GUARANTY BANCSHARES INC /TX/
Form 10-Q
August 10, 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 June 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)

(903) 572 - 9881
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

As of 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.

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.

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 Ended June 30,		Six Months 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 STATMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(Dollars in thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Less: KSOP-Owned Shares	Total Shareholders' Equity
For the 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.

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.

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)

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 pubic companies, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. 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)

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)

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.

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)

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.

(Dollars in thousands, except per share data)

Information pertaining to securities with gross unrealized losses as of June 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	
June 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	$(643)	$18,141	$—	$—	$(643)	$18,141
Municipal securities	(17)	807	(288)	7,410	(305)	8,217
Mortgage-backed securities	(314)	16,151	(3,506)	75,091	(3,820)	91,242
Collateralized mortgage obligations	(2,504)	91,904	(714)	23,847	(3,218)	115,751
Total available for sale	$(3,478)	$127,003	$(4,508)	$106,348	$(7,986)	$233,351
Held to maturity:						
Municipal securities	$(952)	$68,662	$(529)	$19,466	$(1,481)	$88,128
Mortgage-backed securities	(158)	6,686	(314)	8,538	(472)	15,224
Collateralized mortgage obligations	(35)	2,594	—	—	(35)	2,594
Total held to maturity	$(1,145)	$77,942	$(843)	$28,004	$(1,988)	$105,946

	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 175 at June 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

(Continued)
17.

(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 June 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 June 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 $255,163 and $245,600 at June 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sales	$9,457	$14,762	$9,457	$14,762
Gross gains	—	38	—	38
Gross losses	(51)	(13)	(51)	(13)

During the six months ended June 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 six months ended June 30, 2018. Sale of securities held to maturity were as follows for:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Proceeds from sales	$ 923	$ 923
Amortized cost	907	907
Gross realized gains	16	16
Tax expense related to securities gains/losses	(4)	(4)

The contractual maturities at June 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.

(Continued)

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

	Available for Sale		Held to Maturity	
June 30, 2018	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$—	$—	$1,175	$1,175
Due after one year through five years	7,373	7,216	19,089	19,295
Due after five years through ten years	21,924	21,469	40,520	41,178
Due after ten years	7,698	7,410	82,511	81,207
Mortgage-backed securities	95,062	91,242	18,880	18,496
Collateralized mortgage obligations	119,371	116,153	5,064	5,090
Total Securities	$251,428	$243,490	$167,239	$166,441

(Continued)
19.

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

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2018	December 31, 2017
Commercial and industrial	$234,396	$197,508
Real estate:		
Construction and development	211,745	196,774
Commercial real estate	570,448	418,137
Farmland	68,272	59,023
1-4 family residential	392,940	374,371
Multi-family residential	39,023	36,574
Consumer	52,949	51,267
Agricultural	23,362	25,596
Overdrafts	339	294
Total loans	1,593,474	1,359,544
Net of:		
Deferred loan fees	857	1,094
Allowance for loan losses	(13,890)	(12,859)
Total net loans	$1,580,441	$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 six months ended June 30, 2018, for the year ended December 31, 2017 and for the six months ended June 30, 2017:

For the Six Months Ended June 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	210	(82)	1,004	125	(227)	69	37	52	62	1,250
Loans charged-off	(51)	—	(33)	—	(13)	—	(143)	(1)	(76)	(317)
Recoveries	2	—	—	—	50	—	26	—	20	98
Ending balance	$1,742	$1,642	$5,556	$648	$2,832	$698	$522	$238	$12	$13,890
Allowance ending balance:										
Individually evaluated	$209	$—	$49	$78	$9	$—	$—	$—	$—	$345

for impairment										
Collectively evaluated for impairment	1,533	1,642	5,507	570	2,823	698	522	238	12	13,545
Ending balance	$1,742	$1,642	$5,556	$648	$2,832	$698	$522	$238	$12	$13,890
Loans:										
Individually evaluated for impairment	$1,076	$—	$6,530	$222	$1,438	$—	$—	$493	$—	$9,759
Collectively evaluated for impairment	233,320	211,745	563,918	68,050	391,502	39,023	52,949	22,869	339	1,583,715
Ending balance	$234,396	$211,745	$570,448	$68,272	$392,940	$39,023	$52,949	$23,362	$339	$1,593,474

(Continued)
20.

