

FORM 10-Q

For the quarterly period ended June 30, 2018

OR

For the transition period from _____ to _____.

Commission File Number: 001-38087

GUARANTY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas 75-1656431

| | |
|--|--------------------------------------|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification no.) |
|--|--------------------------------------|

201 South Jefferson Avenue

Mount Pleasant, Texas 75455

(Address of principal executive offices) (Zip code)

(903) 572 - 9881

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|-------------------------|-------------------|
| Large accelerated filer | Accelerated filer |
|-------------------------|-------------------|

Non-accelerated filer
(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a)

of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

As of August 10, 2018, there were 11,960,772 outstanding shares of the registrant's common stock, par value \$1.00 per share.

GUARANTY BANCSHARES, INC.

| | Page |
|---|-----------|
| PART I — FINANCIAL INFORMATION | |
| <u>Item 1. Financial Statements – (Unaudited)</u> | <u>4</u> |
| <u>Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u> | <u>4</u> |
| <u>Consolidated Statements of Earnings for the Three and Six Months Ended June 30, 2018 and 2017</u> | <u>6</u> |
| <u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017</u> | <u>7</u> |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June 30, 2018 and 2017</u> | <u>8</u> |
| <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u> | <u>9</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>11</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>43</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | <u>77</u> |
| <u>Item 4. Controls and Procedures</u> | <u>77</u> |
| PART II — OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | <u>78</u> |
| <u>Item 1A. Risk Factors</u> | <u>78</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>78</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>78</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>78</u> |
| <u>Item 5. Other Information</u> | <u>78</u> |
| <u>Item 6. Exhibits</u> | <u>78</u> |
| <u>SIGNATURES</u> | <u>80</u> |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

| | (Unaudited) June 30, 2018 | (Audited) December 31, 2017 |
|--|---------------------------------|-----------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 37,944 | \$ 40,482 |
| Federal funds sold | 56,850 | 26,175 |
| Interest-bearing deposits | 4,186 | 24,771 |
| Total cash and cash equivalents | 98,980 | 91,428 |
| Securities available for sale | 243,490 | 232,372 |
| Securities held to maturity | 167,239 | 174,684 |
| Loans held for sale | 1,731 | 1,896 |
| Loans, net | 1,580,441 | 1,347,779 |
| Accrued interest receivable | 8,667 | 8,174 |
| Premises and equipment, net | 53,396 | 43,818 |
| Other real estate owned | 1,926 | 2,244 |
| Cash surrender value of life insurance | 25,590 | 19,117 |
| Deferred tax asset | 2,902 | 2,543 |
| Core deposit intangible, net | 5,133 | 2,724 |
| Goodwill | 32,019 | 18,742 |
| Other assets | 23,126 | 17,103 |
| Total assets | \$ 2,244,640 | \$ 1,962,624 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 464,236 | \$ 410,009 |
| Interest-bearing | 1,384,189 | 1,266,311 |
| Total deposits | 1,848,425 | 1,676,320 |
| Securities sold under agreements to repurchase | 12,588 | 12,879 |
| Accrued interest and other liabilities | 9,515 | 7,117 |
| Federal Home Loan Bank advances | 120,644 | 45,153 |
| Subordinated debentures | 13,810 | 13,810 |
| Total liabilities | 2,004,982 | 1,755,279 |

See accompanying notes to consolidated financial statements.

4.

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

| | (Unaudited) June 30, 2018 | (Audited) December 31, 2017 |
|---|---------------------------------|-----------------------------------|
| Shareholders' equity | | |
| Preferred stock, \$5.00 par value, 15,000,000 shares authorized, no shares issued | — | — |
| Common stock, \$1.00 par value, 50,000,000 shares authorized, 12,823,114 and 11,921,298 shares issued, and 11,960,772 and 11,058,956 shares outstanding, respectively | 12,823 | 11,921 |
| Additional paid-in capital | 184,548 | 155,601 |
| Retained earnings | 72,293 | 66,037 |
| Treasury stock, 862,342 shares at cost | (20,087) | (20,087) |
| Accumulated other comprehensive loss | (9,919) | (6,127) |
| Total shareholders' equity | 239,658 | 207,345 |
| Total liabilities and shareholders' equity | \$2,244,640 | \$1,962,624 |

See accompanying notes to consolidated financial statements.

5.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest income | | | | |
| Loans, including fees | \$18,242 | \$15,214 | \$34,498 | \$29,629 |
| Securities | | | | |
| Taxable | 1,598 | 1,401 | 3,187 | 2,712 |
| Nontaxable | 932 | 920 | 1,846 | 1,842 |
| Federal funds sold and interest-bearing deposits | 254 | 257 | 533 | 745 |
| Total interest income | 21,026 | 17,792 | 40,064 | 34,928 |
| Interest expense | | | | |
| Deposits | 4,004 | 2,627 | 7,278 | 5,031 |
| FHLB advances and federal funds purchased | 374 | 58 | 588 | 137 |
| Subordinated debentures | 176 | 188 | 343 | 395 |
| Other borrowed money | 13 | 120 | 24 | 325 |
| Total interest expense | 4,567 | 2,993 | 8,233 | 5,888 |
| Net interest income | 16,459 | 14,799 | 31,831 | 29,040 |
| Provision for loan losses | 650 | 800 | 1,250 | 1,450 |
| Net interest income after provision for loan losses | 15,809 | 13,999 | 30,581 | 27,590 |
| Noninterest income | | | | |
| Service charges | 852 | 938 | 1,740 | 1,815 |
| Net realized (loss) gain on securities transactions | (51) |) 25 | (51) |) 25 |
| Net realized gain on sale of loans | 678 | 472 | 1,234 | 901 |
| Other income | 2,437 | 2,081 | 4,658 | 4,057 |
| Total noninterest income | 3,916 | 3,516 | 7,581 | 6,798 |
| Noninterest expense | | | | |
| Employee compensation and benefits | 7,789 | 6,440 | 15,567 | 13,427 |
| Occupancy expenses | 2,006 | 1,866 | 3,859 | 3,614 |
| Other expenses | 4,274 | 3,600 | 7,777 | 6,910 |
| Total noninterest expense | 14,069 | 11,906 | 27,203 | 23,951 |
| Income before income taxes | 5,656 | 5,609 | 10,959 | 10,437 |
| Income tax provision | 1,022 | 1,633 | 1,966 | 2,945 |
| Net earnings | \$4,634 | \$3,976 | \$8,993 | \$7,492 |
| Basic earnings per share | \$0.41 | \$0.40 | \$0.80 | \$0.80 |
| Diluted earnings per share | \$0.41 | \$0.39 | \$0.80 | \$0.79 |

See accompanying notes to consolidated financial statements.

6.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)

| | Three Months | | Six Months | | |
|---|----------------|---------|----------------|---------|---|
| | Ended June 30, | | Ended June 30, | | |
| | 2018 | 2017 | 2018 | 2017 | |
| Net earnings | \$4,634 | \$3,976 | \$8,993 | \$7,492 | |
| Other comprehensive income: | | | | | |
| Unrealized (losses) gains on securities | | | | | |
| Unrealized holding (losses) gains arising during the period | (649 |) 1,457 | (4,512 |) 2,686 | |
| Amortization of net unrealized gains on held to maturity securities | 4 | 17 | 22 | 35 | |
| Reclassification adjustment for net losses (gains) included in net earnings | 51 | (25 |) 51 | (25 |) |
| Tax effect | 127 | (501 |) 937 | (931 |) |
| Unrealized (losses) gains on securities, net of tax | (467 |) 948 | (3,502 |) 1,765 | |
| Unrealized holding gains (losses) arising during the period on interest rate swaps | 60 | (41 |) 196 | (6 |) |
| Total other comprehensive (loss) income | (407 |) 907 | (3,306 |) 1,759 | |
| Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | — | — | (486 |) — | |
| Comprehensive income | \$4,227 | \$4,883 | \$5,201 | \$9,251 | |

See accompanying notes to consolidated financial statements.

7.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

(Dollars in thousands, except share amounts)

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss | Less: KSOP-Owned Shares | Total Shareholders' Equity |
|---|--------------------|-----------------|----------------------------------|----------------------|-------------------|---|-------------------------------|----------------------------------|
| For the Six Months Ended | | | | | | | | |
| June 30, 2017 | | | | | | | | |
| Balance at December 31, 2016 | \$ | —\$9,616 | \$101,736 | \$57,160 | \$(20,111) | \$ (6,487) | \$ (31,661) | \$ 110,253 |
| Net earnings | — | — | — | 7,492 | — | — | — | 7,492 |
| Other comprehensive income | — | — | — | — | — | 1,759 | — | 1,759 |
| Terminated KSOP put option | — | — | — | — | — | — | 34,300 | 34,300 |
| Exercise of stock options | — | 5 | 55 | — | 24 | — | — | 84 |
| Sale of common stock | — | 2,300 | 53,455 | — | — | — | — | 55,755 |
| Stock based compensation | — | — | 123 | — | — | — | — | 123 |
| Net change in fair value of KSOP shares | — | — | — | — | — | — | (2,639) | (2,639) |
| Dividends: | | | | | | | | |
| Common - \$0.26 per share | — | — | — | (2,576) | — | — | — | (2,576) |
| Balance at June 30, 2017 | \$ | —\$11,921 | \$155,369 | \$62,076 | \$(20,087) | \$ (4,728) | \$ — | \$ 204,551 |
| For the Six Months Ended | | | | | | | | |
| June 30, 2018 | | | | | | | | |
| December 31, 2017 | \$ | —\$11,921 | \$155,601 | \$66,037 | \$(20,087) | \$ (6,127) | \$ — | \$ 207,345 |
| Net earnings | — | — | — | 8,993 | — | — | — | 8,993 |
| Other comprehensive loss | — | — | — | — | — | (3,306) | — | (3,306) |
| Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | — | — | — | 486 | — | (486) | — | — |
| Exercise of stock options | — | 2 | 44 | — | — | — | — | 46 |
| Issuance of common stock | — | 900 | 28,668 | — | — | — | — | 29,568 |
| Stock based compensation | — | — | 235 | — | — | — | — | 235 |
| Dividends: | | | | | | | | |
| Common - \$0.28 per share | — | — | — | (3,223) | — | — | — | (3,223) |
| Balance at June 30, 2018 | \$ | —\$12,823 | \$184,548 | \$72,293 | \$(20,087) | \$ (9,919) | \$ — | \$ 239,658 |

