Allison Transmission Holdings Inc
Form 4
September 07, 2016

FORM 4

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

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Dick Michael

(Last) (First) (Middle)

ONE ALLISON WAY

(Street)

INDIANAPOLIS, IN 46222

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Allison Transmission Holdings Inc [ALSN]

3. Date of Earliest Transaction (Month/Day/Year)
09/02/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP, Ops and Purchasing

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price Derivati Security

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)		(Instr. 8)		Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						(Instr. 5
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Dividend Equivalent Rights	(1)	09/02/2016		A		66		(1)	(1)	Common Stock	66	$ 0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Dick Michael ONE ALLISON WAY INDIANAPOLIS, IN 46222			SVP, Ops and Purchasing	

Signatures

/s/ Eric C. Scroggins, attorney-in-fact	09/07/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The dividend equivalent rights accrued on previously awarded restricted stock units ("RSUs") and vest proportionately with the RSUs to which they relate. Each dividend equivalent rights is the economic equivalent of one share of Allison Transmission Holdings, Inc. common stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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$
419,785

$
896,790

$
1,659,535

Amounts with fixed rates
$
229,710

$
327,545

$
48,972

$
606,227

Amounts with floating rates
$
113,250

$
92,240

$
847,818

$
1,053,308

	As of December 31, 2017			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial and industrial	$106,487	$ 62,367	$ 28,654	$197,508
Real estate:				
Construction and development	70,911	57,123	68,740	196,774
Commercial real estate	15,955	65,600	336,582	418,137
Farmland	5,049	4,478	49,496	59,023
1-4 family residential	24,514	26,653	323,204	374,371
Multi-family residential	20,385	8,021	8,168	36,574
Consumer	15,494	33,602	2,465	51,561
Agricultural	15,500	10,018	78	25,596
Total loans	$274,295	$ 267,862	$ 817,387	$1,359,544
Amounts with fixed rates	$212,237	$ 204,396	$ 69,607	$486,240
Amounts with floating rates	$62,058	$ 63,466	$ 747,780	$873,304

	As of December 31, 2016			
	One Year or Less	One Through Five Years	After Five Years	Total

	(Dollars in thousands)			
Commercial and industrial	$102,728	$ 89,827	$31,157	$223,712
Real estate:				
Construction and development	70,910	29,553	29,168	129,631
Commercial real estate	14,124	59,389	294,564	368,077
Farmland	15,948	2,796	43,622	62,366
1-4 family residential	30,211	22,810	308,644	361,665
Multi-family residential	757	8,515	16,807	26,079
Consumer	16,911	33,398	3,185	53,494
Agricultural	11,177	7,627	97	18,901
Total loans	$262,766	$ 253,915	$727,244	$1,243,925
Amounts with fixed rates	$196,734	$ 195,603	$82,967	$475,304
Amounts with floating rates	$66,032	$ 58,312	$644,277	$768,621

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Explanation of Responses:

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When interest accrual is discontinued, all unpaid accrued interest is reversed from income. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are, in management's opinion, reasonably assured.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We had $7.6 million in nonperforming assets as of December 31, 2018, compared to $8.7 million and $9.6 million as of December 31, 2017 and 2016, respectively. We had $5.9 million in nonperforming loans as of December 31, 2018, compared to $4.0 million and $4.4 million as of December 31, 2017 and 2016, respectively. Our nonperforming assets decreased by $1.1 million, or 12.6%, as of December 31, 2018 compared to 2017, primarily resulting from sales and valuation write-downs of other real estate and repossessed assets owned. Nonperforming assets as of December 31, 2017 decreased $917,000, or 9.5%, from $9.6 million as of December 31, 2016, primarily due to the sale of repossessed assets. The $1.9 million increase in our nonperforming loans from December 31, 2017 to December 31, 2018 primarily relates to the downgrade of one loan relationship consisting of three loans with an outstanding book balance of $3.2 million as of December 31, 2018 that were acquired from Westbound Bank. The three loans are guaranteed by both the SBA and through an escrow agreement executed in conjunction with the Westbound Bank acquisition, therefore minimal or no losses are expected to be incurred on these loans.

The following table presents information regarding nonperforming assets at the dates indicated:

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Nonaccrual loans	$5,891	$4,004	$4,409	$2,431	$4,077
Accruing loans 90 or more days past due	—	—	—	—	—
Total nonperforming loans	5,891	4,004	4,409	2,431	4,077
Other real estate owned:					
Commercial real estate, construction and development, and farmland	34	758	1,074	1,075	70
Residential real estate	717	1,486	618	618	742
Total other real estate owned	751	2,244	1,692	1,693	812
Repossessed assets owned	971	2,466	3,530	116	106
Total other assets owned	1,722	4,710	5,222	1,809	918
Total nonperforming assets	$7,613	$8,714	$9,631	$4,240	$4,995
Restructured loans-nonaccrual	$335	$—	$43	$160	$685
Restructured loans-accruing	$861	$657	$462	$3,541	$2,574
Ratio of nonperforming loans to total loans[(1)(2)]	0.35 %	0.29 %	0.35 %	0.23 %	0.52 %
Ratio of nonperforming assets to total assets	0.34 %	0.44 %	0.53 %	0.25 %	0.37 %

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Nonaccrual loans by category:					
Commercial and industrial	$366	$77	$82	$118	$507
Real estate:					
Construction and development	—	—	1,825	—	—
Commercial real estate	3,700	1,422	415	77	672
Farmland	140	163	176	169	184
1-4 family residential	1,567	1,937	1,699	1,829	2,614
Multi-family residential	—	217	5	—	—
Consumer	66	138	192	238	99
Agricultural	52	50	15	—	1
Total	$5,891	$4,004	$4,409	$2,431	$4,077

(1) Excludes loans held for sale of $1.8 million, $1.9 million, $2.6 million, $3.9 million and $3.9 million for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(2) Restructured loans-nonaccrual are included in nonaccrual loans, which are a component of nonperforming loans.

Potential Problem Loans

From a credit risk standpoint, we classify loans in one of five categories: pass, special mention, substandard, doubtful or loss. Within the pass category, we classify loans into one of the following four subcategories based on perceived credit risk, including repayment capacity and collateral security: superior, excellent, good and acceptable. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. We review the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is believed to be inherent in each credit as of each monthly reporting period. Our methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in creditworthiness; however, such concerns are not so pronounced that we generally expect to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits with a lower rating.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated as doubtful have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full questionable and there is a high probability of loss based on currently existing facts, conditions and values.

Credits rated as loss are charged-off. We have no expectation of the recovery of any payments in respect of credits rated as loss.

The following table summarizes the internal ratings of our loans as of the dates indicated. The increase in substandard loans to $10.5 million as of December 31, 2018, from $6.5 million as of December 31, 2017, is attributable primarily to the downgrade of one loan relationship, consisting of three loans with an outstanding book balance of $3.2 million as of December 31, 2018 that were acquired from Westbound Bank. The three loans are guaranteed by both the SBA and through an escrow agreement executed in conjunction with the Westbound Bank acquisition, therefore minimal or no losses are expected to be incurred on these loans.

	As of December 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(Dollars in thousands)					
Commercial and industrial	$260,863	$ 224	$ 692	$ —	$ —	$261,779
Real estate:						
Construction and development	236,253	—	1,250	—	—	237,503
Commercial real estate	569,648	5,691	7,180	—	—	582,519
Farmland	67,541	49	255	—	—	67,845
1-4 family residential	391,956	514	597	—	—	393,067
Multi-family residential	38,386	—	—	—	—	38,386
Consumer	55,055	48	56	—	—	55,159
Agricultural	22,713	115	449	—	—	23,277
Total	$1,642,415	$ 6,641	$ 10,479	$ —	$ —	$1,659,535

	As of December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(Dollars in thousands)					
Commercial and industrial	$196,890	$348	$ 270	$ —	$ —	$197,508
Real estate:						
Construction and development	196,515	259	—	—	—	196,774
Commercial real estate	412,488	1,135	4,514	—	—	418,137
Farmland	58,623	226	174	—	—	59,023
1-4 family residential	373,154	442	775	—	—	374,371
Multi-family residential	16,073	20,284	217	—	—	36,574
Consumer	51,409	65	87	—	—	51,561
Agricultural	24,650	454	492	—	—	25,596
Total	$1,329,802	$23,213	$ 6,529	$ —	$ —	$1,359,544

	As of December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(Dollars in thousands)					
Commercial and industrial	$218,690	$ 4,299	$ 706	$ 17	$ —	$223,712
Real estate:						
Construction and development	127,802	4	1,825	—	—	129,631
Commercial real estate	360,591	2,021	5,465	—	—	368,077
Farmland	61,717	248	401	—	—	62,366
1-4 family residential	352,196	4,311	5,121	37	—	361,665
Multi-family residential	25,871	—	208	—	—	26,079
Consumer	52,320	524	568	82	—	53,494
Agricultural	17,965	478	458	—	—	18,901
Total	$1,217,152	$ 11,885	$ 14,752	$ 136	$ —	$1,243,925

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Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in our loan portfolio. The amount of the allowance for loan losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. Please see "— Critical Accounting Policies—Allowance for Loan Losses."

In connection with the review of our loan portfolio, we consider risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements we consider include:

- for commercial and industrial loans, the debt service coverage ratio (income from the business in excess of operating expenses compared to loan repayment requirements), the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio, operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for 1-4 family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan-to-value ratio, and the age, condition and marketability of the collateral; and
- for construction and development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan to value ratio.

As of December 31, 2018, our allowance for loan losses totaled $14.7 million, or 0.88%, of total loans. As of December 31, 2017, our allowance for loan losses totaled $12.9 million, or 0.95%, of total loans. As of December 31, 2016, the allowance for loan losses totaled $11.5 million, or 0.92%, of total loans.

The following table presents, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Average loans outstanding[1]	$1,524,792	$1,283,253	$1,179,938	$991,889	$738,539
Gross loans outstanding at end of period[2]	$1,659,535	$1,359,544	$1,243,925	$1,067,377	$786,519
Allowance for loan losses at beginning of the period	12,859	11,484	9,263	7,721	7,093
Provision for loan losses	2,250	2,850	3,640	2,175	1,322
Charge offs:					
Commercial and industrial	367	1,080	1,213	192	241
Real Estate:					
Construction and development	—	—	9	6	14
Commercial real estate	33	84	—	53	27
Farmland	—	—	—	—	96
1-4 family residential	93	543	71	215	163
Multi-family residential	—	—	—	—	—
Consumer	254	344	269	219	178
Agriculture	2	242	—	1	—
Overdrafts	169	165	200	227	233
Total charge-offs	918	2,458	1,762	913	952
Recoveries:					
Commercial and industrial	111	797	17	20	38
Real Estate:					
Construction and development	—	—	4	—	4
Commercial real estate	1	—	—	—	1
Farmland	—	—	—	96	—
1-4 family residential	135	23	75	8	1
Multi-family residential	—	—	—	—	—
Consumer	90	108	121	50	90
Agriculture	65	—	—	1	20
Overdrafts	58	55	126	105	104
Total recoveries	460	983	343	280	258
Net charge-offs	458	1,475	1,419	633	694
Allowance for loan losses at end of period	$14,651	$12,859	$11,484	$9,263	$7,721
Ratio of allowance to end of period loans[2]	0.88 %	0.95 %	0.92 %	0.87 %	0.98 %
Ratio of net charge-offs to average loans[1]	0.03 %	0.11 %	0.12 %	0.06 %	0.09 %

(1) Includes average outstanding balances of loans held for sale of $1.7 million, $1.7 million, $3.0 million, $4.4 million and $4.2 million for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(2) Excludes loans held for sale of $1.8 million, $1.9 million, $2.6 million, $3.9 million and $3.9 million for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

We believe the successful execution of our expansion strategy through organic growth and strategic acquisitions is generally demonstrated by the upward trend in loan balances from December 31, 2014 to December 31, 2018. Loan balances, excluding loans held for sale, increased from $786.5 million as of December 31, 2014, to $1.66 billion as of December 31, 2018. Net charge-offs have been minimal, representing on average 0.08% of average loan balances during the same period.

Although we believe that we have established our allowance for loan losses in accordance with GAAP and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for loan losses will be subject to ongoing evaluations of the risks in our loan portfolio. If our

primary market areas experience economic declines, if asset quality deteriorates or if we are successful in growing the size of our loan portfolio, our allowance could become inadequate and material additional provisions for loan losses could be required.

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The following table shows the allocation of the allowance for loan losses among loan categories and certain other information as of the dates indicated. The allocation of the allowance for loan losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions. The total allowance is available to absorb losses from any loan category.

	As of December 31,									
	2018		2017		2016		2015		2014	
	Amount	Percent to Total	Amount	Percent to Total	Amount	Percent to Total	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)									
Commercial and industrial	$1,751	11.96 %	$1,581	12.29 %	$1,592	13.86 %	$1,878	20.27 %	$1,473	19.08 %
Real estate:										
Construction and development	1,920	13.10 %	1,724	13.41 %	1,161	10.11 %	1,004	10.84 %	615	7.97 %
Commercial real estate	6,025	41.12 %	4,585	35.66 %	3,264	28.42 %	2,106	22.74 %	1,870	24.22 %
Farmland	643	4.39 %	523	4.07 %	482	4.20 %	400	4.32 %	387	5.01 %
1-4 family residential	2,868	19.58 %	3,022	23.50 %	3,960	34.48 %	2,839	30.65 %	2,395	31.02 %
Multi-family residential	631	4.31 %	629	4.89 %	281	2.45 %	325	3.51 %	232	3.00 %
Total real estate	12,087	82.50 %	10,483	81.53 %	9,148	79.66 %	6,674	72.06 %	5,499	71.22 %
Consumer	575	3.92 %	608	4.73 %	591	5.15 %	573	6.18 %	612	7.93 %
Agricultural	238	1.62 %	187	1.45 %	153	1.33 %	138	1.49 %	137	1.77 %
Total allowance for loan losses	$14,651	100.00%	$12,859	100.00%	$11,484	100.00%	$9,263	100.00%	$7,721	100.00%

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of December 31, 2018, the carrying amount of our investment securities totaled $396.1 million, a decrease of $10.9 million, or 2.7%, compared to $407.1 million as of December 31, 2017. The decrease was due primarily to our use of the proceeds from maturing securities to fund increases in the loan portfolio. The carrying amount of our investment securities as of December 31, 2017 represented an increase of $60.8 million, or 17.5%, compared to $346.3 million as of December 31, 2016. The increase was due primarily to the investment of a portion of the funds received from our initial public offering and investment of excess cash due to growth in deposits. Investment securities represented 17.5%, 20.7% and 18.9% of total assets as of December 31, 2018, 2017 and 2016, respectively.

Our investment portfolio consists of securities classified as available for sale and held to maturity. As of December 31, 2018, securities available for sale and securities held to maturity totaled $233.0 million and $163.2 million, respectively. As of December 31, 2017, securities available for sale and securities in held to maturity totaled $232.4 million and $174.7 million, respectively, and as of December 31, 2016, $156.9 million and $189.4 million, respectively. Held to maturity percentages were 41.2% as of December 31, 2018, 42.9% as of December 31, 2017, and 54.7% at December 31, 2016. We generally seek to maintain 50.0% or less of our portfolio in held to maturity securities. The carrying values of our investment securities classified as available for sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders’ equity. The following table summarizes the amortized cost and estimated fair value of our investment securities as of the dates shown:

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Corporate bonds	$ 19,743	$ —	$ 789	$ 18,954
Municipal securities	157,720	1,231	1,354	157,597
Mortgage-backed securities	110,246	106	4,176	106,176
Collateralized mortgage obligations	115,400	48	2,400	113,048
Total	$ 403,109	$ 1,385	$ 8,719	$ 395,775

	As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Corporate bonds	$ 18,823	$ 64	$ 50	$ 18,837
Municipal securities	154,242	2,244	418	156,068
Mortgage-backed securities	114,497	199	2,023	112,673
Collateralized mortgage obligations	122,971	116	1,503	121,584
Total	$ 410,533	$ 2,623	$ 3,994	$ 409,162

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Corporate bonds	$ 25,254	$ 6	$ 377	$ 24,883
Municipal securities	157,261	901	4,511	153,651
Mortgage-backed securities	89,748	318	1,898	88,168
Collateralized mortgage obligations	77,290	275	1,187	76,378
Total	$ 349,553	$ 1,500	$ 7,973	$ 343,080

We do not hold any Fannie Mae or Freddie Mac preferred stock, collateralized debt obligations, structured investment vehicles or second lien elements in our investment portfolio. As of December 31, 2018, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages, non-U.S. agency mortgage-backed or corporate collateralized mortgage obligations.

Our management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. As of December 31, 2018, there was no other-than-temporary impairment recorded.

The following table sets forth the amortized cost of held to maturity securities and the fair value of available for sale securities, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our securities portfolio as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

As of December 31, 2018

	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Corporate bonds	$—	— %	$10,852	2.77 %	$8,102	3.43 %	$—	— %	$18,954	3.05 %
Municipal securities	762	1.73 %	19,062	2.93 %	51,246	3.28 %	86,465	3.01 %	157,535	3.08 %
Mortgage-backed securities	—	— %	54,429	2.49 %	52,193	2.66 %	—	— %	106,622	2.57 %
Collateralized mortgage obligations	352	3.88 %	100,882	2.66 %	11,794	2.88 %	—	— %	113,028	2.68 %
Total	$1,114	2.41 %	$185,225	2.64 %	$123,335	2.99 %	$86,465	3.01 %	$396,139	2.83 %

As of December 31, 2017

	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Corporate bonds	$—	— %	$6,129	2.67 %	$12,708	3.04 %	$—	— %	$18,837	2.92 %
Municipal securities	2,663	2.18 %	5,769	3.47 %	42,711	3.73 %	102,899	3.63 %	154,042	3.63 %
Mortgage-backed securities	—	— %	48,969	2.19 %	63,735	2.59 %	—	— %	112,704	2.42 %
Collateralized mortgage obligations	307	4.24 %	80,203	2.58 %	40,963	2.57 %	—	— %	121,473	2.58 %
Total	$2,970	2.40 %	$141,070	2.48 %	$160,117	2.92 %	$102,899	3.63 %	$407,056	2.93 %

As of December 31, 2016

	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Corporate bonds	$—	— %	$7,453	2.30 %	$17,430	2.93 %	$—	— %	$24,883	2.75 %
Municipal securities	732	3.98 %	6,103	3.45 %	38,634	3.49 %	111,170	3.62 %	156,639	3.58 %
Mortgage-backed securities	—	— %	74,047	2.02 %	14,093	2.27 %	—	— %	88,140	2.06 %
Collateralized mortgage obligations	—	— %	27,668	2.92 %	26,184	2.68 %	22,782	2.98 %	76,634	2.81 %
Total	$732	3.98 %	$115,271	2.33 %	$96,341	3.00 %	$133,952	3.50 %	$346,296	2.97 %

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and collateralized mortgage obligations are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and, consequently, the average life of this security is typically lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 6.87 years with an estimated effective duration of 4.71 years as of December 31, 2018.

As of December 31, 2018, 2017 and 2016, respectively, we did not own securities of any one issuer, other than the U.S. government and its agencies, for which aggregate adjusted cost exceeded 10.0% of the consolidated shareholders' equity.

Deposits

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We offer a variety of deposit products, which have a wide range of interest rates and terms, including demand, savings, money market and time accounts. We rely primarily on competitive pricing policies, convenient locations and personalized service to attract and retain these deposits.
Average deposits for the year ended December 31, 2018 were $1.77 billion, an increase of $146.1 million, or 9.0%, over $1.63 billion for the year ended December 31, 2017. Average deposits grew $109.4 million, or 7.2%, from $1.52 billion for the year ended December 31, 2016. The increase in 2018 was impacted by our acquisition of Westbound Bank, and other increases in both periods were primarily due to continued growth in our primary market areas and the increase in commercial lending relationships for which we also seek deposit balances. Our increase is deposits during 2018 was partially offset by the sale of $32.4 million in deposits in connection with the sale of our Atlanta, Texas bank location in December 2018. The average rate paid on total interest-bearing deposits was 1.3%, 0.85% and 0.77% for the years ended December 31, 2018, 2017 and 2016, respectively. The increases in average rates for 2018 and 2017 were driven primarily by the Federal Reserve raising market interest rates and by increases in money market account balances and rates, which were driven by a strategic decision to increase rates paid on money market accounts in order to grow core deposits in our newer markets.
The following table presents the average balances and average rates paid on deposits for the periods indicated:

	For the Years Ended December 31, 2018					
	2018		2017		2016	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Now and interest-bearing demand accounts	$256,726	1.13 %	$258,356	0.58 %	$278,521	0.32 %
Savings accounts	67,917	0.34 %	64,704	0.13 %	59,961	0.11 %
Money market accounts	646,115	1.36 %	599,336	0.98 %	482,089	0.97 %
Certificates and other time deposits	353,986	1.41 %	318,719	0.99 %	354,949	0.97 %
Total interest-bearing deposits	1,324,744	1.28 %	1,241,115	0.85 %	1,175,520	0.77 %
Noninterest-bearing demand accounts	446,560	— %	384,049	— %	340,240	— %
Total deposits	$1,771,304	0.96 %	$1,625,164	0.65 %	$1,515,760	0.60 %

The ratio of average noninterest-bearing deposits to average total deposits for the years ended December 31, 2018, 2017 and 2016 was 25.2%, 23.6% and 22.5%, respectively.
Total deposits as of December 31, 2018 were $1.87 billion, an increase of $195.2 million, or 11.6%, compared to $1.68 billion as of December 31, 2017. Total deposits as of December 31, 2017 increased $99.5 million, or 6.3%, compared to $1.58 billion as of December 31, 2016. The increases in 2018 was due to primarily to the acquisition of Westbound Bank and the increase in 2017 was due primarily to organic growth.
Noninterest-bearing deposits as of December 31, 2018 were $489.8 million compared to $410.0 million as of December 31, 2017, an increase of $79.8 million, or 19.5%. The balance for non-interesting bearing deposits as of December 31, 2017 represented an increase of $51.3 million, or 14.3%, compared to $358.8 million as of December 31, 2016.
Total savings and interest-bearing demand account balances as of December 31, 2018 were $946.2 million, compared to $969.5 million as of December 31, 2017, a decrease of $23.3 million, or 2.4%. The December 31, 2017 balance for total savings and interest-bearing demand accounts represented an increase of $93.1 million, or 10.6%, compared to $876.4 million as of December 31, 2016.
Total certificate of deposit balances as of December 31, 2018, were $435.5 million, an increase of $138.7 million, or 46.7%, from the total certificate deposit balances of $296.8 million as of December 31, 2017. The total certificate of deposit balances as of December 31, 2017, represented a decrease of $44.8 million, or 13.1% compared to the total certificate of deposit balances as of December 31, 2016, which were $341.6 million. The following table sets forth the amount of certificates of deposit greater than $100,000 by time remaining until maturity as of December 31, 2018:

	2018
Three months or less	$63,699
Over three months through six months	35,520
Over six months through 12 months	116,486
Over 12 months through three years	71,139
Over three years	17,245
Total	$304,089

Factors affecting the cost of funding interest-bearing assets include the volume of noninterest- and interest-bearing deposits, changes in market interest rates and economic conditions in our primary market areas and their impact on interest paid on deposits, as well as the ongoing execution of our balance sheet management strategy. Cost of funds is calculated as total interest expense divided by average total deposits plus average total borrowings. Our cost of funds was 1.35%, 0.92% and 0.85% in 2018, 2017 and 2016, respectively. The increase in our cost of funds for 2018 and 2017 was primarily due to increases in our average rates on interest-bearing deposits, which were 1.28%, 0.85% and 0.77% in 2018, 2017 and 2016, respectively. These increases were primarily due to both the Federal Reserve raising market interest rates and by increases in money market account balances and rates, which were driven by a strategic decision to increase rates paid on money market accounts in order to grow core deposits in our newer markets.

Borrowings

We utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

Federal Home Loan Bank (FHLB) Advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2018, 2017 and 2016, total borrowing capacity of $563.8 million, $498.0 million and $400.4 million, respectively, was available under this arrangement. Our outstanding FHLB advances mature within five years. As of December 31, 2018, approximately $1.33 billion in real estate loans were pledged as collateral for our FHLB borrowings. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. The following table presents our FHLB borrowings as of the dates indicated:

	FHLB Advances (Dollars in Thousands)	
December 31, 2018		
Amount outstanding at year-end	$ 115,136	
Weighted average interest rate at year-end	2.42	%
Maximum month-end balance during the year	$ 129,151	
Average balance outstanding during the year	$ 94,304	
Weighted average interest rate during the year	1.95	%
December 31, 2017		
Amount outstanding at year-end	$ 45,153	
Weighted average interest rate at year-end	1.26	%
Maximum month-end balance during the year	$ 65,168	
Average balance outstanding during the year	$ 46,256	
Weighted average interest rate during the year	1.00	%
December 31, 2016		
Amount outstanding at year-end	$ 55,170	
Weighted average interest rate at year-end	0.47	%
Maximum month-end balance during the year	$ 106,325	
Average balance outstanding during the year	$ 62,789	
Weighted average interest rate during the year	0.55	%

Federal Reserve Bank of Dallas. The Federal Reserve Bank of Dallas has an available borrower in custody arrangement, which allows us to borrow on a collateralized basis. Certain commercial and industrial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. As of December 31, 2018, 2017 and 2016, $193.9 million, $143.0 million, and $168.3 million, respectively, were available under this arrangement. As of December 31, 2018, approximately $241.9 million in consumer and commercial and industrial loans were pledged as collateral. As of December 31, 2018, 2017 and 2016, no borrowings were outstanding under this arrangement.

Other Borrowings. The Company has historically used a line of credit with a correspondent bank as a source of funding for working capital needs, the payment of dividends when there is a temporary timing difference in cash flows, and repurchases of equity securities. We have a $25.0 million unsecured revolving line of credit with this correspondent bank that matures in March 2019. The line of credit bears interest at the prime rate plus 0.50%, with quarterly interest payments. Under the terms of the line of credit, we have agreed not to pledge or grant a lien or security interest in the stock of the Bank or in any of our other assets without the prior consent of the lender. As of December 31, 2018, 2017, and 2016 there was no outstanding balance on this or our prior line of credit with the correspondent bank.

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the years ended December 31, 2018, 2017 and 2016, liquidity needs were primarily met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Although access to purchased funds from correspondent banks and overnight advances from the FHLB and the Federal Reserve Bank of Dallas are available and have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. As of December 31, 2018 and 2017, we maintained two federal

funds lines of credit with commercial banks that provide for the ability to borrow up to an aggregate of $55.0

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million in federal funds. As of December 31, 2016, we maintained three federal funds lines of credit with commercial banks that provide for the availability to borrow up to an aggregate of $70.0 million in federal funds. There were no funds under these lines of credit outstanding as of December 31, 2018, 2017 or 2016. In addition to these federal funds lines of credit, our $25.0 million unsecured revolving line of credit discussed above provides an additional source of liquidity.

The following table illustrates, during the periods presented, the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the period indicated. Average assets were $2.1 billion for the year ended December 31, 2018, $1.9 billion for the year ended December 31, 2017 and $1.8 billion for the year ended December 31, 2016.

	For the Years Ended December 31,		
	2018 Average	2017 Average	2016 Average
Sources of Funds:			
Deposits:			
Noninterest-bearing	20.98 %	20.22 %	19.15 %
Interest-bearing	62.24 %	65.34 %	66.16 %
Federal funds purchased	—	—	0.01 %
Advances from FHLB	4.43 %	2.44 %	3.53 %
Other debt	—	0.35 %	0.74 %
Subordinated debentures	0.63 %	0.84 %	1.14 %
Securities sold under agreements to repurchase	0.60 %	0.70 %	0.73 %
Accrued interest and other liabilities	0.41 %	0.35 %	0.36 %
Shareholders' equity	10.71 %	9.76 %	8.18 %
Total	100.00 %	100.00 %	100.00 %
Uses of Funds:			
Loans	70.99 %	66.92 %	65.80 %
Securities available for sale	11.12 %	11.75 %	11.17 %
Securities held to maturity	7.89 %	9.61 %	10.29 %
Nonmarketable equity securities	0.45 %	0.38 %	0.48 %
Federal funds sold	1.39 %	2.51 %	2.96 %
Interest-bearing deposits in other banks	0.28 %	1.21 %	1.44 %
Other noninterest-earning assets	7.88 %	7.62 %	7.86 %
Total	100.00 %	100.00 %	100.00 %
Average noninterest-bearing deposits to average deposits	25.21 %	23.63 %	22.45 %
Average loans to average deposits	86.08 %	78.96 %	77.84 %

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans, including average loans held for sale, increased 18.8% for the year ended December 31, 2018 compared to the same period in 2017, and 8.8% for the year ended December 31, 2017 compared to the same period in 2016. Our securities portfolio had a weighted average life of 6.87 years and an effective duration of 4.71 years as of December 31, 2018, and a weighted average life of 7.31 years and an effective duration of 4.27 years as of December 31, 2017. We predominantly invest excess deposits in overnight deposits with our correspondent banks, federal funds sold, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth.

As of December 31, 2018, we had $342.5 million in outstanding commitments to extend credit and $11.7 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2017, we had $326.9 million in outstanding commitments to extend credit and $8.3 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future

cash funding requirements.

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As of December 31, 2018 and 2017, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of December 31, 2018, we had cash and cash equivalents of $71.5 million, compared to $91.4 million as of December 31, 2017. The decrease was primarily due to a decrease in interest bearing deposits at other banks of $18.0 million and a decrease in federal funds sold of $5.9 million.

Capital Resources

Total shareholders' equity increased to $244.6 million as of December 31, 2018, compared to $207.3 million as of December 31, 2017, an increase of $37.2 million, or 18.0%, after giving effect to $7.0 million in dividends paid to common shareholders in 2018. This increase was primarily the result of the acquisition of Westbound Bank and $20.6 million in net earnings for the period, partially offset by the dividends paid. Total shareholders' equity, including KSOP-owned shares, increased to $207.3 million as of December 31, 2017, compared to $141.9 million as of December 31, 2016, an increase of $65.4 million, or 46.1%, after giving effect to $5.6 million in dividends paid to common shareholders in 2017. This increase was primarily the result of proceeds from the initial public offering of our common stock in May 2017, as well as $14.4 million in net earnings for the period, partially offset by the dividends paid.

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. See "Item 1. Business—Guaranty Bank & Trust, N.A.—Regulation and Supervision—Capital Adequacy Requirements" for additional discussion regarding the regulatory capital requirements applicable to us and the Bank. As of December 31, 2018 and 2017, the Company and the Bank were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized," for purposes of the prompt corrective action regulations. As we deploy our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the regulatory capital ratios for our Company and the Bank as of the dates indicated.

	As of December 31, 2018		As of December 31, 2017	
	Amount	Ratio	Amount	Ratio
Guaranty Bancshares, Inc.	(Dollars in thousands)			
Total capital (to risk weighted assets)	$241,791	13.25%	$215,720	14.13%
Tier 1 capital (to risk weighted assets)	227,140	12.44%	202,861	13.29%
Tier 1 capital (to average assets)	227,140	10.16%	202,861	10.53%
Common equity tier 1 risk-based capital	216,830	11.88%	192,551	12.61%
Guaranty Bank & Trust, N.A.				
Total capital (to risk weighted assets)	$242,142	13.27%	$206,490	13.53%
Tier 1 capital (to risk weighted assets)	227,491	12.46%	193,631	12.68%
Tier 1 capital (to average assets)	227,491	10.18%	193,631	10.05%
Common equity tier 1 risk-based capital	227,491	12.46%	193,631	12.68%

Contractual Obligations

We have issued subordinated debentures relating to the issuance of trust preferred securities. In October 2002, we formed Guaranty (TX) Capital Trust II, which issued $3.0 million in trust preferred securities to a third party in a private placement. Concurrent with the issuance of the trust preferred securities, the trust issued common securities to the Company in the aggregate liquidation value of $93,000. The trust invested the total proceeds from the sale of the trust preferred securities and the common securities in $3.1 million of the Company's junior subordinated debentures, which will mature on October 30, 2032. In July 2006, we formed Guaranty (TX) Capital Trust III, which issued $2.0 million in trust preferred securities to a third party in a private placement. Concurrent with the issuance of the trust preferred securities, the trust issued common securities to the Company in the aggregate liquidation value of $62,000. The trust invested the total proceeds from the sale of the trust preferred securities and the common securities in $2.1 million of the Company's junior subordinated debentures, which will mature on October 1, 2036. In March 2015, we acquired DCB Financial Trust I, which issued $5.0 million in trust preferred securities to a third party in a private placement. Concurrent with the issuance of the trust preferred securities, the trust issued common securities to the Company in the aggregate liquidation value of $155,000. The trust invested the total proceeds from the sale of the trust preferred securities and the common securities in $5.2 million of the Company's junior subordinated debentures, which will mature on June 15, 2037.

