GUARANTY BANCSHARES INC /TX/
Form 10-Q
November 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-38087
GUARANTY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Texas	75-1656431
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
201 South Jefferson Avenue Mount Pleasant, Texas	75455
(Address of principal executive offices)	(Zip code)

(888) 572 - 9881
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

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

As of November 9, 2018, there were 11,889,009 outstanding shares of the registrant's common stock, par value $1.00 per share.

GUARANTY BANCSHARES, INC.

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

	(Unaudited) September 30, 2018	(Audited) December 31, 2017
ASSETS		
Cash and due from banks	$ 38,483	$ 40,482
Federal funds sold	10,700	26,175
Interest-bearing deposits	4,868	24,771
Total cash and cash equivalents	54,051	91,428
Securities available for sale	232,378	232,372
Securities held to maturity	164,839	174,684
Loans held for sale	826	1,896
Loans, net	1,638,149	1,347,779
Accrued interest receivable	7,760	8,174
Premises and equipment, net	52,660	43,818
Other real estate owned	1,783	2,244
Cash surrender value of life insurance	25,747	19,117
Deferred tax asset	3,237	2,543
Core deposit intangible, net	4,919	2,724
Goodwill	32,160	18,742
Other assets	24,071	17,103
Total assets	$ 2,242,580	$ 1,962,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 479,405	$ 410,009
Interest-bearing	1,357,934	1,266,311
Total deposits	1,837,339	1,676,320
Securities sold under agreements to repurchase	11,107	12,879
Accrued interest and other liabilities	10,187	7,117
Federal Home Loan Bank advances	129,140	45,153
Subordinated debentures	12,810	13,810
Total liabilities	2,000,583	1,755,279

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	(Unaudited) September 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, 12,827,114 and 11,921,298 shares issued, and 11,964,472 and 11,058,956 shares outstanding, respectively	12,827	11,921
Additional paid-in capital	184,781	155,601
Retained earnings	75,590	66,037
Treasury stock, 862,642 and 862,342 shares at cost	(20,096)	(20,087)
Accumulated other comprehensive loss	(11,105)	(6,127)
Total shareholders' equity	241,997	207,345
Total liabilities and shareholders' equity	$ 2,242,580	$ 1,962,624

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income				
Loans, including fees	$20,879	$15,486	$55,377	$45,115
Securities				
Taxable	1,526	1,545	4,713	4,257
Nontaxable	966	919	2,812	2,761
Federal funds sold and interest-bearing deposits	304	215	837	960
Total interest income	23,675	18,165	63,739	53,093
Interest expense				
Deposits	4,670	2,730	11,948	7,761
FHLB advances and federal funds purchased	593	157	1,181	294
Subordinated debentures	173	164	516	559
Other borrowed money	10	12	34	337
Total interest expense	5,446	3,063	13,679	8,951
Net interest income	18,229	15,102	50,060	44,142
Provision for loan losses	500	800	1,750	2,250
Net interest income after provision for loan losses	17,729	14,302	48,310	41,892
Noninterest income				
Service charges	921	986	2,661	2,801
Net realized gain (loss) on securities transactions	1	—	(50)	25
Net realized gain on sale of loans	637	589	1,871	1,490
Other income	1,990	2,127	6,648	6,184
Total noninterest income	3,549	3,702	11,130	10,500
Noninterest expense				
Employee compensation and benefits	8,156	6,729	23,723	20,156
Occupancy expenses	2,217	1,938	6,076	5,552
Other expenses	4,654	3,499	12,431	10,409
Total noninterest expense	15,027	12,166	42,230	36,117
Income before income taxes	6,251	5,838	17,210	16,275
Income tax provision	1,160	1,699	3,126	4,644
Net earnings	$5,091	$4,139	$14,084	$11,631
Basic earnings per share	$0.43	$0.37	$1.23	$1.17
Diluted earnings per share	$0.42	$0.37	$1.22	$1.16