See accompanying notes to consolidated financial statements.

8.

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

| | For the Six Months Ended June 30, | |
|---|---|-----------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net earnings | \$8,993 | \$7,492 |
| Adjustments to reconcile net earnings to net cash provided from operating activities: | | |
| Depreciation | 1,588 | 1,599 |
| Amortization | 532 | 524 |
| Deferred taxes | 976 | (160) |
| Premium amortization, net of discount accretion | 2,151 | 2,357 |
| Net realized gain on securities transactions | 51 | (25) |
| Gain on sale of loans | (1,234) | (901) |
| Provision for loan losses | 1,250 | 1,450 |
| Origination of loans held for sale | (36,753) | (29,330) |
| Proceeds from loans held for sale | 38,152 | 30,359 |
| Write-down of other real estate and repossessed assets | — | 1 |
| Net loss on sale of premises, equipment, other real estate owned and other assets | 103 | 84 |
| Stock based compensation | 235 | 123 |
| Net change in accrued interest receivable and other assets | (4,465) | 2,761 |
| Net change in accrued interest payable and other liabilities | 1,029 | 1,909 |
| Net cash provided by operating activities | 12,608 | 18,243 |
| Cash flows from investing activities | | |
| Securities available for sale: | | |
| Purchases | (23,927) | (113,208) |
| Proceeds from sales | 9,457 | 13,839 |
| Proceeds from maturities and principal repayments | 13,087 | 11,675 |
| Securities held to maturity: | | |
| Proceeds from sales | — | 923 |
| Proceeds from maturities and principal repayments | 6,333 | 4,950 |
| Cash paid in connection with acquisitions | (6,423) | — |
| Cash received from acquired banks | 24,927 | — |
| Net purchases of premises and equipment | (2,543) | (1,313) |
| Net proceeds from sale of premises, equipment, other real estate owned and other assets | 1,488 | 394 |
| Net increase in loans | (79,662) | (52,584) |
| Net cash used in investing activities | (57,263) | (135,324) |
| Cash flows from financing activities | | |
| Net change in deposits | (9,316) | 69,582 |
| Net change in securities sold under agreements to repurchase | (291) | 3,294 |
| Proceeds from FHLB advances | 220,000 | — |
| Repayment of FHLB advances | (155,009) | (30,009) |
| Proceeds from other debt | — | 2,000 |
| Repayment of other debt | — | (20,286) |
| Repayments of debentures | — | (5,000) |

See accompanying notes to consolidated financial statements.

9.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

| | For the Six Months Ended June 30, | |
|---|--------------------------------------|-----------|
| | 2018 | 2017 |
| Exercise of stock options | 46 | 84 |
| Sale of common stock | — | 55,755 |
| Cash dividends | (3,223) | (2,576) |
| Net cash provided by financing activities | 52,207 | 72,844 |
| Net change in cash and cash equivalents | 7,552 | (44,237) |
| Cash and cash equivalents at beginning of period | 91,428 | 127,543 |
| Cash and cash equivalents at end of period | \$98,980 | \$83,306 |
| Supplemental disclosures of cash flow information | | |
| Interest paid | \$7,835 | \$5,973 |
| Income taxes paid | 2,508 | 2,840 |
| Supplemental schedule of noncash investing and financing activities | | |
| Transfer loans to other real estate owned and repossessed assets | 437 | 467 |
| Common stock issued in acquisitions | 29,568 | — |
| Transfer of KSOP shares | — | 34,300 |
| Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | 486 | — |
| Net change in fair value of KSOP shares | — | 2,639 |

See accompanying notes to consolidated financial statements.

