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.

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.

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

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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)

(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 $1,470, 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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(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 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	$ —	