With certain exceptions, the amount of the principal and any accrued and unpaid interest on the debentures are subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company. The terms of the debentures are such that they qualify as Tier 1 capital under the Federal Reserve's regulatory capital guidelines applicable to bank holding companies. Interest on Trust II Debentures is payable at a variable rate per annum, reset quarterly, equal to 3-month LIBOR plus 3.35%, thereafter. Interest on the Trust III debentures was payable at a fixed rate per annum equal to 7.43% until October 1, 2016 and is a variable rate per annum, reset quarterly, equal to 3-month LIBOR plus 1.67%, thereafter. Interest on the DCB Financial Trust I debenture is payable at a variable rate per annum, reset quarterly, equal to 3-month LIBOR plus 1.80%. The interest is deferrable on a cumulative basis for up to five consecutive years following a suspension of dividend payments on all other capital stock. No principal payments are due until maturity for each of the debentures.

On any interest payment date on or after June 15, 2012, for the DCB Financial debentures, October 30, 2012, for the Trust II debentures, and October 1, 2016, for the Trust III debentures, and before their maturity date, the debentures are redeemable, in whole or in part, for cash at the option of the Company on at least 30, but not more than 60, days' notice at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

Beginning in April 2013, the Company has from time to time issued subordinated debentures. All of the debentures pay interest semi-annually and are redeemable before their maturity date at the Company's option, with 30 days' notice to the holder, for a cash amount equal to the principal amount and all accrued interest. In July 2015, the Company issued $4.0 million in debentures, of which $3.0 million were issued to directors and other related parties. The $3.0 million of debentures to related parties were repaid in May 2017 and a $500,000 par value debenture, which carried a 2.5%, matured and was repaid in July 2017. The remaining $500,000 debenture has a rate of 4.00% and a maturity date of January 1, 2019. At the Company's option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest. In December 2015, the Company issued $5,000,000 in debentures, of which $2.5 million were issued to directors and other related parties. In May 2017, $2.0 million of the related party debentures were repaid with a portion of the proceeds of Guaranty's initial public offering. The remaining $2.0 million of debentures were issued at par value of $500,000 each with rates ranging from 3.50% to 5.00% and maturity dates from June 30, 2019 to June 30, 2020. At the Company's option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest.

Explanation of Responses:

The following table summarizes contractual obligations and other commitments to make future payments as of December 31, 2018 (other than non-time deposit obligations), which consist of future cash payments associated with our contractual obligations.

	As of December 31, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Time deposits	$311,719	$ 96,422	$ 27,355	$ —	$435,496
Advances from FHLB	105,500	9,636	—	—	115,136
Subordinated debentures	2,000	500	—	10,310	12,810
Total	$419,219	$ 106,558	$ 27,355	$ 10,310	$563,442

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of the date indicated are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	As of December 31, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Standby and commercial letters of credit	$7,765	$ 174	$ —	$ 3,736	$11,675
Commitments to extend credit	209,613	33,405	54,663	44,842	342,523
Total	$217,378	$ 33,579	$ 54,663	$ 48,578	$354,198

Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit, is based on management’s credit evaluation of the customer.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are summarized and discussed in Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

Impact of Inflation

Our consolidated financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data" have been prepared in accordance with GAAP. GAAP requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional financial measures discussed in this Annual Report on Form 10-K as being non-GAAP financial measures. We classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Annual Report on Form 10-K should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss herein may differ from that of other companies reporting measures with similar names. It is important to understand how other banking organizations calculate their financial measures with names similar to the non-GAAP financial measures we have discussed in this Annual Report on Form 10-K when comparing such non-GAAP financial measures.

Tangible Book Value Per Common Share. Tangible book value per common share is a non-GAAP measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. We calculate (1) tangible common equity as total shareholders' equity, less goodwill, core deposit intangibles and other intangible assets, net of accumulated amortization, and (2) tangible book value per common share as tangible common equity divided by shares of common stock outstanding. The most directly comparable GAAP financial measure for tangible book value per common share is book value per common share.

We believe that the tangible book value per common share measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value. The following table reconciles, as of the dates set forth below, total shareholders' equity to tangible common equity and presents tangible book value per common share compared to book value per common share:

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Tangible Common Equity					
Total shareholders' equity, including KSOP-owned shares	$244,583	$207,345	$141,914	$137,736	$112,289
Adjustments:					
Goodwill	(32,160)	(18,742)	(18,742)	(18,601)	(6,116)
Core deposit and other intangibles	(4,706)	(2,724)	(3,308)	(3,846)	(2,881)
Total tangible common equity	$207,717	$185,879	$119,864	$115,289	$103,292
Common shares outstanding[(1)]	11,829,868	11,058,956	8,751,923	8,901,443	8,015,614
Book value per common share	$20.68	$18.75	$16.22	$15.47	$14.01
Tangible book value per common share	$17.56	$16.81	$13.70	$12.95	$12.89

(1) Excludes the dilutive effect, if any, of 90,940, 82,529, 8,066, 5,958 and 0 shares of common stock issuable upon exercise of outstanding stock options as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

Tangible book value per share increased from 2017 to 2018 primarily as a result of the increase in our total shareholders' equity as a result of earnings and the acquisition of Westbound Bank, offset by the issuance of new shares in connection with the acquisition of Westbound Bank on June 1, 2018. Tangible book value per share increased from 2016 to 2017 primarily as a result of the increase in our total shareholders' equity as a result of earnings and the proceeds of our initial public offering in May 2017, offset by the issuance of new shares in our initial public offering.

Tangible Common Equity to Tangible Assets. Tangible common equity to tangible assets is a non-GAAP measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. We calculate tangible common equity, as described above, and tangible assets as total assets less goodwill, core deposit intangibles and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common shareholders' equity to total assets.

We believe that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period of tangible common equity to tangible assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total shareholders' equity and assets while not increasing our tangible common equity or tangible assets.

The following table reconciles, as of the dates set forth below, total shareholders' equity to tangible common equity and total assets to tangible assets:

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Tangible Common Equity					
Total shareholders' equity, including KSOP-owned shares	$244,583	$207,345	$141,914	$137,736	$112,289
Adjustments:					
Goodwill	(32,160)	(18,742)	(18,742)	(18,601)	(6,116)
Core deposit and other intangibles	(4,706)	(2,724)	(3,308)	(3,846)	(2,881)
Total tangible common equity	$207,717	$185,879	$119,864	$115,289	$103,292
Tangible Assets					
Total assets	$2,266,970	$1,962,624	$1,828,336	$1,682,640	$1,334,068
Adjustments:					
Goodwill	(32,160)	(18,742)	(18,742)	(18,601)	(6,116)
Core deposit and other intangibles	(4,706)	(2,724)	(3,308)	(3,846)	(2,881)
Total tangible assets	$2,230,104	$1,941,158	$1,806,286	$1,660,193	$1,325,071
Tangible Common Equity to Tangible Assets	9.31 %	9.58 %	6.64 %	6.94 %	7.80 %

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the asset-liability committee of Guaranty Bank & Trust, in accordance with policies approved by its board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital on the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of non-maturity deposit accounts are based on standard regulatory decay assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model’s simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run two simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rate changes over a twelve-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Our internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 15.0% for a 100 basis point shift, 20.0% for a 200 basis point shift and 30.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

Change in Interest Rates (Basis Points)	As of December 31, 2018		As of December 31, 2017	
	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
300	2.40%	(15.33)%	1.70%	(14.25)%
200	2.31%	(8.02)%	1.67%	(6.77)%
100	2.02%	(3.03)%	1.46%	(2.10)%
Base	0.00%	0.00%	0.00%	0.00%
(100)	1.36%	(0.46)%	0.05%	(4.22)%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the reports thereon, the notes thereto and supplementary data commence on page F-1 of this Annual Report on Form 10-K. See "Item 15. Exhibits and Financial Statement Schedules."

Quarterly Financial Information

The following tables present certain unaudited consolidated quarterly financial information regarding the Company's results of operations for each of the eight consecutive quarters in the fiscal years of 2018 and 2017. This information is derived from unaudited consolidated financial statements that include, in our opinion, all adjustments necessary for a fair presentation when read in conjunction with the Company's consolidated financial statements and notes thereto as of and for the years ended December 31, 2018 and 2017 appearing elsewhere in this Annual Report on Form 10-K.

(Dollars in Thousands, except Per Share Amounts)

	2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$24,719	$23,675	$21,026	$19,038
Interest expense	5,863	5,446	4,567	3,666
Net interest income	18,856	18,229	16,459	15,372
Provision for loan losses	500	500	650	600
Net interest income after provision for loan losses	18,356	17,729	15,809	14,772
Noninterest income	4,173	3,549	3,916	3,665
Noninterest expense	14,544	15,027	14,069	13,134
Income tax provision	1,473	1,160	1,022	944
Net earnings	$6,512	$5,091	$4,634	$4,359
Earnings per common share, basic	$0.55	$0.43	$0.41	$0.39
Earnings per common share, diluted	$0.55	$0.42	$0.41	$0.39

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Explanation of Responses:

(Dollars in Thousands, except Per Share Amounts)

	2017			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$18,689	$18,165	$17,792	$17,136
Interest expense	3,201	3,063	2,993	2,895
Net interest income	15,488	15,102	14,799	14,241
Provision for loan losses	600	800	800	650
Net interest income after provision for loan losses	14,888	14,302	13,999	13,591
Noninterest income	3,779	3,702	3,516	3,282
Noninterest expense	12,265	12,166	11,906	12,045
Income tax provision	3,594	1,699	1,633	1,312
Net earnings	$2,808	$4,139	$3,976	$3,516
Earnings per common share, basic	$0.25	$0.37	$0.40	$0.40
Earnings per common share, diluted	$0.25	$0.37	$0.39	$0.40

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNT AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this Annual Report on Form 10 K, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Exchange Act, were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report on Management's Assessment of Internal Control Over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial reporting.

As of December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway

Commission in 2013. This assessment included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y 9C) to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act. Based on the assessment management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018.

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Whitley Penn LLP, an independent registered public accounting firm, audited the consolidated financial statements of the Company for the years ended December 31, 2018, 2017 and 2016 included in this Annual Report on Form 10 K. Their report is included in "Item 15. Exhibits and Financial Statement Schedules" under the heading "Report of Independent Registered Public Accounting Firm." This Annual Report on Form 10 K does not include an attestation report of the Company's registered public accounting firm on the Company's internal control over financial reporting due to a transition period established by rules of the SEC for an Emerging Growth Company.

ITEM 9B. OTHER INFORMATION

On March 15, 2019, we entered into employment agreements with each of Messrs. Abston, Lee and Payne, our named executive officers. Each agreement provides for a three year initial term, followed by automatic three year renewal terms if neither party elects to terminate at least thirty days prior to expiration of the term.
Each of the agreements with our named executive officers provides for the payment of an annual base salary, which will be reviewed at least annually by our board of directors and which may be increased, but not decreased, as a result of that review. In addition to their base salary, each named executive officer is eligible to participate in all bonus plans and employee benefit plans that are applicable either to all employees or to our executive officers. The agreements also provide for certain expense reimbursements.
Under the terms of the agreements, each of our named executive officers was granted a specified number of shares of restricted stock under our 2015 Equity Incentive Plan. The shares will vest ratably over a period of five years, beginning on the first anniversary of the grant date.
Each agreement generally provides that if the named executive officer's employment is terminated without "cause" (as defined in the agreements), or if such officer resigns with "good reason" (as defined in the agreements), then, subject to the officer's compliance with the restrictive covenants described below, the officer shall be entitled to a severance payment equal to the officer's average annual Form W-2 compensation over the preceding three years or, in Mr. Abston's case, equal to two times the officer's average annual Form W-2 compensation over the preceding three years. Each payment is conditioned upon the execution of a release of all claims against the Company and its subsidiaries by the officer. Payment would be made over a period of one year for Messrs. Lee and Payne and two years for Mr. Abston.
Additionally, each agreement provides that if the officer voluntarily resigns without good reason, subject to his compliance with the restrictive covenants described below, he shall be entitled to a payment equal to the product of (i) the officer's average annual Form W-2 compensation over the preceding three years; (ii) the number of full calendar years of employment with the Bank through the date of termination of employment; and (iii) a "vesting multiplier," which is equal to 1% if termination occurs between one and two years after the date of the agreement, 2% if termination occurs between two and three years after the date of the agreement, and 3% after the earlier of the third anniversary of the date of the agreement or the officer reaching age 65. This payment will be paid in equal installments over a three year period following termination, and is conditioned upon the execution of a release of all claims against the Company and its subsidiaries by the officer.
Each of the employment agreements contains a change in control provision that provides for a payment to the officer if his employment is terminated within the three months preceding or twelve months following a change in control, subject to execution of a release and compliance with the restrictive covenants described below. Mr. Abston would be entitled to receive an amount equal to 2.99 times his average annual Form W-2 compensation over the preceding three years, and Messrs. Lee and Payne would be entitled to receive an amount equal to 1.5 times their respective average annual Form W-2 compensation over the preceding three years. Additionally, each officer would be entitled to such payment upon the one year anniversary of a change of control if his employment continues with our successor, subject to the officer's execution of a release of all claims against the Company and its subsidiaries and compliance with the restrictive covenants described below. Any payments pursuant to the change in control provision are subject to compliance with restrictions imposed by the Code.
In consideration of the payments described above, each of our named executive officers has agreed to be bound by certain restrictive covenants set forth in their respective employment agreement, which include confidentiality, non-solicitation and non-competition restrictions.

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Explanation of Responses:

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 15, 2019, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 15,2019, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 15, 2019, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 15, 2019, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information concerning principal accounting fees and services is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 15, 2019, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

1.Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page F-1 of this Annual Report on Form 10-K. Set forth below is a list of such Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2018 and 2017
Consolidated Statements of Earnings for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016
Notes to Consolidated Financial Statements

2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. The exhibits to this Annual Report on Form 10-K listed below have been included only with the copy of this report filed with the SEC. The Company will furnish a copy of any exhibit to shareholders upon written request to the Company and payment of a reasonable fee not to exceed the Company's reasonable expense.

Each exhibit marked with an asterisk is filed or furnished with this Annual Report on Form 10-K as noted below:

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated December 23, 2014, by and among Guaranty Bancshares, Inc., TLB Interim Bank and Texas Leadership Bank (incorporated by reference to Exhibit 2.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on

	April 6, 2017, file number 333-217176).
2.2	Agreement and Plan of Reorganization, dated January 6, 2015, by and among Guaranty Bancshares, Inc., GBI-DCB Acquisition Corporation and DCB Financial Corp. (incorporated by reference to Exhibit 2.2 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
2.3	Agreement and Plan of Merger, dated January 29, 2018, by and among Guaranty Bancshares, Inc., Guaranty Bank & Trust, N.A. and Westbound Bank (incorporated by reference to Exhibit 2.1 to Guaranty Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on January 29, 2018).
3.1	

	Amended and Restated Certificate of Formation of Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1/A filed with the SEC on May 1, 2017, file number 333-217176).
3.2	Amended and Restated Bylaws of Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017,

	file number 333-217176). The other instruments defining the rights of the long-term debt securities of Guaranty Bancshares, Inc. and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. Guaranty Bancshares, Inc. hereby agrees to furnish copies of these instruments to the SEC upon request.
10.1†	Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.2†	Form of Restricted Stock Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity

Incentive Plan
(incorporated by
reference to
Exhibit 10.2 to
Guaranty
Bancshares,
Inc.'s
Registration
Statement on
Form S-1 filed
with the SEC on
April 6, 2017,
file number
333-217176).