10.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation: The consolidated financial statements in this Quarterly Report on Form 10-Q (this “Report”) include the accounts of Guaranty, the Bank, and their respective other direct and indirect subsidiaries and any other entities in which Guaranty has a controlling interest. The Bank has six wholly-owned non-bank subsidiaries, Guaranty Company, Inc., G B COM, INC., 2800 South Texas Avenue LLC, Pin Oak Realty Holdings, Inc., Pin Oak Energy Holdings, LLC and White Oak Aviation, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices within the financial services industry.

The consolidated financial statements in this Report have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company’s financial position and results of operations. All such adjustments were of a normal and recurring nature. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company’s consolidated financial statements, and notes thereto, for the year ended December 31, 2017, included in Guaranty’s Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. All dollar amounts referenced and discussed in the notes to the consolidated financial statements in this Report are presented in thousands, unless noted otherwise.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

by the KSOP. This repurchase obligation terminated upon the consummation of Guaranty's initial public offering and listing of its common stock on the NASDAQ Global Select Market in May 2017. However, because Guaranty was privately-held without a public market for its common stock as of and for the quarter ended March 31, 2017, the shares of common stock held by the KSOP are reflected in the Company's consolidated statement of changes in shareholders' equity for the six months ended June 30, 2017 in a column called "KSOP-owned shares". As a result of the initial public offering, the consolidated statement of changes in shareholders' equity for the six months ended June 30, 2017 includes an adjustment for the inclusion of such KSOP-owned shares in total shareholders' equity as "terminated KSOP

(Continued)

11.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

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 are included in, and not be deducted from, shareholders' equity.

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 is effective for periods beginning after December 15, 2018 although early adoption is permitted. The Company 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 at March 31, 2018.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU is intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. In addition, the amendments in this ASU provide a detailed framework to assist entities in evaluating whether a set of assets and activities constitutes a business, as well as clarify the definition of the term output so the term is consistent with how outputs are described in Topic 606. The Company adopted ASU 2017-01 is effective for first quarter of 2018. The adoption of this ASU was not significant and we do not expect the adoption of this guidance to be material to 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 November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of this ASU was not significant and we do not expect the adoption of this guidance to be material to our consolidated financial statements. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following nine specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance

claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned; 6) life insurance policies; 7) distributions received from equity method investees; 8) beneficial interests in securitization transactions; and 9) separately identifiable cash flows and application of the predominance principle. The adoption of this ASU was not significant and we do not expect the adoption of this guidance to be material to our consolidated financial statements.

(Continued)

12.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which sets forth a "current expected credit loss" ("CECL") model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has assembled a transition team to assess the adoption of this ASU, and has developed a project plan regarding implementation.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption of this ASU is permitted for all entities. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, which is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on the Company's condensed consolidated financial statements. In accordance with (iv) above, the Company measured the fair value of its loan portfolio prospectively as of June 30, 2018 using an exit price notion. See Note 13 – Fair Value for further information regarding the valuation of these loans.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASU 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 ASU 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 ASC 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 ASC 606, and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, are as follows:

(Continued)

13.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

- 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.
- 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 - ACQUISITIONS

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 metropolitan region. Results of operations of the acquired company were included in the Company's results beginning June 2, 2018. Acquisition-related costs of \$737 are included in other operating expenses in the Company's consolidated statement of earnings for the six months ended June 30, 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 \$13,277 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 years 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.

(Continued)

14.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

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

| | 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 | 9,346 |
| Total assets acquired | 216,200 |
| 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 | 22,714 |
| Total consideration paid | 35,991 |
| Goodwill | \$ 13,277 |

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 tables summarize the amortized cost and fair value of securities available for sale and securities held to maturity as of June 30, 2018 and December 31, 2017 and the corresponding amounts of gross unrealized gains and losses:

(Continued)

15.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

| June 30, 2018 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| Available for sale: | | | | |
| Corporate bonds | \$ 18,784 | \$ — | \$ 643 | \$ 18,141 |
| Municipal securities | 18,211 | 48 | 305 | 17,954 |
| Mortgage-backed securities | 95,062 | — | 3,820 | 91,242 |
| Collateralized mortgage obligations | 119,371 | — | 3,218 | 116,153 |
| Total available for sale | \$ 251,428 | \$ 48 | \$ 7,986 | \$ 243,490 |

| | | | | |
|-------------------------------------|------------|----------|----------|------------|
| Held to maturity: | | | | |
| Municipal securities | \$ 143,295 | \$ 1,041 | \$ 1,481 | \$ 142,855 |
| Mortgage-backed securities | 18,880 | 88 | 472 | 18,496 |
| Collateralized mortgage obligations | 5,064 | 61 | 35 | 5,090 |
| Total held to maturity | \$ 167,239 | \$ 1,190 | \$ 1,988 | \$ 166,441 |

| 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 other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company did not record any OTTI losses on any of its securities during the six months ended June 30, 2018 or for the year ended December 31, 2017.

(Continued)

16.

Table of Contents

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS