



***Guaranty***  
Bancshares, Inc.

# STAYING THE COURSE

2022 ANNUAL REPORT

# STAYING THE COURSE

Throughout our history, we've grounded ourselves in the principles and experiences that inform how we do business — and charted where we go next. We have a tried and true business model that has served our shareholders, customers, and employees well for 110 years.

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# A STRONG SENSE OF



DEAR FELLOW SHAREHOLDERS,

The past year was eventful, to say the least, and many positive developments have continued to drive our Company's growth and progress. However, as we entered the first quarter of 2023, we witnessed two bank failures, concerns about the health of the overall banking system and continued discussions of a recession. In the midst of these economic uncertainties and challenges, we remain committed to delivering value to our shareholders while fairly and consistently serving our customers and clients, as we have for 110 years. I will comment on the banking industry issues further into my letter, provide data that highlights how Guaranty is different from the banks that have had trouble and will explain the various strengths of our Company. But before that, I will start by reporting on the financial results and achievements of 2022.

Guaranty Bancshares realized strong financial results during the year. Total loans for the Company grew \$470.1 million during the year, to a record high of \$2.4 billion. Total deposits ended the year with growth of \$10.3 million and, likewise, a new record total of \$2.7 billion. One of our primary goals for 2022 was to exceed the previous year's net income, which was a tall order given that 2021 included over \$7.8 million in PPP-related extraordinary income and a reverse provision to our loan loss reserves of \$1.7 million. I'm pleased to say we achieved this goal.

The Company generated net income of \$40.4 million, compared to \$39.8 million in the prior year, a \$641,000 or a 1.6% increase. We accomplished this result even after taking a \$3.4 million provision for

potential future loan losses during the last quarter of the year. We felt this provision, while no credit losses were imminent or identified, was prudent given the forecast of a possible recession in 2023.

It was a tough year for the stock market in 2022, and our stock price was no exception. While we certainly added significant intrinsic value to our Company, our total return for the year was disappointing at -5.5%, including the \$0.88 per share dividend. This compares to a total return on the NASDAQ of -32.5%, S&P 500 of -18.1%, and our benchmark S&P Small Cap Banks Index of -11.8%. While it's nice to be down less than other indexes, it doesn't change the economics for our shareholders. However, we remain poised to repurchase shares at

discounted prices when opportunities are favorable for shareholders. In 2022, we repurchased 2% of our common shares outstanding. These transactions will continue to be very accretive to our remaining shareholders in the coming years, and we maintain excess capital to repeat this strategy when the opportunity is right.

We all witnessed interest rates soar in 2022 as the Fed made significant policy changes to key interest rates in an effort to combat inflation. The Fed increased interest rates seven times during the year for a total of 425 basis points or 4.25%. The velocity of this increase was unprecedented in recent history. The speed of these rate increases over the year created several challenges for managing the balance sheet of a bank and created significant unrealized losses on government securities held in banks. The Fed's rapid monetary policy changes also created significant liquidity and funding challenges for many banks, primarily due to these unrealized losses. We saw the impact of these factors play out in March 2023 with two bank failures and one voluntary bank closure.

Guaranty is in a stronger position because we maintained our discipline and did not chase small incremental earnings over the last two years at the expense of taking on significant interest rate risk on our balance sheet. The issue of duration mismatch in assets versus liabilities is at the heart of the recent bank failures and problems that some banks are

having. Duration mismatch occurs as banks make long-term, fixed-rate loans or buy long duration government bonds, but issue short-term deposits to fund those loans. This works well until rates go up, however, and if rates go up materially, and the bank has too much concentration in these assets, it can be catastrophic. These failures to properly manage interest rate and liquidity risks are nothing new to banking. They were also at the root of the savings and loan failures in the 1980's. At Guaranty, we took a more conservative approach to managing our liquidity in 2022. We sacrificed some earnings by maintaining large balances of cash rather than investing significant portions of that liquidity in long term securities with yields between 1% and 2% at the time. We believed rates could go up, and even if they didn't, we weren't willing to take the significant interest rate and liquidity risk those investments required for minimal increases in short term earnings. As a result, Guaranty weathered this increasing rate environment with a moderate impact to our balance sheet and liquidity. We held only modest levels of long duration government securities as a percentage of our total assets and capital, which positioned us to successfully navigate the rapid change in rates, without a significant negative impact to our balance sheet and capital. Unrealized losses on all government securities held by our Bank is a moderate 18% of total capital, and our liquidity remains strong.