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings	$5,091	$4,139	$14,084	$11,631
Other comprehensive income:				
Unrealized (losses) gains on securities				
Unrealized holding (losses) gains arising during the period	(1,592)	(264)	(6,104)	2,422
Amortization of net unrealized gains on held to maturity securities	6	23	28	58
Reclassification adjustment for net (gains) losses included in net earnings	(1)	—	50	(25)
Tax effect	334	92	1,271	(839)
Unrealized (losses) gains on securities, net of tax	(1,253)	(149)	(4,755)	1,616
Unrealized holding gains arising during the period on interest rate swaps	67	35	263	29
Total other comprehensive (loss) income	(1,186)	(114)	(4,492)	1,645
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	(486)	—
Comprehensive income	$3,905	$4,025	$9,106	$13,276

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (Unaudited)
(Dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Less: KSOP-Owned Shares	Total Shareholders’ Equity
For the Nine Months Ended September 30, 2017								
Balance at December 31, 2016	$ —	$ 9,616	$ 101,736	$ 57,160	$ (20,111)	$ (6,487)	$ (31,661)	$ 110,253
Net earnings	—	—	—	11,631	—	—	—	11,631
Other comprehensive income	—	—	—	—	—	1,645	—	1,645
Terminated KSOP put option	—	—	—	—	—	—	34,300	34,300
Exercise of stock options	—	5	55	—	24	—	—	84
Sale of common stock	—	2,300	53,455	—	—	—	—	55,755
Stock based compensation	—	—	247	—	—	—	—	247
Net change in fair value of KSOP shares	—	—	—	—	—	—	(2,639)	(2,639)
Dividends:								
Common - $0.39 per share	—	—	—	(4,013)	—	—	—	(4,013)
Balance at September 30, 2017	$ —	$ 11,921	$ 155,493	$ 64,778	$ (20,087)	$ (4,842)	$ —	$ 207,263
For the Nine Months Ended September 30, 2018								
Balance at December 31, 2017	$ —	$ 11,921	$ 155,601	$ 66,037	$ (20,087)	$ (6,127)	$ —	$ 207,345
Net earnings	—	—	—	14,084	—	—	—	14,084
Other comprehensive loss	—	—	—	—	—	(4,492)	—	(4,492)
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	—	486	—	(486)	—	—
Exercise of stock options	—	6	134	—	—	—	—	140
Purchase of treasury stock	—	—	—	—	(9)	—	—	(9)
Issuance of common stock	—	900	28,668	—	—	—	—	29,568
Stock based compensation	—	—	378	—	—	—	—	378
Dividends:								
Common - $0.43 per share	—	—	—	(5,017)	—	—	—	(5,017)
Balance at September 30, 2018	$ —	$ 12,827	$ 184,781	$ 75,590	$ (20,096)	$ (11,105)	$ —	$ 241,997

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net earnings	$14,084	$11,631
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation	2,457	2,385
Amortization	881	782
Deferred taxes	577	(214)
Premium amortization, net of discount accretion	3,247	3,581
Net realized gain on securities transactions	50	(25)
Gain on sale of loans	(1,871)	(1,490)
Provision for loan losses	1,750	2,250
Origination of loans held for sale	(56,276)	(50,230)
Proceeds from loans held for sale	59,217	50,883
Write-down of other real estate and repossessed assets	392	9
Net loss on sale of premises, equipment, other real estate owned and other assets	478	111
Stock based compensation	378	247
Net change in accrued interest receivable and other assets	(5,170)	1,680
Net change in accrued interest payable and other liabilities	1,768	1,624
Net cash provided by operating activities	21,962	23,224
Cash flows from investing activities		
Securities available for sale:		
Purchases	(124,914)	(313,177)
Proceeds from sales	111,813	213,813
Proceeds from maturities and principal repayments	20,697	18,925
Securities held to maturity:		
Proceeds from sales	—	923
Proceeds from maturities and principal repayments	8,184	7,497
Cash paid in connection with acquisitions	(6,423)	—
Cash received from acquired banks	24,927	—
Net purchases of premises and equipment	(2,924)	(1,678)
Net proceeds from sale of premises, equipment, other real estate owned and other assets	1,898	1,830
Net increase in loans	(138,024)	(64,438)
Net cash used in investing activities	(104,766)	(136,305)
Cash flows from financing activities		
Net change in deposits	(20,402)	40,511
Net change in securities sold under agreements to repurchase	(1,772)	2,061
Proceeds from FHLB advances	325,000	60,000
Repayment of FHLB advances	(251,513)	(50,013)
Proceeds from other debt	—	2,000
Repayment of other debt	—	(20,286)
Repayments of debentures	(1,000)	(5,500)