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

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	$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

For the Six Months Ended June 30, 2017	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for loan losses:										
Beginning balance	$1,592	$1,161	$3,264	$482	$3,960	$281	$585	$153	$6	$11,484

Provision for loan losses	464	393	284	59	(69)	(12)	66	222	43	1,450
Loans charged-off	(48)	—	(84)	—	(186)	—	(158)	(4)	(70)	(550)
Recoveries	—	—	—	—	21	—	92	—	28	141
Ending balance	$2,008	$1,554	$3,464	$541	$3,726	$269	$585	$371	$7	$12,525
Allowance ending balance:										
Individually evaluated for impairment	$246	$—	$31	$92	$139	$—	$—	$225	$—	$733
Collectively evaluated for impairment	1,762	1,554	3,433	449	3,587	269	585	146	7	11,792
Ending balance	$2,008	$1,554	$3,464	$541	$3,726	$269	$585	$371	$7	$12,525
Loans:										
Individually evaluated for impairment	$1,174	$—	$3,751	$170	$2,726	$241	$192	$789	$—	$9,043
Collectively evaluated for impairment	216,323	177,600	374,971	63,669	353,731	28,592	51,485	21,065	364	1,287,800
Ending balance	$217,497	$177,600	$378,722	$63,839	$356,457	$28,833	$51,677	$21,854	$364	$1,296,843

(Continued)
21.

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

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:

June 30, 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	$ 231,884	$ 210,839	$ 557,319	$ 67,901	$ 391,447	$ 37,768	$ 53,219	$ 22,661	$ 1,573,038
Special mention	1,585	906	6,572	52	648	1,255	49	150	11,217
Substandard	927	—	6,557	319	845	—	20	551	9,219
Total	$ 234,396	$ 211,745	$ 570,448	$ 68,272	$ 392,940	$ 39,023	$ 53,288	$ 23,362	$ 1,593,474

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
Total	$ 197,508	$ 196,774	$ 418,137	$ 59,023	$ 374,371	$ 36,574	$ 51,561	$ 25,596	$ 1,359,544

(Continued)

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

The following tables summarize the payment status of loans in the Company's total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming as of:

June 30, 2018	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial and industrial	$ 509	$ 344	$ 775	$ 1,628	$ 232,768	$ 234,396	$ 720
Real estate:							
Construction and development	602	129	530	1,261	210,484	211,745	530
Commercial real estate	1,978	—	3,715	5,693	564,755	570,448	—
Farmland	84	—	—	84	68,188	68,272	—
1-4 family residential	2,026	748	845	3,619	389,321	392,940	—
Multi-family residential	—	—	—	—	39,023	39,023	—
Consumer	338	68	20	426	52,523	52,949	—
Agricultural	252	—	79	331	23,031	23,362	—
Overdrafts	—	—	—	—	339	339	—
Total	$ 5,789	$ 1,289	$ 5,964	$ 13,042	$ 1,580,432	$ 1,593,474	$ 1,250

December 31, 2017	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial and industrial	$ 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 information regarding nonaccrual loans as of:

	June 30, 2018	December 31, 2017
Commercial and industrial	$ 71	$ 77
Real estate:		
Commercial real estate	3,950	1,422
Farmland	246	163
1-4 family residential	2,650	1,937
Multi-family residential	—	217

Consumer	149	138
Agricultural	241	50
Total	$ 7,307	$ 4,004

(Continued)
23.

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

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:

	June 30, 2018	December 31, 2017
Nonaccrual TDRs	$ —	$ —
Performing TDRs	737	657
Total	$ 737	$ 657
Specific reserves on TDRs	$ 14	$ 17

The following tables present loans by class modified as TDRs that occurred during the six months ended June 30, 2018 and 2017:

Six Months Ended June 30, 2018	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
1-4 family residential	1	$ 15	$ 15
Farmland	1	78	78
Total	2	$ 93	$ 93

There were no TDRs that have subsequently defaulted through June 30, 2018. The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the six months ended June 30, 2018.

Six Months Ended June 30, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and industrial	1	$ 34	$ 13
1-4 family residential	1	11	11
Total	2	$ 45	$ 24

There were no TDRs that subsequently defaulted in 2017. The TDRs described above increase the allowance for loan losses and resulted in no charge-offs during the six months ended June 30, 2017.

(Continued)
24.