**IN THE MIDST OF THESE ECONOMIC UNCERTAINTIES AND CHALLENGES, WE REMAIN COMMITTED TO DELIVERING VALUE TO OUR SHAREHOLDERS WHILE FAIRLY AND CONSISTENTLY SERVING OUR CUSTOMERS AND CLIENTS, AS WE HAVE FOR 110 YEARS.**

TY ABSTON, CHAIRMAN OF THE BOARD & CEO

Another weakness exposed during the recent bank failures is the risk of an overly concentrated deposit base, which can mirror the risk of an overly concentrated loan portfolio. One of the troubled banks had nearly 90% of their deposits in uninsured accounts. In comparison, Guaranty has uninsured deposits of 29%. We also have a very granular deposit base with 83,753 total deposit accounts carrying an average balance of \$31,914. This granularity is a significant strength in determining the stability of a bank's deposit base. Likewise, our loan portfolio, by design, is very granular. The average loan balance of the entire loan portfolio is \$204,000. As of year-end, we had only 12 loans with committed balances over \$10 million, only two of which were over \$20 million, and no loans over our internally set loan limit of \$30 million, which is significantly below our legal loan limit of \$54 million. This intentional granularity and diversification of our loan portfolio is a strength that adds significant resilience during an economic downturn. Much like holding additional liquidity, maintaining a conservative position in our loan portfolio often comes at the expense of lower annual earnings than a more concentrated and less granular portfolio would generate. However, we are not willing to take on that riskier profile for whatever marginal improvements in earnings it would generate.

We will continue to manage our balance sheet with an eye toward successfully managing risks, while striving to achieve a fair return for our shareholders. As I've said before, in a highly leveraged and cyclical business like banking, there's no way to achieve consistency in financial performance while maintaining a constant "risk-on" mentality. A risk-on philosophy will maximize returns during periods of economic expansion, but you often give back some of those returns when the economy contracts. In extreme cases, as we have seen this year, you can end up giving back all of your returns. Discipline is required to moderate risk when necessary, even when doing so seems overly cautious at the time. Our number one goal as management is to provide fair returns for our shareholders on a consistent basis, and to limit the significant swings in financial performance that are so often witnessed in banks. Objectives for 2023 are to remain focused on customer needs, with a strong emphasis on managing risks at all levels given the economic environment. In 2023 and beyond, we will continue building our management team to prepare for future growth cycles and management succession. We are in the process of updating our five-year strategic plan, which serves as a roadmap for future goals, projected financial results, and strategic direction. In each five-year strategic plan iteration, we hold



HISTORIC DOWNTOWN PARIS, TEXAS

33.6609° N | 95.5555° W

ourselves accountable for obtaining the goals we set, which always appear lofty at the beginning of the plan. However, to date, our team has always found ways to get the job done and successfully execute on each plan.

As I have also stated many times over the years, the key to Guaranty's past and future success lies in our ability to recruit and employ the right people. These individuals promote our core values and culture, while thinking like an owner and staying focused on achieving results. This has been the foundation of our success for more than 50 years. It is not a complicated formula, but it does require daily effort to maintain and execute. As past leaders leave the company, new leaders have to step up into those roles, a process that becomes more complicated as our company grows. Growth adds complexity in banking. Year after year, we strive to maintain our core values and culture while developing leaders at all levels within the Company who can meet this challenge.

During 2022, three individuals retired from our Company that I'd like to highlight. Bill Priefert, who is Chairman and CEO of Priefert Manufacturing in Mount Pleasant, retired from our Company and the Bank's board of directors after 40 years of service. Sara Neal, our Real Estate Department Manager, retired after 41 years with our Bank. Joe

Rose, former President of our Bogata bank location and key member of our credit administration department, retired after 38 years with the Bank. These three individuals represent the best that is Guaranty, and we thank them for their dedication and commitment to helping make Guaranty what it is today. They have the qualities that our Company's new leaders should strive to emulate.

In conclusion, we are very pleased with our 2022 results. While we expect some challenges and headwinds in 2023, with projections of an economic slowdown, we also remain open to potential opportunities. Many economists forecast much slower growth in most industries and further layoffs by companies as they right-size their operations for the slower economic environment. We are very blessed to be in the state of Texas, which continues to enjoy a vibrant economy and should ride through an economic downturn much stronger than other states. For all the reasons listed above, Guaranty remains well-positioned to navigate this uncertain environment successfully. We've built a robust franchise, with a banking footprint that covers the majority of the growth areas in Texas. I remain very optimistic about our future prospects.

Thank you, fellow shareholders, for your continued investment, support, and confidence in Guaranty Bancshares and Guaranty Bank & Trust.



TY ABSTON  
CHAIRMAN OF THE  
BOARD & CEO



GUARANTY BANCSHARES  
BOARD OF DIRECTORS

FOLLOWING THEIR LEAD



BACK ROW

L ..... R

**CAPPY PAYNE**  
Senior Executive Vice  
President & CO  
Guaranty Bancshares, Inc.

**JIM BUNCH**  
President & CEO  
BWT, Inc.

**JEFF BROWN**  
Managing Partner  
RoseRock

**CARL JOHNSON JR.**  
Principal  
Baker & Johnson, CPA

**KIRK LEE**  
President  
Guaranty Bancshares, Inc.

**BRAD DRAKE**  
CEO  
Lamar Companies, LLC

FRONT ROW

L ..... R

**CHRIS ELLIOTT**  
President  
Elliott Auto Group

**MIKE NOLAN**  
Investments

**TY ABSTON**  
Chairman of the  
Board & CEO  
Guaranty Bancshares, Inc.

**SONDRA CUNNINGHAM**  
Senior Vice President &  
Chief Culture Officer  
Guaranty Bank & Trust, Inc.

**RICKY BAKER**  
KBB Investments, LLC

2022 YEAR IN REVIEW

FINANCE

- ▶ We achieved a record **\$40.4 million in earnings in 2022**, up from \$39.8 million in 2021.
- ▶ Despite the rapidly increasing interest rate environment and cost of funds, we maintained a **net interest margin of 3.54%** in 2022.
- ▶ We continued to pay cash dividends. Shareholders received **\$0.88 per share** in 2022, up from \$0.80 per share in 2021.
- ▶ We had excellent organic loan growth in 2022. **Loans increased \$470.1 million**, or **24.6%**, during the year.

- ▶ **Guaranty stock (GNTY) outperformed** the annual S&P US SmallCap Banks Index on total return performance.
- ▶ We maintained strong asset quality with a net charge-off to total loans ratio of only **0.03%** for the year and a low problem asset ratio of **0.32%** of total assets.
- ▶ **Deposits increased \$10.3 million** during 2022. As we continue to build core deposit relationships in our newer markets, we are building on a stable core deposit franchise in our East Texas market, which represent about 57% of our total deposits.

PEOPLE

- ▶ Gave back to our communities through monetary donations and volunteer hours. Contributions made during 2022 totaled more than **\$354,000** and employees volunteered more than **2,270** hours at **124** different organizations.
- ▶ We were named one of Texas Monthly's **"Best 100 Companies to Work for in Texas"** for the fourteenth straight year.

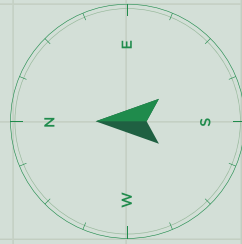
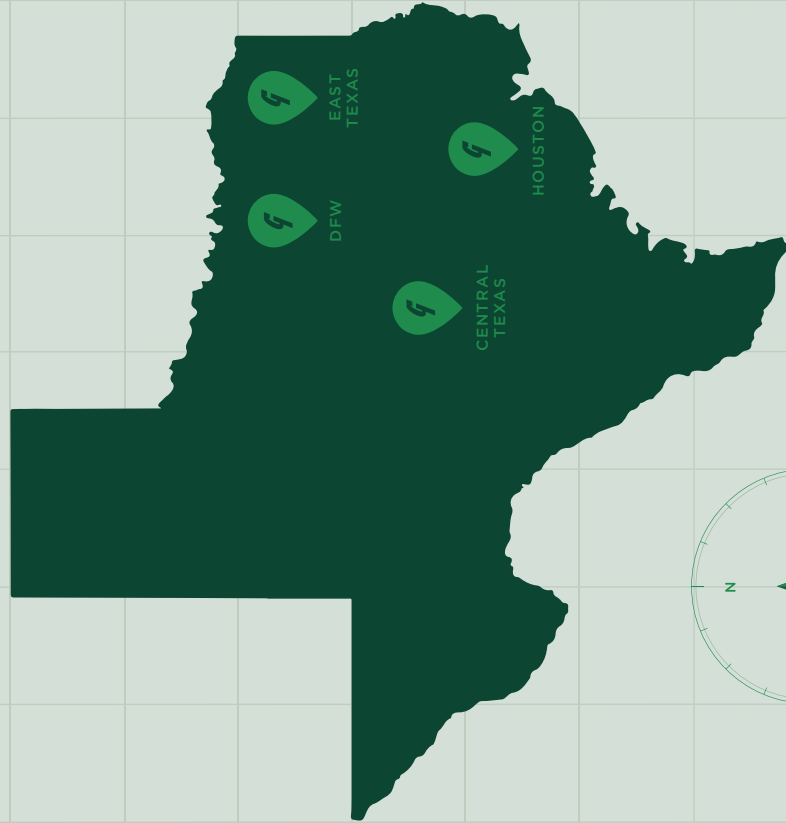
- ▶ We opened a loan production office and additional office space in Westlake, Texas, to house our growing **Austin-area banking teams**.
- ▶ We appointed a **Community Development Officer** whose focus is to identify community outreach opportunities in all our banking markets.

TECHNOLOGY

- ▶ We integrated several new platforms to our technology stack, including Zelle®, a digital payment network; UiPath®, a no-code programming platform; VMware® host hardware, which powers our production application servers; Duo® single sign-on (SSO), which enhance security for in-house and third-party systems, and increased capacity with Fortigate® firewalls and Cisco® core switches.

BANK LOCATIONS

WHERE THERE'S A WAY,  
**THERE'S GUARANTY**



**EAST TEXAS REGION**

- Bogata
- Commerce
- Hallsville
- Longview
- Mount Pleasant (2)
- Mount Vernon
- New Boston
- Paris (2)
- Pittsburg
- Sulphur Springs
- Texarkana (3)



CENTRAL PLAZA, PARIS

**CENTRAL TEXAS REGION**

- Austin
- Georgetown
- Lakeway
- Bryan
- College Station (2)



DOWNTOWN GEORGETOWN

**DALLAS / FORT WORTH REGION**

- Dallas
- Addison
- Denton (2)
- Fort Worth
- Rockwall
- Royse City



DENTON COUNTY COURTHOUSE

**HOUSTON REGION**

- Houston
- Houston Galleria
- Conroe
- Katy



SAM HOUSTON STATUE, HERMANN PARK

# CHARTING THE COURSE

110 YEARS OF GUARANTY

History may be cyclical, but for 110 years, our Bank has provided strength and stability for our customers, employees, and shareholders. We've embraced technological changes and planned for different economic events and volatility that has allowed us successfully to grow and to serve more communities within Texas. We are very proud of our long history, highlighted with some key milestones below, and look forward to the future.

**1929**

Guaranty holds \$454,870 in deposits

**1929**  
Great depression begins

**1931**

The Guaranty State Bank opens in Mt. Pleasant, Texas

**1931**  
Color TVs are available to the public

**1970**

Art, Jonice and Bill come together and start to build today's Guaranty

**1957**

Additional services are added, including a night depository, conference rooms available for customers, safe deposit boxes

**2006**

Ty Abston elected Chief Executive Officer

**1992**

Expansion begins in Northeast Texas

**2001**  
Apple first releases iTunes

**2013**

Expansion into Central Texas region

**2011**

Guaranty reaches \$1 billion in assets

**2015**

Expansion into DFW region

**2018**

Expansion into Houston region

STATEMENT OF THE CONDITION OF THE GUARANTY STATE BANK OF MOUNT PLEASANT, TEXAS Made to the Comptroller of the State of Texas, at Austin, Texas, April 4, 1931

CAPITAL STOCK	\$ 60,000.00	LOANS AND DISCOUNTS	\$ 70,105.20
RESERVE FUND	50,000.00	DEPOSITS	1,000.00
RECEIVABLES	140,829.00	CASH	143,123.80
TOTAL	\$251,119.00	TOTAL	\$251,119.00

The Above Statement is Corrected by R. V. LINDSEY, President

1913 Statement of Condition card for the Guaranty State Bank



1950 Guaranty Bond Bank



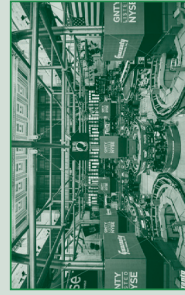
Art Scharlach, Jonice Crane and Bill Jones



2010 Members of the executive management team



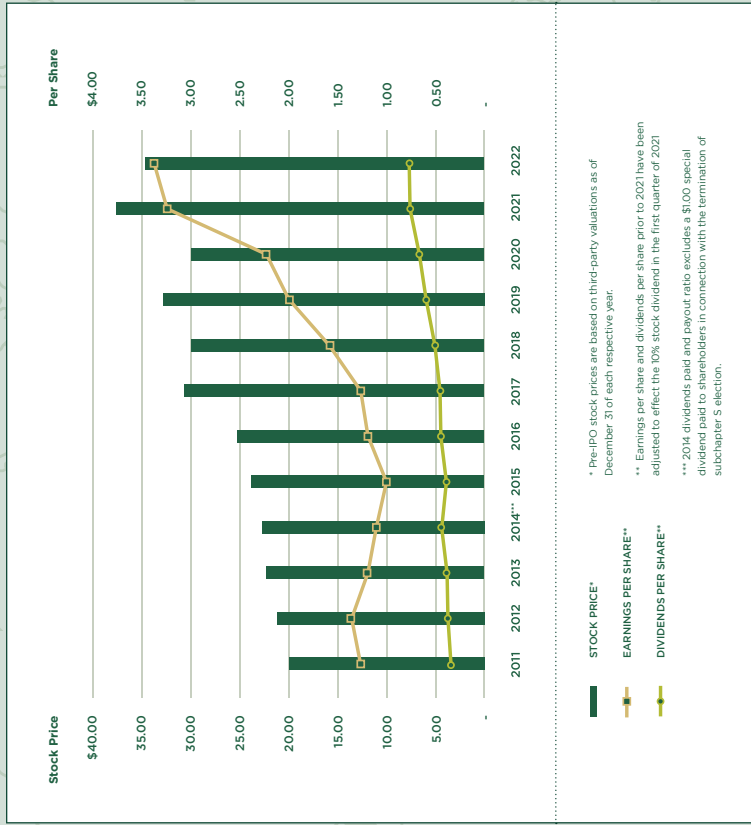
2019 New corporate location in Addison, TX



2023 Transferred our GNTY stock listing to the New York Stock Exchange



# STOCK PRICE, EPS, AND DIVIDENDS



\* Pre-IPO stock prices are based on third-party valuations as of December 31 of each respective year.  
 \*\* Earnings per share and dividends per share prior to 2021 have been adjusted to effect the 10% stock dividend in the first quarter of 2021  
 \*\*\* 2014 dividends paid and payout ratio excludes a \$100 special dividend paid to shareholders in connection with the termination of subchapter S election.