Purchase of treasury stock	(9)	—

See accompanying notes to consolidated financial statements.
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GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Exercise of stock options	140	84
Sale of common stock	—	55,755
Cash dividends	(5,017)	(4,013)
Net cash provided by financing activities	45,427	80,599
Net change in cash and cash equivalents	(37,377)	(32,482)
Cash and cash equivalents at beginning of period	91,428	127,543
Cash and cash equivalents at end of period	$54,051	$95,061
Supplemental disclosures of cash flow information		
Interest paid	$13,137	$8,958
Income taxes paid	4,008	4,910
Supplemental schedule of noncash investing and financing activities		
Transfer loans to other real estate owned and repossessed assets	591	992
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.
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GUARANTY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Guaranty Bancshares, Inc. (“Guaranty”) is a bank holding company headquartered in Mount Pleasant, Texas that provides, through its wholly-owned subsidiary, Guaranty Bank & Trust, N.A. (the “Bank”), a broad array of financial products and services to individuals and corporate customers, primarily in its markets of East Texas, 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 nine months ended September 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 nine months ended September 30, 2017 includes an adjustment for the inclusion of such KSOP-owned shares in total shareholders' equity

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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 are included in, and not 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 FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment changes to be based on the first step in today's two-step impairment test, thus eliminating step two from the goodwill impairment test. In addition, the amendment eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step two of the goodwill impairment test. For pubic companies, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on its consolidated financial statements.

In 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. We expect recorded assets and liabilities to increase upon adoption of the standard as it relates to operating leases in which we are the lessee.

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;

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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:

- 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.

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(Dollars in thousands, except per share data)

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 $1,101 and $365 are included in other operating expenses in the Company's consolidated statement of earnings for the nine and three months ended September 30, 2018, respectively. 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.

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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	9,205
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 tables summarize the amortized cost and fair value of securities available for sale and securities held to maturity as of September 30, 2018 and December 31, 2017 and the corresponding amounts of gross unrealized gains and losses:

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September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$ 19,762	$ —	$ 648	$ 19,114
Municipal securities	15,814	—	451	15,363
Mortgage-backed securities	91,208	—	4,447	86,761
Collateralized mortgage obligations	115,125	—	3,985	111,140
Total available for sale	$ 241,909	$ —	$ 9,531	$ 232,378
Held to maturity:				
Municipal securities	$ 142,419	$ 710	$ 2,420	$ 140,709
Mortgage-backed securities	17,871	77	611	17,337
Collateralized mortgage obligations	4,549	46	45	4,550
Total held to maturity	$ 164,839	$ 833	$ 3,076	$ 162,596

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 nine months ended September 30, 2018 or for the year ended December 31, 2017.

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Information pertaining to securities with gross unrealized losses as of September 30, 2018 and December 31, 2017 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is detailed in the following tables:

	Less Than 12 Months		12 Months or Longer		Total	
September 30, 2018	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available for sale:						
Corporate bonds	$(648)	$19,114	$—	$—	$(648)	$19,114
Municipal securities	(65)	7,557	(386)	7,289	(451)	14,846
Mortgage-backed securities	(469)	15,439	(3,978)	71,322	(4,447)	86,761
Collateralized mortgage obligations	(2,126)	68,879	(1,859)	42,261	(3,985)	111,140
Total available for sale	$(3,308)	$110,989	$(6,223)	$120,872	$(9,531)	$231,861
Held to maturity:						
Municipal securities	$(1,633)	$75,935	$(787)	$20,088	$(2,420)	$96,023
Mortgage-backed securities	(232)	6,236	(379)	8,004	(611)	14,240
Collateralized mortgage obligations	(45)	2,363	—	—	(45)	2,363
Total held to maturity	$(1,910)	$84,534	$(1,166)	$28,092	$(3,076)	$112,626

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2017	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Available for sale:						
Corporate bonds	$(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

The number of investment positions in an unrealized loss position totaled 203 at September 30, 2018. 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

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(Dollars in thousands, except per share data)

believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment would be reduced and the resulting loss recognized in net income in the period the OTTI is identified. The Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The Company does not consider these securities to be OTTI at September 30, 2018.
Mortgage-backed securities and collateralized mortgage obligations are backed by pools of mortgages that are insured or guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association.