(Dollars in thousands, except per share data)

The following table presents information about the Company's impaired loans as of:

June 30, 2018	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial and industrial	$ 684	$ 684	$ —	$ 331
Real estate:				
Commercial real estate	6,024	6,024	—	2,196
Farmland	73	73	—	32
1-4 family residential	1,194	1,194	—	470
Multi-family residential	—	—	—	53
Agricultural	493	493	—	237
Subtotal	8,468	8,468	—	3,319
With allowance recorded:				
Commercial and industrial	392	392	209	58
Real estate:				
Commercial real estate	506	506	49	188
Farmland	149	149	78	75
1-4 family residential	244	244	9	48
Agricultural	—	—	—	52
Subtotal	1,291	1,291	345	421
Total	$ 9,759	$ 9,759	$ 345	$ 3,740

(Continued)

(Dollars in thousands, except per share data)

The following table presents information about the Company's impaired loans as of:

December 31, 2017	Unpaid Principal Balance	Recorded Investment	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 six months ended June 30, 2018 and 2017, total interest income and cash-based interest income recognized on impaired loans was minimal.

NOTE 5 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER DEBT

At June 30, 2018 and December 31, 2017, securities sold under agreements to repurchase totaled $12,588 and $12,879, respectively.

The Company has a $25,000 revolving line of credit, which had no outstanding balance at quarter end, bears interest at the prime rate, with interest payable quarterly, and matures in March 2019.

(Continued)

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

Federal Home Loan Bank (FHLB) advances, as of June 30, 2018, were as follows:

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

Year	Current Weighted Average Rate		Principal Due
2018	2.02	%	$86,500
2019	1.30	%	4,500
2020	2.09	%	6,500
2021	1.87	%	1,500
2022	1.18	%	21,500
			120,500

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

Year	Current Weighted Average Rate		Principal Due
2021	1.38	%	144
			$120,644

(Continued)

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

NOTE 6 - SUBORDINATED DEBENTURES

Subordinated debentures are made up of the following as of:

	June 30, 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	3,500	3,500
	$13,810	$ 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 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	October 30, 2002	July 25, 2006	March 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 qualify as Tier 1 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 1 capital, net of goodwill, the full amount is includable in Tier 1 capital at June 30, 2018 and December 31, 2017. Additionally, the terms provide that trust preferred securities would no longer qualify for Tier 1 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 is 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

(Continued)

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

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.

Trust II Debentures
Interest is payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 3.35%.

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 is 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 equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

DCB Trust I Debentures
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 rate of 2.5%, 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. The remaining $3,000 of debentures were issued at par value of $500 each with rates ranging from 3.00% to 5.00% and maturity dates from July 1, 2018 to July 1, 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.

(Continued)
29.

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

NOTE 7 - 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. Currently outstanding 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.

A summary of activity in the Plan during the six months ended June 30, 2018 and 2017 follows:

Six Months Ended June 30, 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	59,000	32.66	9.84	24
Exercised	(2,000)	23.00	6.80	20
Forfeited	(1,600)	23.00	6.80	16
Balance, June 30, 2018	526,842	$ 25.85	7.14	$ 3,740
Exercisable at end of period	166,384	$ 23.95	5.89	$ 1,496

Six Months Ended June 30, 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	109,200	27.00	9.90	548
Exercised	(7,033)	11.94	4.73	141
Forfeited	(6,000)	23.17	7.38	53
Balance, June 30, 2017	436,544	$ 24.51	7.63	$ 3,277
Exercisable at end of period	117,484	$ 24.11	7.01	$ 930

(Continued)

30.

(Dollars in thousands, except per share data)

A summary of nonvested activity in the Plan during the six months ended June 30, 2018 and 2017 follows:

Six Months Ended June 30, 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	59,000	32.66	9.84	24
Vested	(33,740)	25.30	8.11	258
Forfeited	(1,600)	23.00	6.80	16
Balance, June 30, 2018	360,458	$ 26.91	7.75	$ 2,165

Six Months Ended June 30, 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	109,200	27.00	9.90	548
Vested	(36,840)	25.40	9.16	244
Forfeited	(4,000)	23.17	7.38	53
Balance, June 30, 2017	319,060	$ 24.66	7.86	$ 2,347

Information related to the Plan is as follows for the six months ended:

	June 30, 2018	June 30, 2017
Intrinsic value of options exercised	$ 20	$ 141
Cash received from options exercised	46	84
Tax benefit realized from options exercised	—	—
Weighted average fair value of options granted	5.57	5.25

As of June 30, 2018, there was $1,954 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 4.01 years.

The Company granted options under the Plan during the first six months of 2018 and 2017. Expense of $235 and $123 was recorded during the six months ended June 30, 2018 and 2017, respectively.