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Exhibit No.	Description
10.3†	Form of Restricted Stock Unit Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.4†	Form of Stock Option Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.5†	Form of Stock Appreciation Right Award Agreement under the Guaranty

	Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.6†	Guaranty Bancshares, Inc. Employee Stock Ownership Plan with 401(k) Provisions, effective January 1, 2016 (incorporated by reference to Exhibit 10.6 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1/A filed with the SEC on May 4, 2017, file number 333-217176).
10.7†	Description of Guaranty Bancshares, Inc. Supplemental Retirement Plan (incorporated by reference to Exhibit 10.7 to Guaranty Bancshares, Inc.'s Registration Statement on

	Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.8†	Description of Guaranty Bancshares, Inc. Executive Incentive Retirement Plan (incorporated by reference to Exhibit 10.8 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.9†	DCB Financial Corp. Stock Option Plan, dated December 1, 2003, as amended (incorporated by reference to Exhibit 10.10 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.10†	Form of Stock Option Award Agreement under the DCB Financial Corp. Stock Option Plan (incorporated by

	reference to Exhibit 10.11 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.11†	Guaranty Bancshares, Inc. Fair Market Value Stock Appreciation Rights Plan, effective January 1, 2008 (incorporated by reference to Exhibit 10.12 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
10.12†	Form of Award Agreement under the Guaranty Bancshares, Inc. Fair Market Value Stock Appreciation Rights Plan (incorporated by reference to Exhibit 10.13 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed

	with the SEC on April 6, 2017, file number 333-217176).
10.13†	Employment Agreement, dated as of March 15, 2019, by and between Ty Abston and Guaranty Bancshares, Inc.*
10.14†	Employment Agreement, dated as of March 15, 2019, by and between Clifton Payne and Guaranty Bancshares, Inc.*
10.15†	Employment Agreement, dated as of March 15, 2019, by and between Kirk Lee and Guaranty Bancshares, Inc.*
10.16	Renewal Revolving Promissory Note, dated March 31, 2018, by Guaranty Bancshares, Inc. payable to Frost Bank in the original principal amount of $25,000,000.*
10.17	Loan Agreement, dated March 31, 2017, by and between Guaranty Bancshares, Inc.

	and Frost Bank, as amended.*
10.18	Form of Debenture issued by Guaranty Bancshares, Inc. in July 2015 and December 2015 (incorporated by reference to Exhibit 10.16 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017, file number 333-217176).
21.1	List of Subsidiaries of Guaranty Bancshares, Inc.*
23.1	Consent of Whitley Penn LLP*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the

	Sarbanes-Oxley Act of 2002.**
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed with this Annual Report on Form 10-K

** Furnished with this Annual Report on Form 10-K

† Represents a management contract or a compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
Date: March 15, 2019 GUARANTY BANCSHARES, INC.

By:	/s/ Tyson T. Abston
Name:	Tyson T. Abston
Title:	Chairman of the Board & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Tyson T. Abston Tyson T. Abston	Chairman and Chief Executive Officer (Principal Executive Officer)	3/15/2019
/s/ Clifton A. Payne Clifton A. Payne	Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	3/15/2019
/s/ Kirk L. Lee Kirk L. Lee	President	3/15/2019
/s/ Randall R. Kucera Randall R. Kucera	Vice President and General Counsel	3/15/2019
/s/ Richard W. Baker Richard W. Baker	Director	3/15/2019
/s/ James S. Bunch James S. Bunch	Director	3/15/2019
/s/ Johnny O. Conroy Johnny O. Conroy	Director	3/15/2019
/s/ Molly S. Curl Molly S. Curl	Director	3/15/2019
/s/ Bradley K. Drake Bradley K. Drake	Director	3/15/2019
/s/ Christopher B. Elliott Christopher B. Elliott	Director	3/15/2019

/s/ Carl Johnson, Jr. Carl Johnson, Jr.	Director	3/15/2019
/s/ Weldon C. Miller Weldon C. Miller	Director	3/15/2019
/s/ William D. Priefert William D. Priefert	Director	3/15/2019

Name	Title	Date
/s/ Arthur B. Scharlach, Jr. Arthur B. Scharlach, Jr.	Director	3/15/2019

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Explanation of Responses:

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Audited Consolidated Financial Statements of Guaranty Bancshares, Inc. as of December 31, 2018 and 2017 and for each of the three years ending December 31, 2018, 2017 and 2016.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Guaranty Bancshares, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Guaranty Bancshares, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of earnings, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ WHITLEY PENN LLP

We have served as the Company's auditor since 2015.

Dallas, Texas
March 15, 2019

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GUARANTY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(Dollars in thousands, except per share amounts)

	2018	2017
ASSETS		
Cash and due from banks	$44,471	$40,482
Federal funds sold	20,275	26,175
Interest-bearing deposits	6,764	24,771
Total cash and cash equivalents	71,510	91,428
Securities available for sale	232,975	232,372
Securities held to maturity	163,164	174,684
Loans held for sale	1,795	1,896
Loans, net	1,645,444	1,347,779
Accrued interest receivable	9,292	8,174
Premises and equipment, net	52,227	43,818
Other real estate owned	751	2,244
Cash surrender value of life insurance	26,301	19,117
Deferred tax asset	3,209	2,543
Core deposit intangible, net	4,706	2,724
Goodwill	32,160	18,742
Other assets	23,436	17,103
Total assets	$2,266,970	$1,962,624
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$489,789	$410,009
Interest-bearing	1,381,691	1,266,311
Total deposits	1,871,480	1,676,320
Securities sold under agreements to repurchase	12,228	12,879
Accrued interest and other liabilities	10,733	7,117
Federal Home Loan Bank advances	115,136	45,153
Subordinated debentures	12,810	13,810
Total liabilities	2,022,387	1,755,279
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, 12,835,486 and 11,921,298 shares issued, and 11,829,868 and 11,058,956 shares outstanding, respectively	12,835	11,921
Additional paid-in capital	185,174	155,601
Retained earnings	80,088	66,037
Treasury stock, 1,005,618 and 862,342 shares at cost	(24,352)	(20,087)
Accumulated other comprehensive loss	(9,162)	(6,127)
Total shareholders’ equity	244,583	207,345
Total liabilities and shareholders' equity	$2,266,970	$1,962,624

See accompanying notes to consolidated financial statements.

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Explanation of Responses:

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years ended December 31, 2018, 2017 and 2016
(Dollars in thousands, except per share data)

	2018	2017	2016
Interest income			
Loans, including fees	$77,170	$61,014	$55,565
Securities			
Taxable	6,317	5,811	5,170
Nontaxable	3,770	3,679	3,231
Federal funds sold and interest-bearing deposits	1,201	1,278	742
Total interest income	88,458	71,782	64,708
Interest expense			
Deposits	16,941	10,604	9,050
FHLB advances and federal funds purchased	1,865	472	350
Subordinated debentures	687	724	882
Other borrowed money	49	352	586
Total interest expense	19,542	12,152	10,868
Net interest income	68,916	59,630	53,840
Provision for loan losses	2,250	2,850	3,640
Net interest income after provision for loan losses	66,666	56,780	50,200
Noninterest income			
Service charges	3,600	3,746	3,530
Net realized (loss) gain on securities sales	(50)	167	82
Net realized gain on sales of loans	2,308	1,981	1,718
Other operating income	9,445	8,385	7,686
Total noninterest income	15,303	14,279	13,016
Noninterest expense			
Employee compensation and benefits	32,122	27,078	25,611
Occupancy expenses	8,398	7,400	6,870
Other operating expenses	16,254	13,904	13,899
Total noninterest expense	56,774	48,382	46,380
Income before income taxes	25,195	22,677	16,836
Income tax provision	4,599	8,238	4,715
Net earnings	$20,596	$14,439	$12,121
Basic earnings per share	$1.78	$1.41	$1.35
Diluted earnings per share	$1.77	$1.40	$1.35

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	2018		2017		2016	
Net earnings	$ 20,596		$ 14,439		$ 12,121	
Other comprehensive (loss) income:						
Unrealized (losses) gains on securities						
Unrealized holding losses arising during the period	(3,543	)	(54	)	(83	)
Amortization of net unrealized gains on held to maturity securities	32		377		113	
Reclassification adjustment for net losses (gains) included in net earnings	50		(167	)	(82	)
Tax effect	734		80		58	
Unrealized (losses) gains on securities, net of tax	(2,727	)	236		6	
Unrealized holding gains arising during the period on interest rate swaps	178		124		80	
Total other comprehensive (loss) income	(2,549	)	360		86	
Comprehensive income	$ 18,047		$ 14,799		$ 12,207	

See accompanying notes to consolidated financial statements.

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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Less: KSOP-Owned Shares	Total Shareholders' Equity
Balance at January 1, 2016	$ —	$ 9,616	$ 101,525	$ 49,654	$ (16,486)	$ (6,573)	$ (35,384)	$ 102,352
Net earnings	—	—	—	12,121	—	—	—	12,121
Other comprehensive income	—	—	—	—	—	86	—	86
Exercise of stock options	—	—	—	—	36	—	—	36
Purchase of treasury stock	—	—	—	—	(12,218)	—	(3,000)	(15,218)
Sale of treasury stock	—	—	—	—	8,557	—	8,261	16,818
Stock based compensation	—	—	211	—	—	—	—	211
Net change in fair value of KSOP shares	—	—	—	—	—	—	(1,538)	(1,538)
Dividends:								
Common - $0.52 per share	—	—	—	(4,615)	—	—	—	(4,615)
Balance at December 31, 2016	—	9,616	101,736	57,160	(20,111)	(6,487)	(31,661)	110,253
Net earnings	—	—	—	14,439	—	—	—	14,439
Other comprehensive income	—	—	—	—	—	360	—	360
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	—	—	355	—	—	—	—	355
Net change in fair value of KSOP shares	—	—	—	—	—	—	(2,639)	(2,639)
Dividends:								
Common - $0.53 per share	—	—	—	(5,562)	—	—	—	(5,562)
Balance at December 31, 2017	—	11,921	155,601	66,037	(20,087)	(6,127)	—	207,345
Net earnings	—	—	—	20,596	—	—	—	20,596
Other comprehensive loss	—	—	—	—	—	(2,549)	—	(2,549)
Reclassification of certain tax effects from accumulated other comprehensive income	—	—	—	486	—	(486)	—	—
Exercise of stock options	—	14	313	—	—	—	—	327
Purchase of treasury stock	—	—	—	—	(4,265)	—	—	(4,265)
Issuance of common stock	—	900	28,668	—	—	—	—	29,568
Stock based compensation	—	—	592	—	—	—	—	592
Dividends:								
Common - $0.60 per share	—	—	—	(7,031)	—	—	—	(7,031)
Balance at December 31, 2018	$ —	$ 12,835	$ 185,174	$ 80,088	$ (24,352)	$ (9,162)	$ —	$ 244,583

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	2018	2017	2016
Cash flows from operating activities			
Net earnings	$20,596	$14,439	$12,121
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Depreciation	3,400	3,162	3,183
Amortization of core deposit intangible and software	1,228	1,033	980
Deferred taxes	68	2,428	(1,330)
Securities premium amortization, net of discount accretion	4,210	4,576	4,974
Net realized loss (gain) on securities transactions	50	(167)	(82)
Gain on sale of loans	(2,308)	(1,981)	(1,718)
Gain on sale of branch operations	(830)	—	—
Provision for loan losses	2,250	2,850	3,640
Origination of loans held for sale	(70,841)	(64,817)	(62,620)
Proceeds from loans held for sale	73,250	67,465	65,642
Write-down of other real estate and repossessed assets	407	12	122
Net (gain) loss on sale of premises, equipment, other real estate owned and other assets	(133)	(906)	108
Stock based compensation	592	355	211
Net change in accrued interest receivable and other assets	(5,955)	(15)	(3,786)
Net change in accrued interest payable and other liabilities	2,230	1,235	964
Net cash provided by operating activities	28,214	29,669	22,409
Cash flows from investing activities			
Securities available for sale:			
Purchases	(429,762)	(517,155)	(250,485)
Proceeds from sales	411,796	213,813	103,942
Proceeds from maturities and principal repayments	27,093	225,516	259,719
Securities held to maturity:			
Purchases	—	—	(86,642)
Proceeds from sales	—	3,298	1,866
Proceeds from maturities and principal repayments	9,331	9,516	18,336
Cash paid in connection with acquisitions	(6,423)	—	—
Cash received from acquired banks	24,927	—	—
Acquisition of Denton branch, net of cash paid	—	—	2,399
Net purchases of premises and equipment	(2,833)	(2,320)	(1,599)
Net proceeds from sale of premises, equipment, other real estate owned and other assets	3,668	2,279	2,609
Net increase in loans	(146,531)	(118,754)	(184,126)
Net cash used in investing activities	(108,734)	(183,807)	(133,981)

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Explanation of Responses:

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	2018	2017	2016
Cash flows from financing activities			
Net change in deposits	13,739	99,529	105,966
Net change in securities sold under agreements to repurchase	(651)	2,020	(2,104)
Proceeds from FHLB advances	391,000	60,000	120,178
Repayment of FHLB advances	(331,517)	(70,017)	(86,350)
Proceeds from other debt	—	2,000	19,000
Repayment of other debt	—	(20,286)	(18,714)
Repayments of debentures	(1,000)	(5,500)	(2,000)
Purchase of treasury stock	(4,265)	—	(12,218)
Sale of treasury stock	—	—	8,557
Exercise of stock options	327	84	36
Sale of common stock	—	55,755	—
Cash dividends	(7,031)	(5,562)	(4,615)
Net cash provided by financing activities	60,602	118,023	127,736
Net change in cash and cash equivalents	(19,918)	(36,115)	16,164
Cash and cash equivalents at beginning of year	91,428	127,543	111,379
Cash and cash equivalents at end of year	$71,510	$91,428	$127,543
Supplemental disclosures of cash flow information			
Interest paid	$18,813	$12,119	$10,966
Income taxes paid	5,218	6,660	5,810
Supplemental schedule of noncash investing and financing activities			
Transfer loans to other real estate owned and repossessed assets	$1,304	$1,775	$6,241
Common stock issued in acquisitions	29,568	—	—
Transfer of KSOP shares	—	—	(8,261)
Terminated KSOP put option	—	(34,300)	—
Net change in fair value of KSOP shares	—	2,639	1,538

See accompanying notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIALS STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of Consolidation: The consolidated financial statements include the accounts of Guaranty Bancshares, Inc. and its wholly-owned subsidiary Guaranty Bank & Trust, N.A., (the “Bank” or "Guaranty Bank & Trust"). All entities combined are collectively referred to as the “Company”. All significant intercompany balances and transactions have been eliminated in consolidation.

Non-Bank Investments: Guaranty Bank & Trust has six wholly-owned non-bank subsidiaries, Guaranty Company, GB Com, Inc., 2800 South Texas Avenue LLC, White Oak Aviation LLC, Pin Oak Realty Holdings, Inc. and Pin Oak Energy, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations: The Company operates several banking locations in Texas. The Company’s main sources of income are derived from granting loans, primarily in East Texas, Central Texas, the Dallas/Fort Worth metropolitan statistical area ("MSA"), and the Houston MSA, and investing in securities issued by the U.S. Treasury, U.S. government agencies and state and political subdivisions. A variety of financial products and services are provided to individual and corporate customers. The primary deposit products are checking accounts, money market accounts and certificates of deposit. The 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 East Texas, Central Texas, the Dallas/Fort Worth MSA and the Houston MSA.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided. Actual future results could differ.

Cash and Cash Equivalents: Cash and cash equivalents include cash, due from banks, interest-bearing deposits with other banks that have initial maturities less than 90 days and federal funds sold. Net cash flows are reported for loan and deposit transactions, and short-term borrowings with initial maturities less than 90 days.

Marketable Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Management determines the appropriate classification of securities at the time of purchase. Interest income includes amortization and accretion of purchase premiums and discounts. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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

Non-marketable Securities: Other securities, such as stock in the Independent Bankers Financial Corporation, the Federal Reserve Bank, and the Federal Home Loan Bank are accounted for on the cost basis and are carried in other assets. Stock in Valesco Commerce Street Capital, L.P., Valesco Fund II, L.P., Independent Bankers Capital Fund II, L.P. and Independent Bankers Capital Fund III, L.P., are accounted for on the cost basis in other assets.

Loans Held for Sale: Certain residential mortgage loans are originated for sale in the secondary mortgage loan market. These loans are carried at the lower of cost or estimated fair market value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. To mitigate the interest rate risk, fixed commitments may be obtained at the time loans are originated or identified for sale. All sales are made without recourse. Gains or losses on sales of mortgage loans are recognized at settlement dates based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income was reported on the level-yield interest method and included amortization of net deferred loan fees and costs over the loan term.

Impaired Loans: Loans are considered impaired when, based on current information and events, it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Our policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan’s observable market price.

