggregate fair value of the swaps is recorded in accrued interest and other liabilities within the Company's consolidated balance sheets with changes in fair value recorded in other comprehensive income. The amount included in accumulated other comprehensive income would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

The information pertaining to outstanding interest rate swap agreements used to hedge floating rate debentures was as follows as of:

September 30, 2017:

Notional Amount	Pay Rate	Receive Rate	Effective Date	Maturity in Years	Unrealized Losses
$2,000	5.979%	3 month LIBOR plus 1.67%	October 1, 2016	8.51	$ 340
$3,000	7.505%	3 month LIBOR plus 3.35%	October 30, 2012	5.08	$ 326

December 31, 2016:

Notional	Pay	Receive	Effective	Maturity	Unrealized

Amount	Rate	Rate	Date	in Years	Losses
$2,000	5.979%	3 month LIBOR plus 1.67%	October 1, 2016	9.25	$ 342
$3,000	7.505%	3 month LIBOR plus 3.35%	October 30, 2012	5.83	$ 353

Interest expense recorded on these swap transactions totaled $559 and $656 during the nine months ended September 30, 2017 and 2016, respectively, and is reported as a component of interest expense on the debentures. At September 30, 2017, the Company expected none of the unrealized loss to be reclassified as a reduction of interest expense during the remainder of 2017.

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NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in its consolidated balance sheets. These transactions are referred to as "off-balance sheet commitments." The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and letters of credit, which involve elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Customers use credit commitments to ensure that funds will be available for working capital purposes, for capital expenditures and to ensure access to funds at specified terms and conditions. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table below. If the commitment were funded, the Company would be entitled to seek recovery from the customer. As of September 30, 2017 and December 31, 2016, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

Commitments and letters of credit outstanding were as follows as of:

	Contract or Notional Amount	
	September 30, 2017	December 31, 2016
Commitments to extend credit	$339,872	$ 297,607
Letters of credit	9,334	8,879

Litigation
The Company is involved in certain claims and lawsuits occurring in the normal course of business. Management, after consultation with legal counsel, does not believe that the outcome of these actions, if determined adversely, would have a material impact on the consolidated financial statements of the Company.

FHLB Letters of Credit
At September 30, 2017, the Company had letters of credit of $52,000 pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

NOTE 12 - REGULATORY MATTERS

The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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A comparison of the Company's and Bank's actual capital amounts and ratios to required capital amounts and ratios are presented in the following tables as of:

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2017						
Total capital to risk-weighted assets:						
Consolidated	$213,905	14.62%	$117,065	8.00%		n/a
Bank	202,722	13.85%	117,078	8.00%	$146,348	10.00%
Tier 1 capital to risk-weighted assets:						
Consolidated	201,377	13.76%	87,799	6.00%		n/a
Bank	190,194	13.00%	87,809	6.00%	117,078	8.00 %
Tier 1 capital to average assets:						
Consolidated	201,377	10.68%	75,457	4.00%		n/a
Bank	190,194	10.08%	75,465	4.00%	94,331	5.00 %
Common equity tier 1 capital to risk-weighted assets:						