GUARANTY BANCSHARES INC /TX/
Form 10-Q
August 11, 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 June 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 August 11, 2017, there were 11,058,956 outstanding shares of the registrant’s common stock, par value $1.00 per share.

GUARANTY BANCSHARES, INC.

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

	(Unaudited) June 30, 2017	(Audited) December 31, 2016
ASSETS		
Cash and due from banks	$ 36,389	$ 39,605
Federal funds sold	17,700	60,600
Interest-bearing deposits	29,217	27,338
Total cash and cash equivalents	83,306	127,543
Securities available for sale	246,233	156,925
Securities held to maturity	182,248	189,371
Loans held for sale	2,435	2,563
Loans, net	1,284,318	1,233,651
Accrued interest receivable	7,631	7,419
Premises and equipment, net	44,491	44,810
Other real estate owned	1,733	1,692
Cash surrender value of life insurance	18,035	17,804
Deferred tax asset	4,121	4,892
Core deposit intangible, net	3,016	3,308
Goodwill	18,742	18,742
Other assets	16,160	19,616
Total assets	$ 1,912,469	$ 1,828,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 387,725	$ 358,752
Interest-bearing	1,258,648	1,218,039
Total deposits	1,646,373	1,576,791
Securities sold under agreements to repurchase	14,153	10,859
Accrued interest and other liabilities	7,921	6,006
Other debt	—	18,286
Federal Home Loan Bank advances	25,161	55,170
Subordinated debentures	14,310	19,310
Total liabilities	1,707,918	1,686,422
Commitments and contingent liabilities		
KSOP-owned shares	—	31,661

See accompanying notes to consolidated financial statements.
4.

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

	(Unaudited) June 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	155,369	101,736
Retained earnings	62,076	57,160
Treasury stock, 862,342 and 864,352 shares at cost	(20,087)	(20,111)
Accumulated other comprehensive loss	(4,728)	(6,487)
	204,551	141,914
Less KSOP-owned shares	—	31,661
Total shareholders' equity	204,551	110,253
Total liabilities and shareholders' equity	$1,912,469	$1,828,336

See accompanying notes to consolidated financial statements.
5.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income				
Loans, including fees	$15,214	$13,649	$29,629	$26,563
Securities				
Taxable	1,401	1,393	2,712	3,260
Nontaxable	920	870	1,842	1,385
Federal funds sold and interest-bearing deposits	257	183	745	356
Total interest income	17,792	16,095	34,928	31,564
Interest expense				
Deposits	2,627	2,276	5,031	4,462
FHLB advances and federal funds purchased	58	104	137	168
Subordinated debentures	188	217	395	439
Other borrowed money	120	154	325	348
Total interest expense	2,993	2,751	5,888	5,417
Net interest income	14,799	13,344	29,040	26,147
Provision for loan losses	800	1,950	1,450	2,400
Net interest income after provision for loan losses	13,999	11,394	27,590	23,747
Noninterest income				
Service charges	938	888	1,815	1,711
Net realized gain (loss) on securities transactions	25	(19)	25	18
Net realized gain on sale of loans	472	519	901	745
Other operating income	2,081	1,921	4,057	3,726
Total noninterest income	3,516	3,309	6,798	6,200
Noninterest expense				
Employee compensation and benefits	6,440	6,237	13,427	12,687
Occupancy expenses	1,866	1,729	3,614	3,476
Other operating expenses	3,600	3,417	6,910	6,697
Total noninterest expense	11,906	11,383	23,951	22,860
Income before income taxes	5,609	3,320	10,437	7,087
Income tax provision	1,633	820	2,945	1,910
Net earnings	$3,976	$2,500	$7,492	$5,177
Basic earnings per share	$0.40	$0.27	$0.80	$0.57
Diluted earnings per share	$0.39	$0.27	$0.79	$0.57

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings	$3,976	$2,500	$7,492	$5,177
Other comprehensive income:				
Unrealized gains on securities				
Unrealized holding gains arising during the period	1,457	1,613	2,686	4,105
Amortization of net unrealized gains on held to maturity securities	17	25	35	50
Reclassification adjustment for net (gains) losses included in net earnings	(25)	19	(25)	(18)
Tax effect	(501)	(224)	(931)	(1,083)
Unrealized gains on securities, net of tax	948	1,433	1,765	3,054
Unrealized holding losses arising during the period on interest rate swaps	(41)	(98)	(6)	(323)
Total other comprehensive income	907	1,335	1,759	2,731
Comprehensive income	$4,883	$3,835	$9,251	$7,908

See accompanying notes to consolidated financial statements.
7.

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 Six Months Ended June 30, 2016								
Balance at December 31, 2015	$ —	$ 9,616	$ 101,525	$ 49,654	$ (16,486)	$ (6,573)	$ (35,384)	$ 102,352
Net earnings	—	—	—	5,177	—	—	—	5,177
Other comprehensive income	—	—	—	—	—	2,731	—	2,731
Purchase of treasury stock	—	—	—	—	(7,261)	—	(3,000)	(10,261)
Sale of treasury stock	—	—	—	—	8,557	—	—	8,557
Stock based compensation	—	—	95	—	—	—	—	95
Net change in fair value of KSOP shares	—	—	—	—	—	—	(1,539)	(1,539)
Dividends:								
Common - $0.26 per share	—	—	—	(2,328)	—	—	—	(2,328)
Balance at June 30, 2016	$ —	$ 9,616	$ 101,620	$ 52,503	$ (15,190)	$ (3,842)	$ (39,923)	$ 104,784
For the Six Months Ended June 30, 2017								
Balance at December 31, 2016	$ —	$ 9,616	$ 101,736	$ 57,160	$ (20,111)	$ (6,487)	$ (31,661)	$ 110,253
Net earnings	—	—	—	7,492	—	—	—	7,492
Other comprehensive income	—	—	—	—	—	1,759	—	1,759
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	—	—	123	—	—	—	—	123
Net change in fair value of KSOP shares	—	—	—	—	—	—	(2,639)	(2,639)
Dividends:								
Common - $0.26 per share	—	—	—	(2,576)	—	—	—	(2,576)
Balance at June 30, 2017	$ —	$ 11,921	$ 155,369	$ 62,076	$ (20,087)	$ (4,728)	$ —	$ 204,551

See accompanying notes to consolidated financial statements.
8.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net earnings	$7,492	$5,177
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation	1,599	1,572
Amortization	524	478
Deferred taxes	(160)	(1,126)
Premium amortization, net of discount accretion	2,357	2,495
Net realized gain on securities transactions	(25)	(18)
Gain on sale of loans	(901)	(745)
Provision for loan losses	1,450	2,400
Origination of loans held for sale	(29,330)	(30,652)
Proceeds from loans held for sale	30,359	32,342
Write-down of other real estate and repossessed assets	1	48
Net loss on sale of premises, equipment, other real estate owned and other assets	84	36
Stock based compensation	123	95
Net change in accrued interest receivable and other assets	2,761	(2,505)
Net change in accrued interest payable and other liabilities	1,909	1,591
Net cash provided by operating activities	18,243	11,188
Cash flows from investing activities		
Securities available for sale:		
Purchases	(113,208)	(26,140)
Proceeds from sales	13,839	75,221
Proceeds from maturities and principal repayments	11,675	46,981
Securities held to maturity:		
Purchases	—	(86,642)
Proceeds from sales	923	1,866
Proceeds from maturities and principal repayments	4,950	10,974
Net purchases of premises and equipment	(1,313)	(1,089)
Net proceeds from sale of premises, equipment, other real estate owned and other assets	394	573
Net increase in loans	(52,584)	(116,841)
Net cash used in investing activities	(135,324)	(95,097)
Cash flows from financing activities		
Net change in deposits	69,582	25,718
Net change in securities sold under agreements to repurchase	3,294	1,854
Proceeds from FHLB advances	—	75,000
Repayment of FHLB advances	(30,009)	(5,810)
Proceeds from other debt	2,000	10,000
Repayment of other debt	(20,286)	(18,000)
Repayments of debentures	(5,000)	(1,000)
Purchase of treasury stock	—	(7,261)

Sale of treasury stock	—	8,557

See accompanying notes to consolidated financial statements.

9.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Six Months Ended June 30,	
	2017	2016
Exercise of stock options	84	—
Sale of common stock	55,755	—
Cash dividends	(2,576)	(2,328)
Net cash provided by financing activities	72,844	86,730
Net change in cash and cash equivalents	(44,237)	2,821
Cash and cash equivalents at beginning of period	127,543	111,379
Cash and cash equivalents at end of period	$83,306	$114,200
Supplemental disclosures of cash flow information		
Interest paid	5,973	5,376
Income taxes paid	2,840	2,210
Supplemental schedule of noncash investing and financing activities		
Transfer loans to other real estate owned and repossessed assets	467	293
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.
10.

Table of Contents
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 we follow 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 Company’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 as of December 31, 2016. For all periods following the Company's initial public offering and continued listing of the

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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. The 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 update 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 is in the process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the 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 the 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 the 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 the 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 years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently

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in the process of assembling a transition team to assess the adoption of this ASU, which will develop 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 application 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 currently evaluating the impact of adopting the new guidance 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 the Company's consolidated financial statements.

(Continued)
13.

Table of Contents
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 June 30, 2017 and December 31, 2016 and the corresponding amounts of gross unrealized gains and losses:

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$ 18,861	$ 180	$ 8	$ 19,033
Municipal securities	7,793	—	300	7,493
Mortgage-backed securities	95,343	24	902	94,465
Collateralized mortgage obligations	124,833	628	219	125,242
Total available for sale	$ 246,830	$ 832	$ 1,429	$ 246,233
Held to maturity:				
Municipal securities	$ 148,021	$ 2,869	$ 530	$ 150,360
Mortgage-backed securities	24,642	320	93	24,869
Collateralized mortgage obligations	9,585	220	507	9,298
Total held to maturity	$ 182,248	$ 3,409	$ 1,130	$ 184,527

(Continued)

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

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 $1,522, which had unrealized losses of $507 as of June 30, 2017. These non-agency mortgage-backed securities were rated AAA at purchase. The Company monitors 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 it is likely that it will not be required 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 other than temporary impairment losses on any of its securities during the six months ended June 30, 2017 or for the year ended December 31, 2016.

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

Information pertaining to securities with gross unrealized losses as of June 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:

June 30, 2017	Less Than 12 Months		12 Months or Longer		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available for sale:						
Corporate bonds	$(8)	$2,981	$—	$—	$(8)	$2,981
Municipal securities	(300)	7,493	—	—	(300)	7,493
Mortgage-backed securities	(569)	75,674	(333)	14,375	(902)	90,049
Collateralized mortgage obligations	(68)	25,407	(151)	8,143	(219)	33,550
Total available for sale	$(945)	$111,555	$(484)	$22,518	$(1,429)	$134,073
Held to maturity:						
Municipal securities	$(406)	$38,442	$(124)	$6,015	$(530)	$44,457
Mortgage-backed securities	(93)	11,154	—	—	(93)	11,154
Collateralized mortgage obligations	—	—	(507)	2,297	(507)	2,297
Total held to maturity	$(499)	$49,596	$(631)	$8,312	$(1,130)	$57,908

December 31, 2016	Less Than 12 Months		12 Months or Longer		Total	
	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 100 and 177 at June 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

(Continued)
16.

(Dollars in thousands, except per share data)

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 other-than-temporary impairment 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 other-than-temporarily impaired at June 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 June 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 $245,600 and $259,499 at June 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Proceeds	$14,762	$53,467	$14,762	$77,087
Gross gains	38	72	38	147
Gross losses	(13)	(91)	(13)	(129)

During the six months ended June 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 by the significant decline in market oil prices due to the fact that their tax bases are heavily reliant on the energy industry relative to other sectors of the economy. Specifically, the revenues of these municipalities had been adversely impacted by the sustained low-level of oil prices. 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Proceeds from sales	$923	$ —	$923	$1,866
Amortized cost	907	—	907	1,842
Gross realized gains	16	—	16	24
Tax expense related to securities gains/losses	(4)	—	(4)	(7)

(Continued)
17.

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

The contractual maturities at June 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	$—	$—	$2,831	$2,838
Due after one year through five years	1,094	1,104	5,553	5,731
Due after five years through ten years	17,767	17,929	40,659	42,175
Due after ten years	7,793	7,493	98,978	99,616
Mortgage-backed securities	95,343	94,465	24,642	24,869
Collateralized mortgage obligations	124,833	125,242	9,585	9,298
	$246,830	$246,233	$182,248	$184,527

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2017	December 31, 2016
Commercial and industrial	$217,497	$ 223,997
Real estate:		
Construction and development	177,600	129,366
Commercial real estate	378,722	367,656
Farmland	63,839	62,362
1-4 family residential	356,457	362,952
Multi-family residential	28,833	26,079
Consumer	51,677	53,505
Agricultural	21,854	18,901
Overdrafts	364	317
Total loans	1,296,843	1,245,135
Less:		
Allowance for loan losses	12,525	11,484
Total net loans	$1,284,318	$ 1,233,651

As of June 30, 2017 and December 31, 2016, included in total loans above were $1,127 and $1,210 in unamortized loan costs, net of loan fees, respectively.

(Continued)
18.