As of September 30, 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 $233,559 and $245,600 at September 30, 2018 and December 31, 2017, respectively, were pledged to secure public fund deposits and for other purposes as required or permitted by law.

The proceeds from sales of available for sale securities and the associated gains and losses are listed below for:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds from sales	$102,356	$199,974	$111,813	$214,736
Gross gains	4	—	4	38
Gross losses	(3)	—	(54)	(13)

During the nine months ended September 30, 2017, the Company sold three held-to-maturity municipal securities. The Company sold these municipal securities based upon internal credit analysis, under the belief that they had experienced significant deterioration in creditworthiness. The risk exposure presented by these municipalities had increased beyond acceptable levels, and the Company determined that it was reasonably possible that all amounts due would not be collected. The credit analysis determined that the municipalities had been significantly impacted because their tax bases are heavily reliant on the energy industry relative to other sectors of the economy. Specifically, the revenues of these municipalities have been adversely impacted by the significant decline in energy prices since 2014. The Company believes the sale of these securities were merited and permissible under the applicable accounting guidelines because of the significant deterioration in the creditworthiness of the issuers.

There were no held to maturity securities sold during the three or nine months ended September 30, 2018. Sale of securities held to maturity were as follows for:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Proceeds from sales	$ —	$ 923
Amortized cost	—	907
Gross realized gains	—	16

Tax expense related to securities gains/losses	—	(4)

The contractual maturities at September 30, 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.

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	Available for Sale		Held to Maturity	
September 30, 2018	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$—	$—	$769	$768
Due after one year through five years	11,234	10,926	19,153	19,244
Due after five years through ten years	16,668	16,262	42,448	42,774
Due after ten years	7,674	7,289	80,049	77,923
Mortgage-backed securities	91,208	86,761	17,871	17,337
Collateralized mortgage obligations	115,125	111,140	4,549	4,550
Total Securities	$241,909	$232,378	$164,839	$162,596

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NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2018	December 31, 2017
Commercial and industrial	$ 248,758	$ 197,508
Real estate:		
Construction and development	229,307	196,774
Commercial real estate	599,153	418,137
Farmland	65,209	59,023
1-4 family residential	392,456	374,371
Multi-family residential	38,523	36,574
Consumer	53,947	51,267
Agricultural	24,184	25,596
Overdrafts	326	294
Total loans	1,651,863	1,359,544
Net of:		
Deferred loan fees	727	1,094
Allowance for loan losses	(14,441)	(12,859)
Total net loans	$ 1,638,149	$ 1,347,779

The following tables present the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the nine months ended September 30, 2018, for the year ended December 31, 2017 and for the nine months ended September 30, 2017:

For the Nine Months Ended September 30, 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	138	119	1,329	100	(161)	41	101	(3)	86	1,750
Loans charged-off	(66)	—	(32)	—	(19)	—	(175)	(2)	(117)	(411)
Recoveries	54	—	—	—	49	—	41	65	34	243
Ending balance	$1,707	$1,843	$5,882	$623	$2,891	$670	$569	$247	$9	$14,441
Allowance ending balance:										

Individually evaluated for impairment	$315	$—	$61	$74	$4	$—	$—	$—	$—	$454
Collectively evaluated for impairment	1,392	1,843	5,821	549	2,887	670	569	247	9	13,987
Ending balance	$1,707	$1,843	$5,882	$623	$2,891	$670	$569	$247	$9	$14,441
Loans:										
Individually evaluated for impairment	$1,584	$1,684	$6,360	$218	$1,571	$—	$—	$409	$—	$11,826
Collectively evaluated for impairment	247,174	227,623	592,793	64,991	390,885	38,523	53,947	23,775	326	1,640,037
Ending balance	$248,758	$229,307	$599,153	$65,209	$392,456	$38,523	$53,947	$24,184	$326	$1,651,863

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For the year ended 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		