Nonaccrual Loans: Loans are placed on nonaccrual status at ninety days past due or as determined by management, and interest is considered a loss. The accrual of interest on loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain Acquired Loans: During 2018, the Company acquired a group of loans through the acquisition of Westbound Bank (“Westbound”), as described in Note 2. Acquired loans are recorded at their estimated fair value at the acquisition date, and are initially classified as either purchased credit impaired (“PCI”) loans (i.e. loans that reflect credit deterioration since origination and it is probable at acquisition that the Company will be unable to collect all contractually required payments) or purchased non-impaired loans (“acquired performing loans”).

Acquired performing loans are accounted for under Financial Accounting Standards Board’s Accounting Standards Codification (ASC) 310-20, “Nonrefundable Fees and Other Costs”. Performance of certain loans may be monitored and based on management’s assessment of the cash flows and other facts available, and portions of the accretable difference may be delayed or suspended if management deems appropriate. The Company’s policy for determining when to discontinue accruing interest on acquired performing loans and the subsequent accounting for such loans is essentially the same as the policy for originated loans described above.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should

be charged off.
The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the

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

Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral, less costs to sell, if repayment is expected solely from the collateral. Large groups of homogeneous loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; effects of changes in credit concentrations; changes in the quality of the Company's loan review system; and changes in the values of underlying collateral.

An allowance for loan losses for acquired performing loans is calculated using a methodology similar to that described for originated loans. Acquired performing loans are subsequently evaluated for any required allowance at each reporting date. Such required allowance for each loan is compared to the remaining fair value discount for that loan. If greater, the excess is recognized as an addition to the allowance through a provision for loan losses. If less than the discount, no additional allowance is recorded. Charge-offs and losses first reduce any remaining fair value discount for the loan and once the discount is depleted, losses are applied against the allowance established for that loan. Below is a summary of the segments of the Company's loan portfolio:

Commercial and industrial:	This portfolio segment includes general secured and unsecured commercial loans which are not secured by real estate or may be secured by real estate but made for the primary purpose of a short term revolving line of credit. Risks inherent in this portfolio segment include fluctuations in the local and national economy.
Construction and development:	This portfolio segment includes all loans for the purpose of construction, including both business and residential structures; and real estate development loans, including non-agricultural vacant land. Risks inherent in this portfolio include fluctuations in property values and changes in the local and national economy.

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

Commercial real estate:	The commercial real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the construction and development, farmland, multi-family, and 1-4 family residential segments. Risks inherent in this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale of the finished structures.
Farmland:	The farmland portfolio includes loans that are secured by real estate that is used or usable for agricultural purposes, including land used for crops, livestock production, grazing & pasture land and timberland. This segment includes land with a 1-4 family residential structure if the value of the land exceeds the value of the residence. Risks inherent in this portfolio segment include adverse changes in climate, fluctuations in feed and cattle prices and changes in property values.
Consumer:	This portfolio segment consists of non-real estate loans to consumers. This includes secured and unsecured loans such as auto and personal loans. The risks inherent in this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan. These include increases in the local unemployment rate and fluctuations in consumer and business sales.
1-4 family residential:	This portfolio segment includes loans to both commercial and consumer borrowers secured by real estate for housing units of up to four families. Risks inherent in this portfolio segment include increases in the local unemployment rate, changes in the local economy and factors that would impact the value of the underlying collateral, such as changes in property values.
Multi-family residential:	This portfolio segment includes loans secured by structures containing five or more residential housing units. Risks inherent in this portfolio segment include increases to the local unemployment rate, changes in the local economy, and factors that would impact property values.
Agricultural:	The agricultural portfolio segment includes loans to individuals and companies in the dairy and cattle industries and farmers. Loans in the segment are secured by collateral including cattle, crops and equipment. Risks inherent in this portfolio segment include adverse changes in climate and fluctuations in feed and cattle prices.

Credit Quality Indicators - The Company monitors the credit quality of the loans in the various segments by identifying and evaluating credit quality indicators specific to each segment class. This information is incorporated into management's analysis of the adequacy of the allowance for loan losses. Information for the credit quality indicators is updated monthly or quarterly for classified assets and at least annually for the remainder of the portfolio.

The following is a discussion of the primary credit quality indicators most closely monitored for the respective portfolio segment classes:

Commercial and industrial:	In assessing risk associated with commercial loans, management considers the business's cash flow and the value of the underlying collateral to be the primary credit quality indicators.
Construction and development:	In assessing the credit quality of construction loans, management considers the ability of the borrower to finance principal and interest payments in the event that he is unable to sell the completed structure to be a primary credit quality indicator. For real estate development loans,

	management also considers the likelihood of the successful sale of the constructed properties in the development.
Commercial real estate:	Management considers the strength of the borrower's cash flows, changes in property values and occupancy status to be key credit quality indicators of commercial real estate loans.

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Farmland:	In assessing risk associated with farmland loans, management considers the borrower's cash flows and underlying property values to be key credit quality indicators.
Consumer:	Management considers the debt to income ratio of the borrower, the borrower's credit history, the availability of other credit to the borrower, the borrower's past-due history, and, if applicable, the value of the underlying collateral to be primary credit quality indicators.
1-4 family residential:	Management considers changes in the local economy, changes in property values, and changes in local unemployment rates to be key credit quality indicators of the loans in the 1-4 family residential loan segment.
Multi-family residential:	Management considers changes in the local economy, changes in property values, vacancy rates and changes in local unemployment rates to be key credit quality indicators of the loans in the multifamily loan segment.
Agricultural:	In assessing risk associated with agricultural loans, management considers the borrower's cash flows, the value of the underlying collateral and sources of secondary repayment to be primary credit quality indicators.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets. Maintenance, repairs and minor improvements are charged to noninterest expense as incurred. The following table provides a summary of the estimated useful life of the different fixed asset classes as stated in the policy:

Bank Buildings	Up to 40 years
Equipment	to 10 years
Furniture and Fixtures	to 7 years
Software	to 5 years
Automobiles	to 4 years

Other Real Estate Owned: Assets acquired through, or in lieu of, foreclosure are initially recorded at fair value, less estimated carrying and selling costs, when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.
Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.
Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. Intangible assets with definite useful lives are amortized

over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Impairment is tested for annually and exists when a reporting unit's carrying value of goodwill exceeds its fair value. At the measurement date, the Company had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying

value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Core deposit intangibles represent premiums paid on acquired deposits based on the estimated fair value of the deposits at the time of purchase. These premiums are amortized over a ten year period.

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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 statement of changes in shareholders' equity for the year ended December 31, 2016 as a line item called "KSOP-owned shares." As a result, the consolidated statement of changes in shareholders' equity for the year ended December 31, 2017 includes an adjustment for the inclusion of such KSOP-owned shares in total shareholders' equity as "terminated KSOP put option." 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.

Income Taxes: Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

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Derivative Financial Instruments: The Company accounts for its derivatives under ASC 815, "Derivatives and Hedging," which requires recognition of all derivatives as either assets or liabilities in the balance sheet and requires measurement of those instruments at fair value through adjustments to accumulated other comprehensive income and/or current earnings, as appropriate. On the date the Company enters into a derivative contract, the Company designates the derivative instrument as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period operations. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to operations in the same period(s) that the hedged transaction impacts operations. For free-standing derivative instruments, changes in fair value are reported in current period operations.

Prior to entering a hedge transaction, the Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions along with a formal assessment at both inception of the hedge and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued and the adjustment to fair value of the derivative instrument is recorded in operations.

Dividend Restriction: Banking regulations require the maintenance of certain capital levels that may limit the amount of dividends that may be paid. Regulatory capital requirements are more fully disclosed in Note 18.

Restrictions on Cash: The Company was not required to have cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements as of December 31, 2018 and 2017. Deposits held with the Federal Reserve Bank earn interest.

Stock Compensation: In accordance with ASC 718, "Stock Compensation," the Company uses the fair value method of accounting for share based compensation prescribed by the standard. The fair value of options granted is determined using the Black-Scholes option valuation model.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. KSOP shares are considered outstanding for this calculation unless unearned. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are presented as if all stock splits and stock dividends were effective from the earliest period presented through the date of issuance of the financial statements.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges which are also recognized as separate components of equity.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis.

Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

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Reclassification: Certain amounts in prior period financial statements have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on net income, total assets or stockholders' equity.
Subsequent Events: The Company has evaluated all subsequent events for potential recognition and disclosure through March 15, 2019, the date of which the consolidated financial statements were available to be issued and noted no subsequent events requiring financial statement recognition or disclosure.
Recent Accounting Pronouncements:
In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the Tax Cuts and Jobs Act on December 22, 2017 that changed the Company’s income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU was effective for periods beginning after December 15, 2018 and early adoption was permitted. The Company early adopted ASU 2018-02 in the first quarter of 2018 and reclassified its stranded tax effect of $486 within accumulated other comprehensive income to retained earnings as of March 31, 2018.
In January 2017, the FASB issued 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 was effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The adoption of this pronouncement did not have a significant impact on our 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 public 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 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 has assembled a transition team to assess the adoption of this ASU, has purchased third-party software to assist with data and for calculation purposes, and plans to commence parallel testing of the allowance models under both CECL

requirements and current existing requirements in early 2019.
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

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interim periods within those annual periods, beginning after December 15, 2018. Early adoption of this ASU is permitted for all entities. An entity may adopt the new guidance by either restating prior periods and recording a cumulative effect adjustment at the beginning of the earliest comparative period presented or by recording a cumulative effect adjustment at the beginning of the period of adoption. The Company plans to use the latter approach. The Company will adopt Topic 842 in the first quarter of 2019, and expects recorded assets and liabilities to each increase by approximately $12.0 million upon adoption of the standard as it relates to operating leases in which we are the lessee. The adoption of this standard is expected to have a significant effect on the Company's consolidated balance sheet but is not expected to materially affect the consolidated statement of earnings.
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 was effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this guidance is not material to our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), followed by various amendments to the standard, including clarification of principal versus agent considerations, narrow scope improvements and other technical corrections, all of which are codified in Topic 606. 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 Company has applied ASU 2014-09, which was effective on January 1, 2018, using the modified retrospective approach to all existing contracts with customers covered under the scope of the standard. The adoption of this ASU was not significant to the Company and had no material effect on how the Company recognizes revenue nor did it result in a cumulative effect adjustment or any presentation changes to the consolidated financial statements. The majority of the Company's revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans, letters of credit, loan processing fees and investment securities, as well as revenue related to mortgage banking activities, and BOLI, as these activities are subject to other accounting guidance. Descriptions of revenue-generating activities that are within the scope of Topic 606, and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, are as follows:

- Deposit services. Service charges on deposit accounts include fees for banking services provided, overdrafts and non-sufficient funds. Revenue is generally recognized in accordance with published deposit account agreements for retail accounts or contractual agreements for commercial accounts.

- Merchant and debit card fees. Merchant and debit card fees includes interchange income that is generated by our customers' usage and volume of activity. Interchange rates are not controlled by the Company, which effectively acts as processor that collects and remits payments associated with customer debit card transactions. Merchant service revenue is derived from third party vendors that process credit card transactions on behalf of our merchant customers. Merchant services revenue is primarily comprised of residual fee income based on the referred merchant's processing volumes and/or margin.

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- Fiduciary income. Trust income includes fees and commissions from investment management, administrative and advisory services primarily for individuals, and to a lesser extent, partnerships and corporations. Revenue is recognized on an accrual basis at the time the services are performed and when we have a right to invoice and are based on either the market value of the assets managed or the services provided.

Other noninterest income. Other noninterest income includes among other things, mortgage loan origination fees, wire transfer fees, stop payment fees, loan administration fees and mortgage warehouse lending fees. The majority of these fees in other noninterest income are not subject to the requirements of ASC 606. Fees that are within the scope of ASC 606 are generally received at the time the performance obligations are met.

NOTE 2 - ACQUISITION

On close of business June 1, 2018, the Company acquired 100% of the outstanding shares of capital stock of Westbound Bank, a Texas banking association ("Westbound"), in exchange for a combination of cash and shares of the Company's common stock amounting to total consideration of $35,991. Under the terms of the acquisition, the Company issued 899,816 shares of the Company's common stock in exchange for 2,311,952 shares of Westbound, representing 100% of the outstanding shares of common and preferred stock of Westbound. With the acquisition, the Company has expanded its market into the Houston MSA. Results of operations of the acquired company were included in the Company's results beginning June 2, 2018. Acquisition-related costs of $1,175 are included in other operating expenses in the Company's consolidated statement of earnings for the year ended December 31, 2018. The fair value of the common shares issued as part of the consideration paid for Westbound was determined based upon the closing price of the Company's common shares on the acquisition date.

Goodwill of $13,418 arising from the acquisition of Westbound consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. None of the goodwill is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for Westbound and the fair value of the assets acquired and liabilities assumed recognized at the acquisition date:

Consideration:

	Westbound
Cash	$ 6,423
Equity instruments	29,568
Fair Value of total consideration transferred	$ 35,991

Cash consideration includes contingent consideration related to an escrow agreement in which $1,750 was retained from amounts paid to Westbound shareholders for payment to Guaranty in the event that certain defined loan relationships experienced actual losses during the three year period following the close of the transaction on June 1, 2018. If the loans defined in the escrow agreement do experience losses, funds from the escrow account will be remitted to Guaranty. If the loans payoff or do not experience losses, funds from the escrow account will be remitted to Westbound shareholders according to terms set forth in the escrow agreement.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition, June 1, 2018.

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	Westbound
Cash and due from banks	$ 24,927
Investment securities available for sale	15,264
Loans, net of discount	154,687
Accrued interest receivable	651
Premises and equipment	8,625
Nonmarketable equity securities	—
Core deposit intangible	2,700
Other assets	9,205
Total assets acquired	216,059
Non-interest bearing deposits	40,595
Interest bearing deposits	140,826
Federal Home Loan Bank advances	10,500
Accrued interest and other liabilities	1,565
Total liabilities assumed	193,486
Net assets acquired	22,573
Total consideration paid	35,991
Goodwill	$ 13,418

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date (“acquired performing loans”). The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Acquired performing loans had fair value and gross contractual amounts receivable of $154,687.

NOTE 3 - MARKETABLE SECURITIES
The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2018 and 2017 and the corresponding amounts of gross unrealized gains and losses:

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December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$19,743	$ —	$ 789	$18,954
Municipal securities	15,778	75	260	15,593
Mortgage-backed securities	93,083	52	3,676	89,459
Collateralized mortgage obligations	111,341	—	2,372	108,969
Total available for sale	$239,945	$ 127	$ 7,097	$232,975
Held to maturity:				
Municipal securities	$141,942	$ 1,156	$ 1,094	$142,004
Mortgage-backed securities	17,163	54	500	16,717
Collateralized mortgage obligations	4,059	48	28	4,079
Total held to maturity	$163,164	$ 1,258	$ 1,622	$162,800

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$18,823	$ 64	$ 50	$18,837
Municipal securities	7,746	—	200	7,546
Mortgage-backed securities	92,471	—	1,793	90,678
Collateralized mortgage obligations	116,809	5	1,503	115,311
Total available for sale	$235,849	$ 69	$ 3,546	$232,372
Held to maturity:				
Municipal securities	$146,496	$ 2,244	$ 218	$148,522
Mortgage-backed securities	22,026	199	230	21,995
Collateralized mortgage obligations	6,162	111	—	6,273
Total held to maturity	$174,684	$ 2,554	$ 448	$176,790

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 years ended December 31, 2018 and 2017.

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is detailed in the following tables. At December 31, 2018, the Company held 95 securities which had been in continuous loss positions over twelve months and 75 securities which had been in continuous loss position less than twelve months. Of the securities in a loss position over twelve months, 37 were classified as available for sale and 58 were classified as held to maturity. Of the securities in a loss position less than twelve months, 13 were classified as available for sale and 62 were classified as held to maturity. 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 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-

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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 December 31, 2018.