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

The following table presents the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the six months ended June 30, 2017, for the year ended December 31, 2016 and for the six months ended June 30, 2016:

For the six months ended June 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	464	393	284	59	(69)	(12)	66	222	43	1,450
Loans charged-off	(48)	—	(84)	—	(186)	—	(158)	(4)	(70)	(550)
Recoveries	—	—	—	—	21	—	92	—	28	141
Ending balance	$2,008	$1,554	$3,464	$541	$3,726	$269	$585	$371	$7	$12,525
Allowance ending balance:										
Individually evaluated for impairment	$246	$—	$31	$92	$139	$—	$—	$225	$—	$733
Collectively evaluated for impairment	1,762	1,554	3,433	449	3,587	269	585	146	7	11,792
Loans:										
Individually evaluated for impairment	1,174	—	3,751	170	2,726	241	192	789	—	9,043
Collectively evaluated for impairment	216,323	177,600	374,971	63,669	353,731	28,592	51,485	21,065	364	1,287,800
Ending balance	$217,497	$177,600	$378,722	$63,839	$356,457	$28,833	$51,677	$21,854	$364	$1,296,843

For the year ended December 31,	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total

2016										
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
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)

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

For the six months ended June 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	1,201	35	433	112	512	58	17	(7)	39	2,400
Loans charged-off	(11)	—	—	—	(22)	—	(89)	—	(67)	(189)
Recoveries	13	4	—	—	—	—	77	—	38	132
Ending balance	$3,081	$1,043	$2,539	$512	$3,329	$383	$567	$131	$21	$11,606
Allowance ending balance:										
Individually evaluated for impairment	$1,773	$—	$—	$47	$93	$—	$70	$—	$—	$1,983
Collectively evaluated for impairment	1,308	1,043	2,539	465	3,236	383	497	131	21	9,623
Loans:										
Individually evaluated for impairment	8,476	39	1,116	302	2,168	—	200	58	—	12,359
Collectively evaluated for impairment	209,921	108,659	346,316	65,872	332,401	36,860	52,827	19,386	560	1,172,802
Ending balance	$218,397	$108,698	$347,432	$66,174	$334,569	$36,860	$53,027	$19,444	$560	$1,185,161

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 consumer and commercial loan portfolios as of:

June 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	$ 212,162	$ 177,333	$ 373,861	$ 63,035	$ 348,212	$ 28,592	$ 50,917	$ 20,396	$ 1,274,508
Special mention	3,977	267	1,063	543	3,376	—	434	656	10,316
Substandard	1,358	—	3,798	261	4,869	241	690	802	12,019
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 217,497	$ 177,600	$ 378,722	$ 63,839	$ 356,457	$ 28,833	$ 52,041	$ 21,854	$ 1,296,843

(Continued)

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

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:

June 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	$ 168	$ 142	$ 451	$ 761	$ 216,736	$ 217,497	$ —
Real estate:							
Construction and development	135	—	—	135	177,465	177,600	—
Commercial real estate	677	16	—	693	378,029	378,722	—
Farmland	145	122	—	267	63,572	63,839	—
1-4 family residential	3,107	644	1,092	4,843	351,614	356,457	—
Multi-family residential	—	—	192	192	28,641	28,833	—
Consumer	531	139	126	796	50,881	51,677	—
Agricultural	344	—	—	344	21,510	21,854	—
Overdrafts	—	—	—	—	364	364	—
Total	$ 5,107	$ 1,063	$ 1,861	$ 8,031	$ 1,288,812	$ 1,296,843	$ —

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	$ —

(Continued)
21.

(Dollars in thousands, except per share data)

The following table presents information regarding nonaccrual loans as of:

	June 30, 2017	December 31, 2016
Commercial and industrial	$ 480	$ 82
Real estate:		
Construction and development	—	1,825
Commercial real estate	708	415
Farmland	163	176
1-4 family residential	1,839	1,699
Multi-family residential	241	5
Consumer	215	192
Agricultural	312	15
Total	$ 3,958	$ 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 troubled debt restructurings.

The outstanding balances of TDRs are shown below:

	June 30, 2017	December 31, 2016
Nonaccrual TDRs	$ —	$ 43
Performing TDRs	323	462
Total	$ 323	$ 505
Specific reserves on TDRs	$ 21	$ 4

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

Six Months Ended June 30, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	1	$ 34	$ 13
1-4 family residential	1	11	11
Total	2	$ 45	$ 24

There were no TDRs that have subsequently defaulted through June 30, 2017. The TDRs described above increased the allowance for loan losses by $21 and resulted in no charge-offs during the six months ended June 30, 2017.

(Continued)
22.

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

Six Months Ended June 30, 2016	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	1	$ 796	$ 796
Consumer	4	32	24
1-4 family residential	2	189	189
Total	7	$ 1,017	$ 1,009

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 six months ended June 30, 2016.

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

June 30, 2017	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial and industrial	$ 712	$ 712	$ —	$ 345
Real estate:				
Construction and development	—	—	—	608
Commercial real estate	3,468	3,468	—	5,177
Farmland	7	7	—	90
1-4 family residential	1,785	1,785	—	1,566
Multi-family residential	241	241	—	172
Consumer	192	192	—	91
Agricultural	490	490	—	387
Subtotal	6,895	6,895	—	8,436
With allowance recorded:				
Commercial and industrial	462	462	246	533
Real estate:				