NOTE 8 - 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. At December 31, 2016, the plan included a repurchase obligation, or “put option”, which is a right to demand that the sponsor repurchase shares of employer stock distributed to the participant under the terms of the plan, for which there was no public market for such shares, at an established cash price. This put option was terminated upon completion of Guaranty’s initial public offering and listing of its common

stock on the NASDAQ Global Select Market in May 2017. Guaranty's total contributions accrued or paid during the six months ended June 30, 2018 and 2017 totaled $551 and $445, respectively.

Upon separation from service or other distributable event, a participant's account under the KSOP may be distributed in kind in the form of the GNTY common shares allocated to his or her account (with the balance payable in cash), or the entire account can be liquidated and distributed in cash.

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As of March 31, 2017, the fair value of common stock, held by the KSOP, was deducted from permanent shareholders' equity in the consolidated statement of changes in shareholders equity, and reflected in a column between accumulated other comprehensive income and total shareholders' equity. This presentation was necessary in order to recognize the put option within the KSOP-owned shares, consistent with SEC guidelines, because the Company was not yet publicly traded. The Company used a valuation by an external third party to determine the maximum possible cash obligation related to those securities. Increases or decreases in the value of the cash obligation were included in a separate line item in the consolidated statements of changes in shareholders' equity. As described above, the put option was terminated upon completion of our initial public offering and the prior value of $34,300 is shown as "Terminated KSOP put option" in the consolidated statement of changes in shareholders' equity for the six months ended June 30, 2017.

As of June 30, 2018 and December 31, 2017, the number of shares held by the KSOP were 1,322,550 and 1,314,277, respectively. There were no unallocated shares to plan participants as of June 30, 2018 or as of December 31, 2017. During the six months ended June 30, 2017, the Company did not repurchase any shares from KSOP participants that received distributions of shares from the KSOP which were subject to the put option that applied to the KSOP shares before we were publicly traded. All shares held by the KSOP were treated as outstanding at each of the respective period ends.

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 $25,590 and $19,117 as of June 30, 2018 and December 31, 2017, respectively.

Expense related to these plans totaled $344 and $317 for the six months ended June 30, 2018 and 2017, respectively, and is included in employee compensation and benefits on the Company's consolidated statements of earnings. The recorded liability totaled approximately $3,642 and $2,420 as of June 30, 2018 and December 31, 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 Guaranty's 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 Guaranty's board of directors. The bonus expense under this plan for the six months ended June 30, 2018 and 2017 totaled $1,513 and $1,103, respectively and is included in employee compensation and benefits on the consolidated statements of earnings.

NOTE 9 - 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.

(Continued)

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

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. Notwithstanding the foregoing, we are still analyzing certain aspects of the new law and refining our calculations, which could affect the measurement of these assets and liabilities or give rise to new deferred tax amounts.

Income tax expense was as follows for:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Income tax expense for the period	$1,022	$1,633	$1,966	$2,945
Effective tax rate	18.07 %	29.11 %	17.94 %	28.22 %

The effective tax rates differ from the statutory federal tax rate of 21% for the six months ended June 30, 2018 and 35.0% for the six months ended June 30, 2017, respectively, largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank owned life insurance.

NOTE 10 - 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 to perform their respective 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 6. 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 June 30, 2018 and December 31, 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 Company’s 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.

(Continued)

Table of Contents

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

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

Notional Amount	Pay Rate	Receive Rate	Effective Date	Maturity in Years	Unrealized Losses
June 30, 2018:					
$2,000	5.979%	3 month LIBOR plus 1.67%	10/1/2016	7.76	$ 209
$3,000	7.505%	3 month LIBOR plus 3.35%	10/30/2012	4.34	$ 166
December 31, 2017:					
$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 $343 and $395 during the six months ended June 30, 2018 and 2017, respectively, and is reported as a component of interest expense on the debentures. At June 30, 2018, the Company expected none of the unrealized loss to be reclassified as a reduction of interest expense during the remainder of 2018.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in its 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 June 30, 2018 and December 31, 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:

	Contract or Notional Amount	
	June 30, 2018	December 31, 2017
Commitments to extend credit	$357,593	$ 326,879
Letters of credit	10,431	8,336

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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 June 30, 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.

NOTE 12 - 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 June 30, 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.

Starting in January 2016, the implementation 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 June 30, 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 June 30, 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 June 30, 2018 and December 31, 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.

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A comparison of the Company’s and Bank’s actual capital amounts and ratios to required capital amounts and ratios are presented in the following tables as of: