GUARANTY BANCSHARES INC /TX/
Form 10-Q
June 20, 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 March 31, 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 June 20, 2017, there were 11,053,933 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) March 31, 2017	(Audited) December 31, 2016	(Unaudited) Pro Forma March 31, 2017
ASSETS			
Cash and due from banks	$ 32,576	$ 39,605	$ 32,576
Federal funds sold	83,175	60,600	83,175
Interest-bearing deposits	28,006	27,338	28,006
Total cash and cash equivalents	143,757	127,543	143,757
Securities available for sale	214,463	156,925	214,463
Securities held to maturity	185,837	189,371	185,837
Loans held for sale	1,446	2,563	1,446
Loans, net	1,241,215	1,233,651	1,241,215
Accrued interest receivable	6,304	7,419	6,304
Premises and equipment, net	44,823	44,810	44,823
Other real estate owned	1,637	1,692	1,637
Cash surrender value of life insurance	17,922	17,804	17,922
Deferred tax asset	4,426	4,892	4,426
Core deposit intangible, net	3,162	3,308	3,162
Goodwill	18,742	18,742	18,742
Other assets	17,465	19,616	17,465
Total assets	$ 1,901,199	$ 1,828,336	$ 1,901,199
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits:			
Noninterest-bearing	$ 370,810	$ 358,752	$ 370,810
Interest-bearing	1,300,361	1,218,039	1,300,361
Total deposits	1,671,171	1,576,791	1,671,171
Securities sold under agreements to repurchase	12,663	10,859	12,663
Accrued interest and other liabilities	7,595	6,006	7,595
Other debt	18,929	18,286	18,929
Federal Home Loan Bank advances	25,165	55,170	25,165
Subordinated debentures	19,310	19,310	19,310
Total liabilities	1,754,833	1,686,422	1,754,833
Commitments and contingent liabilities			
KSOP-owned shares	34,300	31,661	—

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

	(Unaudited) March 31, 2017	(Audited) December 31, 2016	(Unaudited) Pro Forma March 31, 2017
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, 9,616,275 issued, 8,753,933 and 8,751,923 shares outstanding, respectively	9,616	9,616	9,616
Additional paid-in capital	101,796	101,736	101,796
Retained earnings	60,676	57,160	60,676
Treasury stock, 862,342 and 864,352 shares at cost	(20,087)	(20,111)	(20,087)
Accumulated other comprehensive loss	(5,635)	(6,487)	(5,635)
	146,366	141,914	146,366
Less KSOP-owned shares	34,300	31,661	—
Total shareholders' equity	112,066	110,253	146,366
Total liabilities and shareholders' equity	$ 1,901,199	$ 1,828,336	$ 1,901,199

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 March 31,	
	2017	2016
Interest income		
Loans, including fees	$14,415	$12,914
Securities		
Taxable	1,311	1,867
Nontaxable	922	515
Federal funds sold and interest-bearing deposits	488	173
Total interest income	17,136	15,469
Interest expense		
Deposits	2,404	2,186
FHLB advances and federal funds purchased	79	64
Subordinated debentures	207	222
Other borrowed money	205	194
Total interest expense	2,895	2,666
Net interest income	14,241	12,803
Provision for loan losses	650	450
Net interest income after provision for loan losses	13,591	12,353
Noninterest income		
Service charges	877	823
Net realized gain on securities transactions	—	37
Net realized gain on sale of loans	429	226
Other operating income	1,976	1,805
Total noninterest income	3,282	2,891
Noninterest expense		
Employee compensation and benefits	6,987	6,450
Occupancy expenses	1,748	1,747
Other operating expenses	3,310	3,280
Total noninterest expense	12,045	11,477
Income before income taxes	4,828	3,767
Income tax provision	1,312	1,090
Net earnings	$3,516	$2,677
Basic earnings per share	$0.40	$0.30
Diluted earnings per share	$0.40	$0.30

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 March 31,	
	2017	2016
Net earnings	$3,516	$2,677
Other comprehensive income:		
Unrealized gains on securities		
Unrealized holding gains arising during the period	1,229	2,492
Amortization of net unrealized gains on held to maturity securities	18	25
Reclassification adjustment for net gains included in net earnings	—	(37)
Tax effect	(430)	(859)
Unrealized gains on securities, net of tax	817	1,621
Unrealized holding gains (losses) arising during the period on interest rate swaps	35	(225)
Total other comprehensive income	852	1,396
Comprehensive income	$4,368	$4,073

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 Three Months Ended March 31, 2016								
Balance at December 31, 2015	$ —	$ 9,616	$ 101,525	$ 49,654	$ (16,486)	$ (6,573)	$ (35,384)	$ 102,352
Net earnings	—	—	—	2,677	—	—	—	2,677
Other comprehensive income	—	—	—	—	—	1,396	—	1,396
Purchase of treasury stock	—	—	—	—	—	—	(3,000)	(3,000)
Sale of treasury stock	—	—	—	—	8,557	—	—	8,557
Stock based compensation	—	—	39	—	—	—	—	39
Net change in fair value of KSOP shares	—	—	—	—	—	—	(1,538)	(1,538)
Balance at March 31, 2016	—	9,616	101,564	52,331	(7,929)	(5,177)	(39,922)	110,483
For the Three Months Ended March 31, 2017								
Balance at December 31, 2016	—	9,616	101,736	57,160	(20,111)	(6,487)	(31,661)	110,253
Net earnings	—	—	—	3,516	—	—	—	3,516
Other comprehensive income	—	—	—	—	—	852	—	852
Exercise of stock options	—	—	—	—	24	—	—	24
Stock based compensation	—	—	60	—	—	—	—	60
Net change in fair value of KSOP shares	—	—	—	—	—	—	(2,639)	(2,639)
Balance at March 31, 2017	$ —	$ 9,616	$ 101,796	$ 60,676	$ (20,087)	$ (5,635)	$ (34,300)	$ 112,066

See accompanying notes to consolidated financial statements.
8.

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

	For the Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net earnings	$3,516	$2,677
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation	801	777
Amortization	264	241
Deferred taxes	2,402	(496)
Premium amortization, net of discount accretion	1,113	1,172
Net realized gain on securities transactions	—	(37)
Gain on loans held for sale	(429)	(226)
Provision for loan losses	650	450
Origination of loans held for sale	(13,232)	(13,726)
Proceeds from loans held for sale	14,778	12,835
Net loss on sale of premises, equipment, other real estate owned and other assets	27	(8)
Stock based compensation	60	39
Net change in accrued interest receivable and other assets	2,265	(1,286)
Net change in accrued interest payable and other liabilities	21	334
Net cash provided by operating activities	12,236	2,746
Cash flows from investing activities		
Securities available for sale:		
Purchases	(61,965)	(18,252)
Proceeds from sales	—	21,754
Proceeds from maturities and principal repayments	5,203	38,444
Securities held to maturity:		
Purchases	—	(79,649)
Proceeds from sales	—	1,866
Proceeds from maturities and principal repayments	2,892	3,419
Net purchases of premises and equipment	(814)	(474)
Net proceeds from sale of premises, equipment, other real estate owned and other assets	191	353
Net increase in loans	(8,375)	(73,629)
Net cash used in investing activities	(62,868)	(106,168)
Cash flows from financing activities		
Net change in deposits	94,380	56,521
Net change in securities sold under agreements to repurchase	1,804	(2,904)
Proceeds from FHLB advances	—	50,000
Repayment of FHLB advances	(30,005)	(5,051)
Proceeds from other debt	1,000	—
Repayment of other debt	(357)	—

Sale of treasury stock	—	8,557

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 Three Months Ended March 31,	
	2017	2016
Exercise of stock options	24	—
Net cash provided by financing activities	66,846	107,123
Net change in cash and cash equivalents	16,214	3,701
Cash and cash equivalents at beginning of year	127,543	111,379
Cash and cash equivalents at end of period	$143,757	$115,080
Supplemental disclosures of cash flow information		
Interest paid	$2,774	$2,587
Income taxes paid	—	1,300
Supplemental schedule of noncash investing and financing activities		
Transfer loans to other real estate owned and repossessed assets	$161	$185
Net change in fair value of KSOP shares	2,639	1,538

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 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 our 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 our consolidated financial statements, and notes thereto, for the year ended December 31, 2016, included in our Prospectus filed with the SEC under Rule 424(b) on May 9, 2017, relating to our 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.

Unaudited Pro Forma Financial Information - KSOP Repurchase Right: In accordance with applicable provisions of the Internal Revenue Code, the terms of our employee stock ownership plan with 401(k) provisions (“KSOP”), provided that, for so long as we were a privately-held company, KSOP participants would have the right, for a specified period of time, to require us to repurchase shares of our common stock that are distributed to them by the KSOP. This repurchase obligation terminated upon the consummation of our initial public offering and listing of our common stock on the NASDAQ Global Select Market in May 2017. However, because we were privately-held during the periods covered by the Report, the shares of common stock held by the KSOP are reflected in our consolidated balance sheet 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 our consolidated balance sheet for the periods included in this Report. The consolidated balance sheet in this Report

(Continued)

includes a pro forma column, which assumes that the KSOP repurchase obligation has terminated as of the date presented in the Report. For all periods following our initial public offering and continued listing of our common stock on the NASDAQ Global Select Market, the KSOP-owned shares will be included in, and not be deducted from, shareholders' equity.

Subsequent Events: During May 2017, the Company completed an initial public offering issuing 2,300,000 shares of common stock, par value $1.00 per share, at a purchase price of $27.00 per share, representing gross proceeds of $62,100. Net proceeds after underwriting discounts and expenses were approximately $57,600. The Company used a portion of the proceeds to repay in full the outstanding balance on our unsecured line of credit with a correspondent bank of $19,900 and repay $5,000 of the subordinated debentures. In addition, the Company contributed $15,000 of the proceeds to the Bank. The Company has retained the remaining proceeds of the offering for general corporate purposes.

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.

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 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 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.

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

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 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.

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

NOTE 2 - ACQUISITIONS

On close of business 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 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. Consideration paid by the Company for the acquired assets and assumed liabilities of $66 was netted against the cash received.

Goodwill of $141 for Denton arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. Goodwill of $141 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 March 31, 2017 and December 31, 2016 and the corresponding amounts of gross unrealized gains and losses:

March 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$ 25,223	$ 73	$ 123	$ 25,173
Municipal securities	7,817	—	539	7,278
Mortgage-backed securities	80,766	15	1,236	79,545
Collateralized mortgage obligations	102,688	236	457	102,467
Total available for sale	$ 216,494	$ 324	$ 2,355	$ 214,463
Held to maturity:				
Municipal securities	$ 148,520	$ 1,428	$ 2,621	$ 147,327
Mortgage-backed securities	26,900	312	191	27,021
Collateralized mortgage obligations	10,417	249	602	10,064
Total held to maturity	$ 185,837	$ 1,989	$ 3,414	$ 184,412

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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 mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a carrying value of $1,493 which had unrealized losses of $602 at March 31, 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 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. There were no other than temporary impairment losses on debt securities related to credit losses recognized during the three months ended March 31, 2017 or for the year ended December 31, 2016.

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Information pertaining to securities with gross unrealized losses as of March 31, 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	
March 31, 2017	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available for sale:						
Corporate bonds	$(123)	$12,508	$—	$—	$(123)	$12,508
Municipal securities	(539)	7,278	—	—	(539)	7,278
Mortgage-backed securities	(761)	62,344	(475)	14,870	(1,236)	77,214
Collateralized mortgage obligations	(272)	42,026	(185)	8,645	(457)	50,671
Total available for sale	$(1,695)	$124,156	$(660)	$23,515	$(2,355)	$147,671
Held to maturity:						
Municipal securities	$(2,414)	$84,716	$(207)	$5,965	$(2,621)	$90,681
Mortgage-backed securities	(191)	18,024	—	—	(191)	18,024
Collateralized mortgage obligations	—	—	(602)	2,237	(602)	2,237
Total held to maturity	$(2,605)	$102,740	$(809)	$8,202	$(3,414)	$110,942

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

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information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment would be reduced and the resulting loss recognized in net income in the period the 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 March 31, 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 (FHLMC), the Federal National Mortgage Association (FNMA) or the Government National Mortgage Association (GNMA).

As of March 31, 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 $264,248 and $259,499 at March 31, 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 March 31, 2017	2016
Proceeds	$—	$23,620
Gross gains	—	75
Gross losses	—	(38)

During the three months ended March 31, 2016, the Company sold three held to maturity securities. 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 we 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 March 31, 2017	2016
Proceeds from sales	$ —	$ 1,866
Amortized cost	—	1,842
Gross realized gains	—	24

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

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The contractual maturities at March 31, 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	$—	$—	$1,050	$1,055
Due after one year through five years	7,444	7,478	5,577	5,722
Due after five years through ten years	17,779	17,695	40,910	41,560
Due after ten years	7,817	7,278	100,983	98,990
Mortgage-backed securities	80,766	79,545	26,900	27,021
Collateralized mortgage obligations	102,688	102,467	10,417	10,064
	$216,494	$214,463	$185,837	$184,412

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes our loan portfolio by type of loan as of:

	March 31, 2017	December 31, 2016
Commercial and industrial	$205,903	$ 223,997
Real estate:		
Construction and development	152,760	129,366
Commercial real estate	372,855	367,656
Farmland	62,130	62,362
1-4 family residential	360,873	362,952
Multi-family residential	23,943	26,079
Consumer	52,816	53,505
Agricultural	21,473	18,901
Overdrafts	390	317
Total loans	1,253,143	1,245,135
Less:		
Allowance for loan losses	11,928	11,484
Total net loans	$1,241,215	$ 1,233,651

As of March 31, 2017 and December 31, 2016, included in total loans above were $1,055 and $1,210 in unamortized loan costs, net of loan fees, respectively.