The following table summarizes securities with unrealized losses at December 31, 2018 and 2017, aggregated by major security type and length of time in a continuous unrealized loss position:

	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
December 31, 2018						
Available for sale:						
Corporate bonds	$(453)	$11,236	$(336)	$7,718	$(789)	$18,954
Municipal securities	(17)	2,219	(243)	7,407	(260)	9,626
Mortgage-backed securities	(89)	7,173	(3,587)	76,717	(3,676)	83,890
Collateralized mortgage obligations	(79)	9,232	(2,293)	99,390	(2,372)	108,622
Total available for sale	$(638)	$29,860	$(6,459)	$191,232	$(7,097)	$221,092
Held to maturity:						
Municipal securities	$(512)	$55,793	$(582)	$26,511	$(1,094)	$82,304
Mortgage-backed securities	(21)	1,478	(479)	12,317	(500)	13,795
Collateralized mortgage obligations	(28)	2,171	—	—	(28)	2,171
Total held to maturity	$(561)	$59,442	$(1,061)	$38,828	$(1,622)	$98,270

	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
December 31, 2017						
Available for sale:						
Corporate bonds	$(50)	$8,019	$—	$—	$(50)	$8,019
Municipal securities	—	—	(200)	7,546	(200)	7,546
Mortgage-backed securities	(658)	42,881	(1,135)	47,797	(1,793)	90,678
Collateralized mortgage obligations	(1,091)	93,584	(412)	21,258	(1,503)	114,842
Total available for sale	$(1,799)	$144,484	$(1,747)	$76,601	$(3,546)	$221,085
Held to maturity:						
Municipal securities	$(37)	$9,230	$(181)	$19,961	$(218)	$29,191
Mortgage-backed securities	(57)	6,499	(173)	9,747	(230)	16,246
Collateralized mortgage obligations	—	—	—	—	—	—
Total held to maturity	$(94)	$15,729	$(354)	$29,708	$(448)	$45,437

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 December 31, 2018, 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 $259,557 and $245,600 at December 31, 2018 and 2017, 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:

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	2018	2017	2016
Proceeds	$411,796	$217,111	$105,808
Gross gains	4	180	243
Gross losses	(54)	(13)	(161)

During the year ended December 31, 2017, the Company sold three held to maturity securities. The Company sold these securities, which consisted of three municipal securities and two corporate bonds, based upon internal credit analysis that they had experienced significant deterioration in creditworthiness. The risk exposure presented by these securities had increased beyond acceptable levels and management determined that it was reasonably possible that all amounts due would not be collected. The credit analysis of the municipalities determined that they had been significantly impacted by the declines 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 credit analysis of the corporate bonds, which were both a non-agency collateralized mortgage obligation bond, indicated evidence of significant deterioration in its creditworthiness. In early 2017 one bond rating agency withdrew its current rating on the bond, and prior to 2017 another rating agency had downgraded it to a ‘No Rating’ position. The Company believes the sales of these securities were merited and permissible under the applicable accounting guidelines because of the significant deterioration in the creditworthiness of the issuers.

There were no held to maturity securities sold during the year ended December 31, 2018.

Sales of securities held to maturity were as follows for the years ended December 31:

	2017	2016
Proceeds from sales	$3,298	$1,866
Amortized cost	3,140	1,842
Gross realized gains	158	24
Tax expense related to securities gains/losses	(44)	(7)

Included in the amortized cost of held to maturity securities shown above for the year ended December 31, 2017 was $324 of other than temporary impairment that was recorded during 2013, as well as $499 in prior principal write-downs on corporate bonds that were sold during 2017.

The contractual maturities at December 31, 2018 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
December 31, 2018				
Due within one year	$—	$—	$764	$764
Due after one year through five years	11,216	10,852	19,062	19,286
Due after five years through ten years	16,654	16,287	43,059	43,795
Due after ten years	7,651	7,408	79,057	78,159
Mortgage-backed securities	93,083	89,459	17,163	16,717
Collateralized mortgage obligations	111,341	108,969	4,059	4,079

$239,945	$232,975	$163,164	$162,800

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

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes our loan portfolio by type of loan at December 31:

	2018	2017
Commercial and industrial	$261,779	$197,508
Real estate:		
Construction and development	237,503	196,774
Commercial real estate	582,519	418,137
Farmland	67,845	59,023
1-4 family residential	393,067	374,371
Multi-family residential	38,386	36,574
Consumer	54,777	51,267
Agricultural	23,277	25,596
Overdrafts	382	294
Total loans	1,659,535	1,359,544
Net of:		
Net deferred loan fees and costs	560	1,094
Allowance for loan losses	(14,651)	(12,859)
Total net loans	$1,645,444	$1,347,779

In 2018, the Company acquired overdrafts and recorded as loans with a fair value and gross contractual fair value of $2 as part of Westbound. All loans acquired in 2018 were classified as acquired performing loans on the acquisition date.

The Company has entered into transactions, at prevailing market rates and terms, with certain directors, executive officers, significant shareholders and their affiliates. Loans to such related parties at December 31, 2018 and 2017, totaled $56,199 and $44,506, respectively. Unfunded commitments to such related parties at December 31, 2018 totaled $16,383.

Loans to principal officers, directors, and their affiliates during the year ended December 31, 2018, was as follows:

	2018
Beginning balance	$44,506
New loans	29,285
Repayments	(17,592)
Ending balance	$56,199

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

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 years ended December 31, 2018, 2017 and 2016:

December 31, 2018	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	$1,581	$1,724	$4,585	$523	$3,022	$629	$602	$187	$6	$12,859
Provision for loan losses	426	196	1,472	120	(196)	2	127	(12)	115	2,250
Loans charged-off	(367)	—	(33)	—	(93)	—	(254)	(2)	(169)	(918)
Recoveries	111	—	1	—	135	—	90	65	58	460
Ending balance	$1,751	$1,920	$6,025	$643	$2,868	$631	$565	$238	$10	$14,651
Allowance ending balance:										
Individually evaluated for impairment	$64	$4	$341	$78	$6	$—	$—	$—	$—	$493
Collectively evaluated for impairment	1,687	1,916	5,684	565	2,862	631	565	238	10	14,158
Ending balance	$1,751	$1,920	$6,025	$643	$2,868	$631	$565	$238	$10	$14,651
Loans:										
Individually evaluated for impairment	$1,022	$1,250	$7,153	$140	$1,383	$—	$—	$408	$—	$11,356
Collectively evaluated for impairment	260,757	236,253	575,366	67,705	391,684	38,386	54,777	22,869	382	1,648,179
Ending balance	$261,779	$237,503	$582,519	$67,845	$393,067	$38,386	$54,777	$23,277	$382	$1,659,535
December 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	272	563	1,405	41	(418)	348	253	276	110	2,850
Loans charged-off	(1,080)	—	(84)	—	(543)	—	(344)	(242)	(165)	(2,458)
Recoveries	797	—	—	—	23	—	108	—	55	983
Ending balance	$1,581	$1,724	$4,585	$523	$3,022	$629	$602	$187	$6	$12,859
Allowance ending balance:										
Individually evaluated for impairment	$17	$—	$27	$85	$5	$—	$—	$—	$—	$134
Collectively evaluated for impairment	1,564	1,724	4,558	438	3,017	629	602	187	6	12,725
Ending balance	$1,581	$1,724	$4,585	$523	$3,022	$629	$602	$187	$6	$12,859
Loans:										
Individually evaluated for impairment	$463	$—	$4,258	$163	$842	$217	$—	$397	$—	$6,340
Collectively evaluated for impairment	197,045	196,774	413,879	58,860	373,529	36,357	51,267	25,199	294	1,353,204
Ending balance	$197,508	$196,774	$418,137	$59,023	$374,371	$36,574	$51,267	$25,596	$294	$1,359,544

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

December 31, 2016	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for loan losses:										
Beginning balance	$1,878	$1,004	$2,106	$400	$2,839	$325	$562	$138	$11	$9,263
Provision for loan losses	910	162	1,158	82	1,117	(44)	171	15	69	3,640
Loans charged-off	(1,213)	(9)	—	—	(71)	—	(269)	—	(200)	(1,762)
Recoveries	17	4	—	—	75	—	121	—	126	343
Ending balance	$1,592	$1,161	$3,264	$482	$3,960	$281	$585	$153	$6	$11,484
Allowance ending balance:										
Individually evaluated for impairment	$64	$—	$—	$47	$108	$—	$34	$—	$—	$253
Collectively evaluated for impairment	1,528	1,161	3,264	435	3,852	281	551	153	6	11,231
Ending balance	$1,592	$1,161	$3,264	$482	$3,960	$281	$585	$153	$6	$11,484
Loans:										
Individually evaluated for impairment	$231	$1,825	$1,196	$258	$2,588	$5	$200	$15	$—	$6,318
Collectively evaluated for impairment	223,481	127,806	366,881	62,108	359,077	26,074	52,977	18,886	317	1,237,607
Ending balance	$223,712	$129,631	$368,077	$62,366	$361,665	$26,079	$53,177	$18,901	$317	$1,243,925

Credit Quality

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

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

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

December 31, 2018	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer and Overdrafts	Agricultural	Total
Grade:									
Pass	$ 260,863	$ 236,253	$ 569,648	$ 67,541	$ 391,956	$ 38,386	$ 55,055	$ 22,713	$ 1,642,415
Special mention	224	—	5,691	49	514	—	48	115	6,641
Substandard	692	1,250	7,180	255	597	—	56	449	10,479
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 261,779	$ 237,503	$ 582,519	$ 67,845	$ 393,067	$ 38,386	$ 55,159	$ 23,277	$ 1,659,535

December 31, 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	$ 196,890	$ 196,515	$ 412,488	$ 58,623	$ 373,154	$ 16,073	$ 51,409	$ 24,650	$ 1,329,802
Special mention	348	259	1,135	226	442	20,284	65	454	23,213
Substandard	270	—	4,514	174	775	217	87	492	6,529
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 197,508	$ 196,774	$ 418,137	$ 59,023	$ 374,371	$ 36,574	$ 51,561	$ 25,596	$ 1,359,544

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

The following table summarizes 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:

December 31, 2018	30 – 59 Days Past Due	60 – 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	$ 209	$ 493	$ 266	$ 968	$ 260,811	$ 261,779	$ —
Real estate:							
Construction and development	735	2,816	—	3,551	233,952	237,503	—
Commercial real estate	1,803	3	3,227	5,033	577,486	582,519	—
Farmland	485	—	—	485	67,360	67,845	—
1-4 family residential	2,849	666	596	4,111	388,956	393,067	—
Multi-family residential	—	—	—	—	38,386	38,386	—
Consumer	526	51	56	633	54,144	54,777	—
Agricultural	105	59	41	205	23,072	23,277	—
Overdrafts	—	—	—	—	382	382	—
Total	$ 6,712	$ 4,088	$ 4,186	$ 14,986	$ 1,644,549	$ 1,659,535	$ —

December 31, 2017	30 – 59 Days Past Due	60 – 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	$ 1,273	$ 93	$ 17	$ 1,383	$ 196,125	$ 197,508	$ —
Real estate:							
Construction and development	117	—	—	117	196,657	196,774	—
Commercial real estate	192	265	1,067	1,524	416,613	418,137	—
Farmland	139	—	6	145	58,878	59,023	—
1-4 family residential	3,998	416	800	5,214	369,157	374,371	—
Multi-family residential	—	—	217	217	36,357	36,574	—
Consumer	381	69	87	537	50,730	51,267	—
Agricultural	204	2	—	206	25,390	25,596	—
Overdrafts	—	—	—	—	294	294	—
Total	$ 6,304	$ 845	$ 2,194	$ 9,343	$ 1,350,201	$ 1,359,544	$ —

The following table presents the nonaccrual loans by category as of December 31:

	2018	2017
Commercial and industrial	$ 366	$ 77
Real estate:		
Construction and development	—	—
Commercial real estate	3,700	1,422
Farmland	140	163
1-4 family residential	1,567	1,937
Multi-family residential	—	217
Consumer	66	138

Agricultural	52	50
Total	$5,891	$4,004

If interest on nonaccrual loans had been accrued, such income would have been approximately $333 and $173 for the years ended December 31, 2018 and 2017, respectively. There were no commitments to lend additional funds to borrowers whose loans were classified as impaired.

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

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

The outstanding balances of TDRs are shown below at December 31:

	2018	2017
Nonaccrual TDRs	$335	$—
Performing TDRs	861	657
Total	$1,196	$657
Specific reserves on TDRs	$—	$17

The following tables present loans by class modified as TDRs that occurred during the years ended:

December 31, 2018	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
1-4 family residential	3	$ 504	$ 504
Agricultural	1	78	78
Total	4	$ 582	$ 582

There was one TDR that subsequently defaulted in 2018, therefore remains on nonaccrual status. The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the year ended December 31, 2018.

December 31, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and industrial	2	$ 381	$ 364
1-4 family residential	1	11	11
Total	3	$ 392	$ 375

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 year ended December 31, 2017.

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table presents information about the Company’s impaired loans as of:

December 31, 2018	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial and industrial	$ 837	$ 837	$ —	$ 842
Real estate:				
Construction and development	720	720	—	518
Commercial real estate	5,168	5,168	—	5,138
Farmland	—	—	—	62
1-4 family residential	1,223	1,223	—	1,132
Multi-family residential	—	—	—	54
Consumer	—	—	—	—
Agricultural	408	408	—	456
Subtotal	8,356	8,356	—	8,202
With allowance recorded:				
Commercial and industrial	185	185	64	300
Real estate:				
Construction and development	530	530	4	44
Commercial real estate	1,985	1,985	341	677
Farmland	140	140	78	147
1-4 family residential	160	160	6	128
Multi-family residential	—	—	—	—
Consumer	—	—	—	—
Agricultural	—	—	—	52
Subtotal	3,000	3,000	493	1,348
Total	$ 11,356	$ 11,356	$ 493	$ 9,550

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

The following table presents information about the Company’s impaired loans as of December 31, 2017:

December 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial and industrial	$ 437	$ 437	$ —	$ 434
Real estate:				
Construction and development	—	—	—	311
Commercial real estate	3,979	3,979	—	4,230
Farmland	6	6	—	90
1-4 family residential	681	681	—	1,096
Multi-family residential	217	217	—	180
Consumer	—	—	—	61
Agricultural	397	397	—	384
Subtotal	5,717	5,717	—	6,786
With allowance recorded:				
Commercial and industrial	26	26	17	315
Real estate:				
Construction and development	—	—	—	7
Commercial real estate	279	279	27	505
Farmland	157	157	85	131
1-4 family residential	161	161	5	754
Multi-family residential	—	—	—	19
Consumer	—	—	—	42
Agricultural	—	—	—	180
Subtotal	623	623	134	1,953
Total	$ 6,340	$ 6,340	$ 134	$ 8,739

During the years ended December 31, 2018, 2017 and 2016, total interest income and cash-based interest income recognized on impaired loans was minimal.

NOTE 5 - PREMISES AND EQUIPMENT

	December 31, 2018	December 31, 2017
Land	$ 10,924	$ 9,857
Building and improvements	52,623	45,525
Furniture, fixtures and equipment	15,675	12,845
Automobiles	293	247
	79,515	68,474
Less: accumulated depreciation	27,288	24,656
	$ 52,227	$ 43,818

Depreciation expense on premises and equipment totaled $3,400, $3,162 and $3,183 for the years ended December 31, 2018, 2017 and 2016, respectively and is included in occupancy expenses on the consolidated statements of earnings.

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

NOTE 6 - GOODWILL

Changes in the carrying amount of goodwill in the accompanying consolidated balance sheets as of December 31 are summarized as follows:

	2018	2017
Beginning of year	$18,742	$18,742
Effect of acquisitions	13,418	—
End of year	$32,160	$18,742

NOTE 7 - CORE DEPOSIT INTANGIBLES

Changes in the carrying amount of core deposit intangibles in the accompanying consolidated balance sheets as of December 31 are summarized as follows:

	2018	2017
Beginning of year	$2,724	$3,308
Effect of acquisitions	2,700	—
Amortization	(718)	(584)
End of year	$4,706	$2,724

Accumulated amortization was $3,825 and $3,107 at December 31, 2018 and 2017, respectively. Amortization expense related to core deposit intangibles was $718, $584 and $580 during the years ended December 31, 2018, 2017 and 2016, respectively. The estimated aggregate future amortization expense for core deposit intangibles remaining as of December 31, 2018 was as follows:

Year Ended December 31,	Amount
2019	$ 853
2020	853
2021	687
2022	453
2023	441
Thereafter	1,419
	$ 4,706

NOTE 8 - INTEREST-BEARING DEPOSITS

Interest-bearing deposits, by type of account, were as follows as of:

	December 31, 2018	December 31, 2017
NOW accounts	$252,109	$263,980
Savings and money market accounts	694,086	705,491
Time deposits $250,000 or less	298,724	207,185
Time deposits greater than $250,000	136,772	89,655
	$1,381,691	$1,266,311

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

Year-end maturities of time deposits, as of December 31, 2018, were as follows:

Year Ended December 31,	Amount
2019	$311,719
2020	68,098
2021	28,324
2022	14,560
2023	12,795
Thereafter	—
	$435,496

Deposits of executive officers, directors and significant shareholders at December 31, 2018 and December 31, 2017 totaled $59,674 and $68,082, respectively.

NOTE 9 - BORROWED MONEY

Federal Home Loan Bank (FHLB) advances, as of December 31, 2018, were as follows:

Fixed-rate advances, with monthly interest payments, principal due in:

Year	Current Weighted Average Rate		Principal due
2019	2.46	%	$105,500
2020	2.09	%	6,500
2021	1.87	%	1,500
2022	1.99	%	1,500
			115,000

Fixed-rate advances, with monthly principal and interest payments, principal due in:

Year	Current Weighted Average Rate		Principal due
2021	1.38	%	136
			$115,136

The Company has a $25,000 revolving line of credit with a correspondent bank that bears interest at the prime rate plus 0.50%, with quarterly interest payments, and matures in March 2019. Under the terms of the line of credit, the Company agreed not to pledge or grant a lien or security interest in the stock of the Bank or in any other assets without prior consent of the lender. As of December 31, 2018, the outstanding balance on the line of credit was $0. To be in compliance with the loan covenants, the Bank is required to maintain no less than a 10% total risk-based capital ratio, must maintain no less than $85,000 in tangible net worth, the ratio of non-performing assets to equity plus allowance for loan losses must not exceed 15%, the cash flow coverage must be greater than 1.25 times and the Company is limited to acquiring additional debt of no more than $500 without prior approval. The Company believes that it is in compliance with all loan covenants.

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

NOTE 10 - SUBORDINATED DEBENTURES

Subordinated debentures are made up of the following as of:

	December 31, 2018	December 31, 2017
Trust II Debentures	$ 3,093	$ 3,093
Trust III Debentures	2,062	2,062
DCB Trust I Debentures	5,155	5,155
Other debentures	2,500	3,500
	$ 12,810	$ 13,810

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

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

The securities held by the Trusts can qualify as Tier I capital for the Company under Federal Reserve Board guidelines. The Federal Reserve’s guidelines restrict core capital elements (including trust preferred securities and qualifying perpetual preferred stock) to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Because the Company’s aggregate amount of trust preferred securities is less than the limit of 25% of Tier I capital, net of goodwill, the full amount is includable in Tier I capital at December 31, 2018 and 2017. Additionally, the terms provide that trust preferred securities would no longer qualify for Tier I capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the junior subordinated debentures.

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

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

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

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

Trust II Debentures
Interest is payable at a variable rate per annum, reset quarterly, equal to 3 months LIBOR plus 3.35%, thereafter.
On any interest payment date on or after October 30, 2012 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.
Trust III Debentures
Interest was payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 1.67%.
On any interest payment date on or after October 1, 2016 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price is equal to 100% of the principal amount if redeemed, plus accrued interest to the date of redemption.
DCB Debentures I
Interest is payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 1.80%.
On any interest payment date on or after June 15, 2012 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.
Other Debentures
In July 2015, the Company issued $4,000 in debentures, of which $3,000 were issued to directors and other related parties. The $3,000 of debentures to related parties were repaid in May 2017 and a $500 par value debenture, which carried a 2.50% rate, matured and was repaid in July 2017. The remaining $500 debenture has a rate of 4.00% and a maturity date of January 1, 2019. At the Company’s option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest.
In December 2015, the Company issued $5,000 in debentures, of which $2,500 were issued to directors and other related parties. In May 2017, $2,000 of the related party debentures were repaid with a portion of the proceeds of Guaranty's initial public offering. A further $1,000 of other debentures matured and were paid off in full in July of this year. The remaining $2,000 of debentures were issued at par value of $500 each with rates ranging from 3.50% to 5.00% and maturity dates from June 30, 2019 to June 30, 2020. At the Company’s option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest.
Maturities of subordinated debentures based on scheduled repayments at December 31, 2018 are as follows (in thousands of dollars):

Year Ended December 31	Amount
2019	$2,000
2020	500
2021	—
2022	—
2023	—
Thereafter	10,310
	$12,810

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GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 - STOCK OPTIONS

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

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

The fair value of options granted was determined using the following weighted-average assumptions as of grant date, for the years ended December 31:

	2018	2017	2016
Risk-free interest rate	2.87 %	2.00 %	1.57 %
Expected term (in years)	6.50	6.46	6.50
Expected stock price volatility	20.10%	18.54%	20.92%
Dividend yield	1.76 %	1.61 %	2.13 %

A summary of activity in the Plan during the years ended December 31 follows:

2018	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	471,442	$ 24.98	7.30	$ 2,696
Granted	101,000	32.29	9.51	5
Exercised	(14,372)	22.74	4.33	102
Forfeited	(17,800)	26.07	6.71	96
Balance, December 31, 2018	540,270	$ 26.37	6.94	$ 2,160
Exercisable at end of year	207,271	$ 24.37	5.63	$ 1,141

2017	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	340,377	$ 23.43	7.34	$ 194
Granted	159,598	27.80	9.40	480
Exercised	(7,033)	11.94	4.23	132
Forfeited	(21,500)	25.58	8.59	109
Balance, December 31, 2017	471,442	$ 24.98	7.30	$ 2,696
Exercisable at end of year	134,644	$ 23.60	5.85	$ 950

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

A summary of nonvested activity in the Plan during the years ended December 31 follows:

2018	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	336,798	$ 25.54	7.88	$ 1,747
Granted	101,000	32.29	9.51	5
Vested	(88,440)	25.51	6.69	400
Forfeited	(16,359)	26.07	6.71	96
Balance, December 31, 2018	332,999	$ 27.62	7.75	$ 1,018

2017	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of year	250,700	$ 23.73	7.65	$ 69
Granted	159,598	27.80	9.40	480
Vested	(54,500)	23.72	6.35	378
Forfeited	(19,000)	25.58	8.59	109
Balance, December 31, 2017	336,798	$ 25.54	7.88	$ 1,747

Information related to the Plan is as follows for the years ended December 31:

	2018	2017	2016
Intrinsic value of options exercised	$102	$132	$ 36
Cash received from options exercised	327	84	36
Tax benefit realized from options exercised	—	—	—
Weighted average fair value of options granted	6.69	7.91	4.30

As of December 31, 2018, there was $1,812 of total unrecognized compensation expense related to unvested stock options granted under the Plan. The expense is expected to be recognized over a weighted-average period of 3.84 years.

The Company granted options under the 2015 Stock Option Plan in 2018. Expense of $592, $355 and $211 was recorded during the years ended December 31, 2018, 2017 and 2016, respectively, which represents the fair value of shares vested during the those years.

NOTE 12 - STOCK APPRECIATION RIGHTS

On June 1, 2017, the Company terminated the Guaranty Bancshares, Inc. Fair Market Value Stock Appreciation Rights Plan, paid all accrued benefits through the termination date and issued equivalent stock options to the plan holders that expire 10 years from the issuance date. Expense associated with stock appreciation rights in 2017 and 2016 was $318 and $113, respectively. There were no SARs granted in 2017.

NOTE 13 - EMPLOYEE BENEFITS

KSOP

The Company maintains an Employee Stock Ownership Plan containing Section 401(k) provisions covering substantially all employees (“KSOP”). The plan provides for a matching contribution of up to 5% of a participant’s qualified compensation starting January 1, 2016. Guaranty's total contributions accrued or paid during the years ended December 31, 2018, 2017 and 2016 totaled $1,125, $965 and $935, respectively.

GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Benefits under the KSOP generally are distributed to participants in the form of cash, although participants have the right to receive distributions in the form of shares of common stock.

As of December 31, 2018 and 2017, the number of shares held by the KSOP were 1,333,504 and 1,314,277, respectively. There were no unallocated shares to plan participants as of December 31, 2018 and 2017.

Executive Incentive Retirement Plan

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

In connection with the Executive Incentive Retirement Plan, the Company has purchased life insurance policies on the respective officers. The cash surrender value of life insurance policies held by the Company totaled $26,301 and $19,117 as of December 31, 2018 and 2017, respectively.

Expense related to these plans totaled $502, $447 and $390 for the years ended December 31, 2018, 2017 and 2016, respectively, and is included in employee compensation and benefits on the Company's consolidated statements of earnings. The recorded liability totaled approximately $3,667 and $2,420 as of December 31, 2018 and 2017, respectively and is included in accrued interest and other liabilities on the Company's consolidated balance sheets.

Bonus Plan

The Company has a Bonus Plan that rewards officers and employees based on performance of individual business units of the Company. Earnings and growth performance goals for each business unit and for the Company as a whole are established at the beginning of the calendar year and approved annually by the board of directors. The Bonus Plan provides for a predetermined bonus amount to be contributed to the employee bonus pool based on (i) earnings target and growth for individual business units and (ii) achieving certain pre-tax return on average equity and pre-tax return on average asset levels for the Company as a whole. These bonus amounts are established annually by our board of directors. The bonus expense under this plan for the years ended December 31, 2018, 2017 and 2016 totaled $2,943, $2,316 and $2,069, respectively and is included in employee compensation and benefits on the Company's consolidated statements of earnings.

NOTE 14 - INCOME TAXES

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums. The Tax Cuts and Jobs Act also significantly changes U.S. tax law related to foreign operations; however, such changes do not currently impact us.

As stated above, as a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, we remeasured our deferred tax assets and liabilities based upon the newly enacted U.S. statutory federal income tax rate of 21%, which is the tax rate at which these assets and liabilities are expected to reverse in the future. During the year ended December 31, 2017, we recognized a provisional tax expense related to the remeasurement of our deferred tax assets and liabilities totaling $1,695.

Management of the Company considers the likelihood of changes by taxing authorities in its filed income tax returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in previously filed income tax returns that require disclosure in the accompanying consolidated financial statements. The Company is subject to U.S. federal income taxes.

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

The consolidated provision for income taxes were as follows as of December 31:

	2018	2017	2016
Current federal tax expense	$5,288	$5,803	$6,045
Deferred federal tax (benefit)	(683)	740	(1,330)
Revaluation of net deferred tax assets due to change in U.S. federal statutory income tax rate	(6)	1,695	—
Total	$4,599	$8,238	$4,715

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis as of December 31:

	2018	2017	2016
Federal statutory income tax at 21% for 2018 and 35% for 2017 and 2016	$5,291	$7,937	$5,893
Tax exempt interest income	(968)	(1,560)	(1,428)
Revaluation of net deferred tax assets due to change in U.S. federal statutory income tax rate	(6)	1,695	—
Earnings of bank owned life insurance	(113)	(161)	(128)
Nondeductible expenses	566	577	223
Other	(171)	(250)	155
Total	$4,599	$8,238	$4,715

Income tax expense for 2017 was impacted by the adjustment of our deferred tax assets and liabilities related to the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act, which was enacted on December 22, 2017. As a result of the new law, and as detailed in the table above, we recognized a provisional net tax expense totaling $1,695 in 2017 and a net tax benefit resulting from the finalization of those calculations totaling $6 in 2018. As of December 31, 2018, the accounting for the income tax enactment-date effects of the new tax law has been completed.

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The components of the deferred tax assets (liabilities), in the accompanying consolidated balance sheets consisted of the following as of December 31:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$3,077	$2,758
Deferred compensation	770	508
Unrealized loss on available for sale securities	1,464	730
Bonus accrual	328	—
Accretion of acquisition allowance	327	—
Other real estate owned	65	2
Other	484	556
Total deferred tax assets	6,515	4,554
Deferred tax liabilities:		
Premises and equipment	(2,334)	(1,432)
Prepaid expenses	(179)	(179)
Deferred loan costs, net	(118)	(230)
Intangibles	(590)	(116)
Other	(85)	(54)
Total deferred tax liabilities	(3,306)	(2,011)
Net deferred tax asset	$3,209	$2,543

NOTE 15 - NONINTEREST INCOME AND NONINTEREST EXPENSE

Other operating income consisted of the following for the years ended December 31:

	2018	2017	2016
Fiduciary income	$1,587	$1,463	$1,405
Bank-owned life insurance income	570	461	453
Merchant and debit card fees	3,642	3,119	2,741
Loan processing fee income	589	597	622
Other noninterest income	3,057	2,745	2,465
Total	$9,445	$8,385	$7,686

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data) (continued)

Other operating expense consisted of the following for the years ended December 31:

	2018	2017	2016
Legal and professional fees	$3,080	$2,061	$1,935
Software support fees	2,502	2,089	1,870
Amortization	1,228	1,033	980
Director and committee fees	1,029	1,064	940
Advertising and promotions	1,410	1,193	1,015
ATM and debit card expense	1,127	899	933
Office and computer supplies	416	426	464
Postage	310	301	325
Telecommunication expense	649	526	609
FDIC insurance assessment fees	625	671	1,200
Other real estate owned expenses and write-downs	157	128	140
Other	3,721	3,513	3,488
Total	$16,254	$13,904	$13,899

NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The Company entered into interest rate swaps to receive payments at a fixed rate in exchange for paying a floating rate on the debentures discussed in Note 10. Management believes that entering into the interest rate swaps exposed the Company to variability in their fair value due to changes in the level of interest rates. It is the Company's objective to hedge the change in fair value of floating rate debentures at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this liability to other liabilities of the Company. To meet this objective, the Company utilizes interest rate swaps as an asset/liability management strategy to hedge the change in value of the cash flows due to changes in expected interest rate assumptions.

Interest rate swaps with notional amounts totaling $5,000 as of December 31, 2018 and 2017, were designated as cash flow hedges of the debentures and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income.

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

Explanation of Responses:

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

December 31, 2018

Notional Amount	Pay Rate	Receive Rate	Effective Date	Maturity in Years	Unrealized Losses
$2,000	5.979 %	3 month LIBOR plus 1.67%	10/1/2016	7.25	$ 220
$3,000	7.505 %	3 month LIBOR plus 3.35%	10/30/2012	3.83	$ 173

December 31, 2017

Notional Amount	Pay Rate	Receive Rate	Effective Date	Maturity in Years	Unrealized Losses
$2,000	5.979 %	3 month LIBOR plus 1.67%	10/1/2016	8.25	$ 301
$3,000	7.505 %	3 month LIBOR plus 3.35%	10/30/2012	4.83	$ 270

Interest expense recorded on these swap transactions totaled $687, $724 and $882 during the years ended December 31, 2018, 2017 and 2016, respectively, and is reported as a component of interest expense on the debentures. At December 31, 2018, the Company expected none of the unrealized losses to be reclassified as a reduction of interest expense during the remainder of 2019.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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

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

Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company’s policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table below. If the commitment were funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2018 and 2017, no amounts have been recorded as liabilities for the Bank’s potential obligations under these guarantees.

Commitments and letters of credit outstanding were as follows as of December 31:

	Contract or Notional Amount	
	2018	2017
Commitments to extend credit	$342,523	$326,879

Letters of credit	11,675	8,336

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

FHLB Letters of Credit
At December 31, 2018, the Company had letters of credit of $2,000 pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

Operating Leases
The Company leases some of its banking facilities under non-cancelable operating leases expiring in various years through 2023 and thereafter. Minimum future lease payments under these non-cancelable operating leases in excess of one year as of December 31, 2018, are as follows:

Year Ended December 31,	Amount
2019	$ 1,672
2020	1,362
2021	1,128
2022	959
2023	948
Thereafter	6,825
	$ 12,894

Rental expense for the years ended December 31, 2018, 2017, and 2016 was approximately $1,433, $919 and $717 respectively, and is included in other expenses in the accompanying consolidated statements of earnings.
Certain of the operating leases above provide for renewal options at their fair value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases.
NOTE 18 - REGULATORY MATTERS
The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.
The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective for the Company and Bank on January 1, 2015, with certain transition provisions to be fully phased in by January 1, 2019. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and or Tier 1 capital to adjusted quarterly average assets (as defined). Management believes, as of December 31, 2018 and December 31, 2017 that the Bank met all capital adequacy requirements to which it was subject.
When fully phased in on January 1, 2019, the Basel III Capital Rules, among other things, will have (i) introduced a new capital measure called “Common Equity Tier I” (“CETI”), (ii) specified that Tier I capital consist of CETI and “Additional Tier I Capital” instruments meeting specified requirements, (iii) defined CETI narrowly by requiring that

most deductions/adjustments to regulatory capital measures be made to CETI and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments as compared to existing regulations.