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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 three months ended March 31, 2017, for the year ended December 31, 2016 and for the three months ended March 31, 2016:

For the three months ended March 31, 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	177	188	123	(10)	(72)	(53)	280	2	15	650
Loans charged-off	(6)	—	—	—	(118)	—	(89)	—	(35)	(248)
Recoveries	—	—	—	—	—	—	22	—	20	42
Ending balance	$1,763	$1,349	$3,387	$472	$3,770	$228	$798	$155	$6	$11,928
Allowance ending balance:										
Individually evaluated for impairment	$129	$—	$31	$41	$40	$—	$—	$—	$—	$241
Collectively evaluated for impairment	1,634	1,349	3,356	431	3,730	228	798	155	6	11,687
Loans:										
Individually evaluated for impairment	919	—	6,411	170	1,769	247	34	612	—	10,162
Collectively evaluated for impairment	204,984	152,760	366,444	61,960	359,104	23,696	52,782	20,861	390	1,242,981
Ending balance	$205,903	$152,760	$372,855	$62,130	$360,873	$23,943	$52,816	$21,473	$390	$1,253,143

Farmland	Consumer	Agricultural	Overdrafts	Total

For the year ended December 31, 2016	Commercial and industrial	Construction and development	Commercial real estate		1-4 family residential	Multi-family residential				
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

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For the three months ended March 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	(504)	(200)	145	(50)	1,115	13	(83)	(12)	26	450
Loans charged-off	—	—	—	—	(14)	—	(51)	—	(39)	(104)
Recoveries	11	4	—	—	—	—	18	—	23	56
Ending balance	$1,385	$808	$2,251	$350	$3,940	$338	$446	$126	$21	$9,665
Allowance ending balance:										
Individually evaluated for impairment	$288	$—	$—	$47	$92	$—	$84	$—	$—	$511
Collectively evaluated for impairment	1,097	808	2,251	303	3,848	338	362	126	21	9,154
Loans:										
Individually evaluated for impairment	3,270	39	128	283	2,038	3	235	—	—	5,996
Collectively evaluated for impairment	213,659	92,792	336,871	54,038	332,385	34,652	51,317	19,808	546	1,136,068
Ending balance	$216,929	$92,831	$336,999	$54,321	$334,423	$34,655	$51,552	$19,808	$546	$1,142,064

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:

March 31, 2017	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Total
Grade:									
Pass	$ 200,851	$ 152,760	$ 365,789	$ 61,503	$ 354,074	$ 23,696	$ 52,308	$ 19,802	$ 1,230,783
Special mention	4,025	—	1,287	457	3,011	—	440	972	10,192
Substandard	1,027	—	5,701	170	3,745	247	397	699	11,986
Doubtful	—	—	78	—	43	—	61	—	182
Total	$ 205,903	$ 152,760	$ 372,855	$ 62,130	$ 360,873	$ 23,943	$ 53,206	$ 21,473	$ 1,253,143

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December 31, 2016	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	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:

March 31, 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	460	181	30	671	205,232	205,903	—
Real estate:							
Construction and development	60	—	—	60	152,700	152,760	—
Commercial real estate	1,225	41	136	1,402	371,453	372,855	—
Farmland	114	—	—	114	62,016	62,130	—
1-4 family residential	3,867	323	1,183	5,373	355,500	360,873	—
Multi-family residential	49	198	—	247	23,696	23,943	—
Consumer	610	95	80	785	52,031	52,816	—
Agricultural	188	14	14	216	21,257	21,473	—
Overdrafts	—	—	—	—	390	390	—
Total	6,573	852	1,443	8,868	1,244,275	1,253,143	—

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

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The following table presents information regarding nonaccrual loans as of:

	March 31, 2017	December 31, 2016
Commercial and industrial	517	82
Real estate:		
Construction and development	—	1,825
Commercial real estate	136	415
Farmland	163	176
1-4 family residential	1,772	1,699
Multi-family residential	—	5
Consumer	165	192
Agricultural	313	15
Total	3,066	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:

	March 31, 2017	December 31, 2016
Nonaccrual TDRs	42	90
Performing TDRs	330	415
Total	372	505
Specific reserves on TDRs	4	4

The following tables present loans by class modified as TDRs that occurred during the three months ended March 31, 2017 and 2016:

Three Months Ended March 31, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and industrial	1	34	34
1-4 family residential	1	11	11
Total	2	45	45

There were no TDRs that subsequently defaulted in 2017. The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the three months ended March 31, 2017.

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Three Months Ended March 31, 2016	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Consumer	3	23	23
Total	3	23	23

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 three months ended March 31, 2016.

The following table presents information about the Company's impaired loans as of and for the three months ended:

March 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ 373	$ 373			