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Starting in January 2016, the implantation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios.

As of December 31, 2018 and December 31, 2017, the Company's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Company must maintain minimum total risk-based, CETI, Tier 1 risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since December 31, 2018 that management believes have changed the Company's category.

The Federal Reserve's guidelines regarding the capital treatment of trust preferred securities limits restricted core capital elements (including trust preferred securities and qualifying perpetual preferred stock) to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Because the Company's aggregate amount of trust preferred securities is less than the limit of 25% of Tier I capital, net of goodwill, the rules permit the inclusion of $10,310 of trust preferred securities in Tier I capital at December 31, 2018 and 2017. Additionally, the rules provide that trust preferred securities would no longer qualify for Tier I capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the subordinated debentures.

A comparison of the Company's and Bank's actual capital amounts and ratios to required capital amounts and ratios is presented in the following table:

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total capital to risk-weighted assets:						
Consolidated	$241,791	13.25%	$146,020	8.00 %		n/a
Bank	242,142	13.27%	146,015	8.00 %	$182,519	10.00 %
Tier 1 capital to risk-weighted assets:						
Consolidated	227,140	12.44%	109,515	6.00 %		n/a
Bank	227,491	12.46%	109,511	6.00 %	146,015	8.00 %
Tier 1 capital to average assets:						
Consolidated	227,140	10.16%	89,422	4.00 %		n/a
Bank	227,491	10.18%	89,414	4.00 %	111,768	5.00 %
Common equity tier 1 risk-based capital:						
Consolidated	216,830	11.88%	82,136	4.50 %		n/a
Bank	227,491	12.46%	82,134	4.50 %	118,637	6.50 %

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	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total capital to risk-weighted assets:						
Consolidated	$215,720	14.13%	$122,111	8.00 %		n/a
Bank	206,490	13.53%	122,122	8.00 %	$152,652	10.00 %
Tier 1 capital to risk-weighted assets:						
Consolidated	202,861	13.29%	91,583	6.00 %		n/a
Bank	193,631	12.68%	91,591	6.00 %	122,122	8.00 %
Tier 1 capital to average assets:						
Consolidated	202,861	10.53%	77,048	4.00 %		n/a
Bank	193,631	10.05%	77,054	4.00 %	96,318	5.00 %
Common equity tier 1 risk-based capital:						
Consolidated	192,551	12.61%	68,687	4.50 %		n/a
Bank	193,631	12.68%	68,694	4.50 %	99,224	6.50 %

Dividends paid by the Company are mainly provided by dividends from its subsidiaries. However, certain restrictions exist regarding the ability of its bank subsidiary to transfer funds to Guaranty in the form of cash dividends, loans or advances. The amount of dividends that a subsidiary bank organized a national banking association, such as the Bank, may declare in a calendar year is the subsidiary bank’s net profits for that year combined with its retained net profits for the preceding two years. Retained net profits, as defined by the OCC, consist of net income less dividends declared during the period. As of December 31, 2018, the Bank had $30,158 available for payment of dividends.

NOTE 19 - CONCENTRATIONS OF CREDIT RISK

Most of the Company’s business activity is with customers located within the state of Texas. Investments in state and municipal securities involve governmental entities within the Company’s market area. The Company also maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage.

The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 20 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured by collateralized mortgage obligations securities with a market value of $12,423 as of December 31, 2018 and collateralized mortgage obligations and agency securities with a market value of $13,029 as of December 31, 2017, respectively.

Securities sold under agreements to repurchase are financing arrangements that mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase is summarized as follows as of December 31:

	2018	2017
Average balance during the year	$12,796	$12,769
Average interest rate during the year	0.57 %	0.53 %
Maximum month-end balance during the year	$14,365	$14,539
Weighted average interest rate at year-end	0.44 %	0.38 %

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NOTE 21 - RELATED PARTIES

As more fully described in Note 4, Note 8 and Note 10, the company has entered into loans, deposits and debenture transactions with related parties. Management believes the transactions entered into with related parties are in the ordinary course of business and are on terms similar to transitions with unaffiliated parties.

NOTE 22 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Marketable Securities: The fair values for marketable securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans Held For Sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Derivative Instruments: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on the present value of estimated future cash flows using the loan's existing rate or, if repayment is expected solely from the collateral, the fair value of collateral, less costs to sell. The fair value of real estate collateral is determined using recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant (Level 3). Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business (Level 3). Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data

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available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly (Level 3).

The following table summarizes quantitative disclosures about the fair value measurements for each category of financial assets (liabilities) carried at fair value as of December 31:

2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets (liabilities) at fair value on a recurring basis:				
Available for sale securities				
Mortgage-backed securities	$ 89,459	$ —	$ 89,459	$ —
Collateralized mortgage obligations	108,969	—	108,969	—
Municipal securities	15,593	—	15,593	—
Corporate bonds	18,954	—	18,954	—
Derivative instruments	(392)	—	(392)	—
Assets at fair value on a nonrecurring basis:				
Impaired loans	10,863	—	—	10,863
Other real estate owned	751	—	—	751

2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets (liabilities) at fair value on a recurring basis:				
Available for sale securities				
Mortgage-backed securities	$ 90,678	$ —	$ 90,678	$ —
Collateralized mortgage obligations	115,311	—	115,311	—
Municipal securities	7,546	—	7,546	—
Corporate bonds	18,837	—	18,837	—
Derivative instruments	(571)	—	(571)	—
Assets at fair value on a nonrecurring basis:				
Impaired loans	6,206	—	—	6,206
Other real estate owned	2,244	—	—	2,244

There were no transfers between Level 2 and Level 3 during the year ended December 31, 2018 or 2017.
Nonfinancial Assets and Nonfinancial Liabilities:
Nonfinancial assets measured at fair value on a nonrecurring basis during the years ended December 31, 2018 and 2017 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

The following table presents foreclosed assets that were remeasured and recorded at fair value as of December 31:

	2018	2017
Other real estate owned remeasured at initial recognition:		
Carrying value of other real estate owned prior to remeasurement	$542	$1,082
Charge-offs recognized in the allowance for loan losses	(25)	(195)
Fair value of other real estate owned remeasured at initial recognition	$517	$887

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	2018	2017	2016
Other real estate owned remeasured subsequent to initial recognition:			
Carrying value of other real estate owned prior to remeasurement	$599	$ —	$170
Write-downs included in collection and other real estate owned expense	(56)	—	(69)
Fair value of other real estate owned remeasured subsequent to initial recognition	$543	$ —	$101

The following table presents quantitative information about nonrecurring Level 3 fair value measurements at:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
December 31, 2018				
Impaired loans	$10,863	Fair value of collateral- sales comparison approach	Selling costs or other normal adjustments: Real estate Equipment	10%-20% (16%) 10%-20% (19%)
Other real estate owned	$751	Appraisal value of collateral	Selling costs or other normal adjustments	10%-20% (16%)

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
December 31, 2017				
Impaired loans	$6,206	Fair value of collateral- sales comparison approach	Selling costs or other normal adjustments: Real estate Equipment	10%-20% (16%) 10%-20% (3.6%)
Other real estate owned	$2,244	Appraisal value of collateral	Selling costs or other normal adjustments	10%-20% (16%)

The carrying amounts and estimated fair values of financial instruments, not previously in this note, at December 31, 2018 and 2017 are as follows:

	Fair Value Measurements at December 31, 2018 Using:				
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:					
Cash, due from banks, federal funds sold and interest-bearing deposits	$71,510	$71,510	$—	$ —	$71,510
Marketable securities held to maturity	163,164	—	162,800	—	162,800
Loans, net	1,645,444	—	—	1,630,600	1,630,600
Accrued interest receivable	9,292	—	9,292	—	9,292
Nonmarketable equity securities	14,937	—	14,937	—	14,937
Cash surrender value of life insurance	26,301	—	26,301	—	26,301
Financial liabilities:					
Deposits	$1,871,480	$1,435,985	$434,647	$ —	$1,870,632
Securities sold under repurchase agreements	12,228	—	12,228	—	12,228
Accrued interest payable	1,651	—	1,651	—	1,651
Other debt	—	—	—	—	—
Federal Home Loan Bank advances	115,136	—	114,934	—	114,934
Subordinated debentures	12,810	—	10,724	—	10,724

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	Fair Value Measurements at December 31, 2017 Using:				
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:					
Cash, due from banks, federal funds sold and interest-bearing deposits	$91,428	$66,657	$24,771	$ —	$91,428
Marketable securities held to maturity	174,684	—	176,790	—	176,790
Loans, net	1,347,779	—	—	1,346,361	1,346,361
Accrued interest receivable	8,174	—	8,174	—	8,174
Nonmarketable equity securities	9,453	—	9,453	—	9,453
Cash surrender value of life insurance	19,117	—	19,117	—	19,117
Financial liabilities:					
Deposits	$1,676,320	$1,378,467	$297,978	$ —	$1,676,445
Securities sold under repurchase agreements	12,879	—	12,879	—	12,879
Accrued interest payable	922	—	922	—	922
Other debt	—	—	—	—	—
Federal Home Loan Bank advances	45,153	—	44,722	—	44,722
Subordinated debentures	13,810	—	11,495	—	11,495

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values (Level 1).

Loans, net

The fair value of fixed-rate loans and variable-rate loans that reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality (Level 3).

Cash Surrender Value of Life Insurance

The carrying amounts of bank-owned life insurance approximate their fair value.

Nonmarketable Equity Securities

It is not practical to determine the fair value of Independent Bankers Financial Corporation, Federal Home Loan Bank, Federal Reserve Bank and other stock due to restrictions placed on its transferability.

Deposits and Securities Sold Under Repurchase Agreements

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) (Level 1). The fair values of deposit liabilities with defined maturities are estimated by discounting future cash flows using interest rates currently offered for deposits of similar remaining maturities (Level 2).

Other Borrowings

The fair value of borrowings, consisting of lines of credit, Federal Home Loan Bank advances and Subordinated debentures is estimated by discounting future cash flows using currently available rates for similar financing (Level 2).

Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate their fair values (Level 2).

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Off-balance Sheet Instruments
Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

NOTE 23 - ACCUMULATED OTHER COMPREHENSIVE LOSS
The following are changes in accumulated other comprehensive loss by component, net of tax, for the year ending December 31, 2018:

	Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (Losses) on Available for Sale Securities	Unrealized Gains and (Losses) on Held to Maturity Securities	Total
Beginning balance	$ (571)	$ (5,460)	$ (96)	$ (6,127)
Other comprehensive income (loss) before reclassification	178	(2,799)	32	(2,589)
Amounts reclassified from accumulated other comprehensive loss	—	40	—	40
Net current period other comprehensive income (loss)	178	(2,759)	32	(2,549)
Reclassification of certain tax effects from accumulated other comprehensive loss	—	(486)	—	(486)
Ending balance	$ (393)	$ (8,705)	$ (64)	$ (9,162)

The following are significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ending December 31, 2018:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified From Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Earnings is Presented
Unrealized loss on available for sale securities	$ 50	Net realized loss on sale of securities transactions
	(10)	Tax benefit
	$ 40	Net of Tax

The following are changes in accumulated other comprehensive loss by component, net of tax, for the year ending December 31, 2017:

	Gains and (Losses) on Cash Flow Hedges	Unrealized Losses on Available for Sale Securities	Unrealized Gains and (Losses) on Held to Maturity Securities	Total
Beginning balance	$ (695)	$ (5,319)	$ (473)	$ (6,487)
Other comprehensive income (loss) before reclassification	124	(33)	377	468
Amounts reclassified from accumulated other comprehensive loss	—	(108)	—	(108)

Net current period other comprehensive income (loss)	124	(141)	377	360
Ending balance	$ (571)	$ (5,460)	$ (96)	$ (6,127)

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The following are significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ending December 31, 2017:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified From Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Earnings is Presented
Unrealized gain on available for sale securities	$ (167)	Net realized gain on sale of securities transactions
	59	Tax effect
	$ (108)	Net of Tax

The following are changes in accumulated other comprehensive loss by component, net of tax, for the year ending December 31, 2016:

	Gains and (Losses) on Cash Flow Hedges	Unrealized Losses on Available for Sale Securities	Unrealized Gains and (Losses) on Held to Maturity Securities	Total
Beginning balance	$ (775)	$ (5,212)	$ (586)	$ (6,573)
Other comprehensive income (loss) before reclassification	80	(54)	113	139
Amounts reclassified from accumulated other comprehensive loss	—	(53)	—	(53)
Net current period other comprehensive income (loss)	80	(107)	113	86
Ending balance	$ (695)	$ (5,319)	$ (473)	$ (6,487)

The following are significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ending December 31, 2016:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified From Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Earnings is Presented
Unrealized gain on available for sale securities	$ (82)	Net realized gain on sale of securities transactions
	29	Tax effect
	$ (53)	Net of Tax

NOTE 24 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted-average common shares outstanding for the period. Diluted earnings per share reflects the maximum potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and would then share in the net earnings of the Company. Dilutive share equivalents include

stock-based awards issued to employees.

Stock options granted by the Company are treated as potential shares in computing earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money awards which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not

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yet recognized, and the amount of tax impact that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

The computations of basic and diluted earnings per share for the Company were as follows (in thousands except per share amounts) as of December 31:

	2018	2017	2016
Numerator:			
Net earnings (basic)	$ 20,596	$ 14,439	$ 12,121
Net earnings (diluted)	$ 20,596	$ 14,439	$ 12,121
Denominator:			
Weighted-average shares outstanding (basic)	11,562,826	10,230,840	8,968,262
Effect of dilutive securities:			
Common stock equivalent shares from stock options	90,940	82,529	8,066
Weighted-average shares outstanding (diluted)	11,653,766	10,313,369	8,976,328
Net earnings per share			
Basic	$ 1.78	$ 1.41	$ 1.35
Diluted	$ 1.77	$ 1.40	$ 1.35

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NOTE 25 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Guaranty Bancshares, Inc. follows:

	2018	2017
ASSETS		
Cash and cash equivalents	$4,111	$14,009
Investment in banking subsidiaries	255,637	208,995
Other assets	384	511
Total assets	$260,132	$223,515
LIABILITIES AND EQUITY		
Debt	$12,810	$13,810
Accrued expenses and other liabilities	2,739	2,360
KSOP-owned shares	—	—
Shareholders' equity	244,583	207,345
Total liabilities and shareholders' equity	$260,132	$223,515

	2018	2017	2016
Interest income	$ 13	$ 11	$ 19
Dividends from Guaranty Bank & Trust	10,000	—	12,000
	10,013	11	12,019
Expenses			
Interest expense	687	1,024	1,417
Other expenses	2,590	1,682	1,406
	3,277	2,706	2,823
Income (loss) before income tax and equity in undistributed income of subsidiary	6,736	(2,695)	9,196
Income tax benefit	482	354	900
Income (loss) before equity in undistributed earnings of subsidiary	7,218	(2,341)	10,096
Equity in undistributed earnings of subsidiary	13,378	16,780	2,025
Net earnings	$ 20,596	$ 14,439	$ 12,121
Comprehensive income	$ 18,047	$ 14,799	$ 12,207

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	2018	2017	2016
Cash flows from operating activities			
Net earnings	$20,596	$14,439	$12,121
Adjustments:			
Equity in undistributed subsidiary earnings	(13,378)	(16,780)	(2,025)
Stock based compensation	592	355	211
Change in other assets	127	1,270	89
Change in other liabilities	557	1,589	(227)
Net cash provided by operating activities	8,494	873	10,169
Cash flows from investing activities			
Cash paid in connection with acquisitions	(6,423)	—	—
Investment in Guaranty Bank & Trust	—	(15,000)	—
Net cash used in investing activities	(6,423)	(15,000)	—
Cash flows from financing activities			
Proceeds of borrowings	—	2,000	19,000
Repayments of borrowings	(1,000)	(25,786)	(20,714)
Sale of common stock	—	55,755	—
Purchase of treasury stock	(4,265)	—	(12,218)
Sale of treasury stock	—	—	8,557
Exercise of stock options	327	84	36
Dividends paid	(7,031)	(5,562)	(4,615)
Net cash (used in) provided by financing activities	(11,969)	26,491	(9,954)
Net change in cash and cash equivalents	(9,898)	12,364	215
Beginning cash and cash equivalents	14,009	1,645	1,430
Ending cash and cash equivalents	$4,111	$14,009	$1,645