GREGG COUNTY COURTHOUSE, LONGVIEW

32.5007° N, 94.7405° W

# FINANCIAL HIGHLIGHTS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

OPERATING RESULTS	2018	2019	2020	2021	2022
Net interest income	\$68,916	\$78,870	\$89,982	\$95,558	\$107,829
Provision for loan losses	2,250	1,250	13,200	(1,700)	2,150
Non-interest income	15,303	16,973	23,037	24,576	23,485
Net realized gain (loss) on securities	(50)	(22)	—	—	172
Non-interest expense	56,774	62,525	66,522	73,278	79,907
Earnings before provision for income taxes	25,195	32,057	33,297	48,556	49,257
Income tax provision	4,599	5,778	5,895	8,750	8,834
Net earnings	20,596	26,279	27,402	39,806	40,423
Core earnings <sup>1</sup>	27,495	33,307	40,261	39,034	50,154

## AT YEAR END

Total assets	\$2,266,970	\$2,318,444	\$2,740,832	\$3,086,070	\$3,351,495
Loans and loans held for sale, net of allowance	1,647,239	1,693,162	1,837,279	1,880,205	2,347,401
Investments in securities	396,139	368,174	380,795	526,469	697,935
Total deposits	1,871,480	1,956,804	2,286,390	2,670,827	2,681,154
Stockholders' equity	244,583	261,551	272,643	302,214	295,558
Weighted average common shares outstanding <sup>2</sup>	12,719,300	12,803,900	12,219,420	12,065,182	11,980,209

## OTHER FINANCIAL DATA

Return on average total assets	0.97%	1.13%	1.07%	1.36%	1.24%
Return on average stockholders' equity	9.03%	10.37%	10.39%	13.72%	13.76%
Loans to deposits	88.68%	87.20%	81.65%	70.24%	87.43%
Loan loss reserves to loans	0.88%	0.95%	1.80%	1.59%	1.34%
Net interest margin, fully taxable equivalent	3.50%	3.69%	3.77%	3.51%	3.54%
Tier 1 capital to average assets	10.16%	10.29%	9.13%	9.18%	8.77%
Efficiency ratio	67.37%	65.23%	58.86%	61.00%	60.85%
Charge-offs net of recoveries	\$458	\$(301)	\$331	\$1,486	\$609

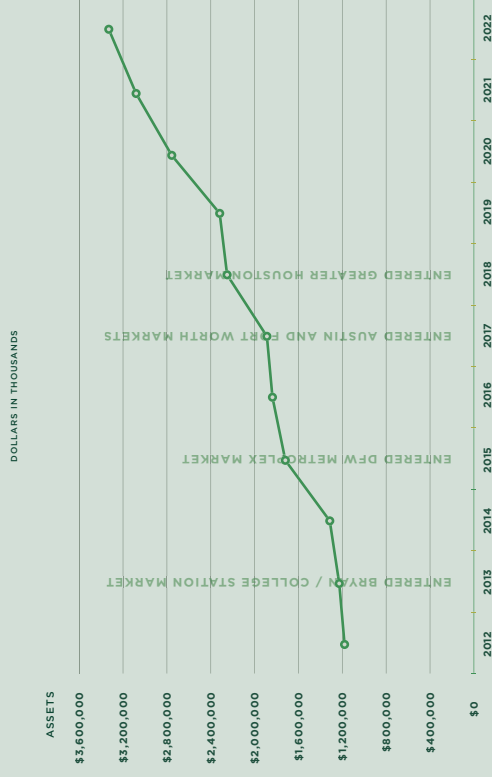
## PER SHARE DATA

Net income <sup>2</sup>	\$1.62	\$2.05	\$2.25	\$3.30	\$3.38
Market price (value based on year end numbers)	29.82	32.88	29.95	37.58	34.64
Tangible book value <sup>2</sup>	15.96	17.76	19.74	22.09	21.85
Cash dividends <sup>2</sup>	0.55	0.64	0.71	0.80	0.88

1. Pre-tax, pre-provision, pre-securities gain (loss), and pre-PPP related extraordinary income

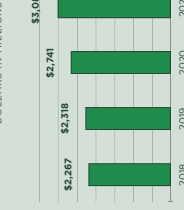
2. Periods prior to the stock dividend issued during the first quarter of 2021 have been adjusted to give effect to the 10% stock dividend

## 10-YEAR ASSET GROWTH CHART

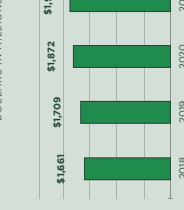


## 5-YEAR GROWTH TRENDS

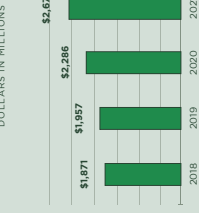
### TOTAL ASSETS



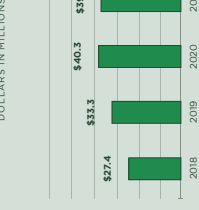
### TOTAL LOANS<sup>3</sup>



### TOTAL DEPOSITS



### CORE EARNINGS<sup>4</sup>



3. Total gross loans, including loans held for sale

4. Core earnings defined as pre-tax, pre-provision and pre-PPP related net earnings

**GUARANTY BANK & TRUST  
BOARD OF DIRECTORS**



**BACK ROW**

**CHRIS ELLIOTT**  
President  
Elliott Auto Group

**BRIAN MASON**  
Managing Director  
Boone Creek Investments, LLC

**MIDDLE ROW**

**CARL SMITH**  
Investments

**CAPPY PAYNE**  
Advisory Director, Senior  
Executive Vice President

**FRONT ROW**

**SHALENE JACOBSON**  
Advisory Director,  
Executive Vice President,  
& CFO

**MIKE NOLAN**  
Investments

**TY ABSTON**  
Chairman of the Board  
& CEO

**SONDRA CUNNINGHAM**  
Board Secretary, Senior  
Vice President &  
Chief Culture Officer

**RICKY BAKER**  
KRB Investments, LLC

**BACK ROW**

**JIM BUNCH**  
President & CEO  
BWI, Inc.

**CHUCK COWELL**  
Vice Chairman &  
Senior Executive Officer

**MIDDLE ROW**

**EDDIE PRIEFERT**  
President  
Priefert Manufacturing Co., Inc.

**KIRK LEE**  
Vice Chairman & Chief  
Credit Officer

**FRONT ROW**

**SONDRA CUNNINGHAM**  
Board Secretary, Senior  
Vice President &  
Chief Culture Officer

**RICKY BAKER**  
KRB Investments, LLC

**BACK ROW**

**CARL JOHNSON, JR.**  
Principal  
Baker & Johnson, CPA

**JOSH BRAY**  
Entrepreneur

**MIDDLE ROW**

**JEFF BROWN**  
Managing Partner  
RoseRock

**BRAD DRAKE**  
CEO  
Lamar Companies, LLC

**FRONT ROW**

**SONDRA CUNNINGHAM**  
Board Secretary, Senior  
Vice President &  
Chief Culture Officer

**RICKY BAKER**  
KRB Investments, LLC

**DELIVERY OF ANNUAL REPORT**

This Annual Report is being delivered to shareholders of Guaranty Bancshares, Inc. (the "Company") in connection with the 2023 Annual Meeting of Shareholders and should be read with the Company's proxy statement for the meeting and Annual Report on Form 10-K, copies of which accompany this Annual Report and have been filed with the Securities and Exchange Commission ("SEC"). This Annual Report is also available on our website [www.gnty.com](http://www.gnty.com) under the heading "Investors - Financial Information." The Company will mail additional copies of this Annual Report to its shareholders upon request.

**FORWARD-LOOKING STATEMENTS**

This Annual Report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our results of operations, financial condition and financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. Such factors include, without limitation, the "Risk Factors" referenced in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, other risks and uncertainties listed from time to time in our reports and documents filed with the SEC, and the following factors: business and economic conditions generally and in the financial services industry, nationally and within our current and future geographic market areas; economic, market, operational, liquidity, credit and interest rate risks associated with our business; natural disasters and adverse weather; acts of terrorism, cyber-attacks, an outbreak of hostilities, a public health outbreak (such as COVID-19) or other international or domestic calamities; and other matters beyond our control; the composition of our loan portfolio, including deteriorating asset quality and higher loan charge-offs; the laws and regulations applicable to our business; our ability to achieve organic loan and deposit growth and the composition of such growth; increased competition in the financial services industry, nationally, regionally or locally; our ability to maintain our historical earnings trends; our ability to raise additional capital to execute our business plan; acquisitions and integrations of acquired businesses; systems failures or interruptions involving our information technology and telecommunications systems or third-party services; the composition of our management team and our ability to attract and retain key personnel; the fiscal position of the U.S. federal government and the soundness of other financial institutions; and the amount of nonperforming and classified assets we hold. We can give no assurance that any goal or plan or expectation set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements. The forward-looking statements are made as of the date of this Annual Report, and we do not intend, and assume no obligation, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law.

**DIVIDENDS CALENDAR**

Dividends on Guaranty Bancshares, Inc. common stock are payable, if paid, quarterly.

**INDEPENDENT AUDITORS**

Whitley Penn  
8343 Douglas Avenue  
Suite 400  
Dallas, Texas 75225

**TRANSFER AGENT**

Computershare Investor Services  
P. O. Box 50500  
Louisville, KY 40233  
Shareholder Services  
800-962-4284



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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2022

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.)

**16475 Dallas Parkway, Suite 600**

**Addison, Texas**

**75001**

(Address of principal executive offices)

(Zip code)

**(888) 572 - 9881**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class of Securities	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$1.00 per share	GNTY	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 every Interactive Data File required to be submitted 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 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 under the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the Nasdaq Global Select Market on June 30, 2022, the last day of the Registrant's most recently completed second fiscal quarter, was approximately \$306.2 million.

At March 1, 2023, the Company had 11,943,872 outstanding shares of common stock, par value \$1.00 per share.

**Documents Incorporated By Reference:**

Portions of the registrant's Definitive Proxy Statement relating to the 2023 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2022.

**GUARANTY BANCSHARES, INC.**  
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## **PART I**

### **ITEM 1. BUSINESS.**

#### **Our Company**

Except where the context otherwise requires or where otherwise indicated, references in this Annual Report on Form 10-K to “we,” “us,” “our,” “our company,” the “Company” or “Guaranty” refer to Guaranty Bancshares, Inc. and our wholly-owned banking subsidiary, Guaranty Bank & Trust, N.A. and the terms “Bank” and “Guaranty Bank & Trust” refer to Guaranty Bank & Trust, N.A.

We are a bank holding company, with corporate headquarters in Addison, Texas and operational headquarters in Mount Pleasant, Texas. Through our wholly owned subsidiary, Guaranty Bank & Trust, a national banking association, we provide a wide range of relationship-driven commercial and consumer banking, as well as trust and wealth management products and services that are tailored to meet the needs of small- and medium-sized businesses, professionals and individuals. As of December 31, 2022, the Bank operates 32 full service banking locations in East Texas, Dallas/Fort Worth, Houston and Central Texas regions of the state. As of December 31, 2022, we had total assets of \$3.35 billion, total net loans of \$2.34 billion, total deposits of \$2.68 billion and total shareholders’ equity of \$295.6 million.

We completed an initial public offering of our common stock in May 2017. Our common stock was traded on the Nasdaq Global Select Market through March 6, 2023, and commenced trading on the New York Stock Exchange on March 7, 2023, where it continues to trade under the symbol “GNTY.”

#### **Our History and Growth**

Guaranty Bank & Trust was originally chartered as a Texas state banking association over a century ago in 1913, and converted its charter to a national banking association in 2012. Guaranty was incorporated in 1990 to serve as the holding company for Guaranty Bank & Trust. Since our founding, we have built a strong reputation based on financial stability and community leadership. Our growth has been consistent and primarily organic, both through growth in our established markets and the entry into new markets with *de novo* banking locations. In 2013, we expanded from our East Texas markets by opening a *de novo* banking location in Bryan/College Station, Texas. In 2017, we opened *de novo* banking locations in Fort Worth and Austin, Texas. In late 2021, we opened a second *de novo* location just outside of Austin in the town of Georgetown, Texas, and we opened a third Austin location in January 2022. We have achieved organic growth by enhancing our lending and deposit relationships with existing customers and attracting new customers, as well as cross-selling our deposit, mortgage, trust and wealth management and treasury management products.

We have also supplemented our organic growth and leveraged our strong deposit base with strategic acquisitions. In 2015, we acquired both Texas Leadership Bank and DCB Financial, allowing us to expand our footprint into the Dallas/Fort Worth MSA. In 2018, we entered the Houston MSA through our acquisition of Westbound Bank. Our expansion strategy has enabled us to access markets with stronger loan demand, achieve consistent growth, maintain stable operating efficiencies, recruit top bankers, preserve our historically conservative credit culture, and provide shareholders with stable earnings throughout credit cycles.

Since our initial expansion outside of East Texas in 2013, we have grown our network of banking locations from 18 banking locations in 11 Texas communities to 32 banking locations in 26 Texas communities as of December 31, 2022.

#### **Our Community Banking Philosophy and Culture**

We focus on a community-based relationship model, as opposed to a line of business model, because we believe the community-based relationship model promotes an entrepreneurial attitude within our Company while providing personal attention and solutions tailored to our customers. Our culture is one of employee ownership and it is something we take very seriously. We have formally documented our culture in a book called “The Guaranty Culture,” which we give to all prospective new hires and directors before they join our team so that they clearly understand who we are, how we work, what we believe, how we make decisions and what we admire in people.

We believe a great bank requires the right amount of two forms of capital: financial and human. We understand that our ability to successfully deploy our financial capital is directly related to our ability to bring the right talents together to lead our teams. This focus on human capital has rewarded us with a cohesive group of directors, officers and employees that we believe is our greatest asset. We have invested in a robust management development program designed to develop comprehensive bankers who understand all aspects of our operations and embrace our core values. The training program

generally lasts 18-24 months and includes rotations through each primary department of the Bank. Successful graduates of our training program are typically promoted to a leadership or managerial position upon completion. We currently have graduates in management, lending and operational roles. Several of the Bank's market presidents and managers are graduates of our training program.

We continue to expand and grow the offerings provided via Guaranty University, an online professional and continuing education resource for our employees. In addition, certain up and coming leaders participate in our Leadership Development Program (LDP). The LDP program caters to our Senior Vice Presidents (VPs), VPs and Assistant VPs, including department heads, market leaders and lenders and other high potential employees and has proven to be a valuable source of growth and improvement to our leadership participants. For employees at various levels who exhibit leadership aptitude, they frequently participate in online courses, in-person leadership classes and team building activities that allow them to learn about and improve upon various leadership traits and skills.

We have developed a network of banking locations strategically positioned in separate and distinct communities. Each community where we have a banking location is overseen by a local market president or manager, and we emphasize local decision-making by experienced bankers supported by centralized risk and credit oversight. We believe that employing local decision makers, supported by industry-leading technology and centralized operational and credit administration support from our corporate headquarters, allows us to serve our customers' individual needs while managing risk on a uniform basis. We intend to repeat this scalable model in each market in which we are able to identify high-caliber bankers with a strong banking team. We empower these bankers to implement our operating strategy, grow our customer base and provide the highest level of customer service possible. We believe our organizational approach enables us to attract and retain talented bankers and banking teams who desire the combination of the Bank's size and loan limits, dedication to culture, commitment to our communities, local decision-making authority, compensation structure and focus on relationship banking.

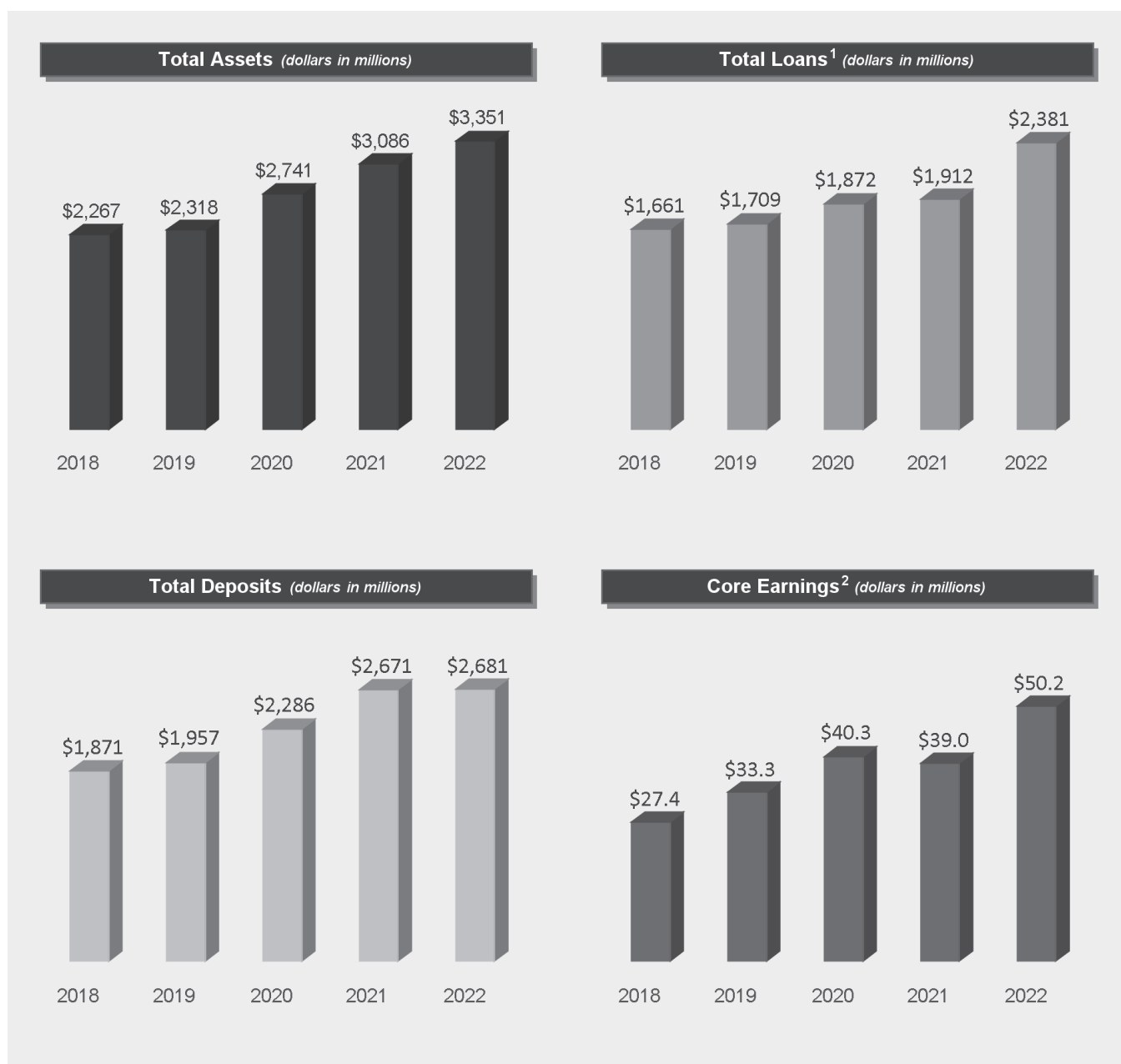
## **Growth and Expansion Strategies**

Our strategic plan is to be a leading Texas bank holding company with a commitment to operate as a community bank as we continue to execute our expansion strategy. Our expansion strategy is to generate shareholder value through the following:

- *Maintain Focus on Organic Growth.* Given the recent uncertainty resulting from the COVID pandemic, economic factors and geopolitical issues, focusing on organic growth, with greater emphasis on high-quality credits, is a strategy that allows us to generate stable funding sources without the non-amortizing goodwill assets and core deposit intangibles that strategic acquisitions might add to our balance sheet. We believe that a strong core deposit base is extremely valuable and desirable in allowing our bank to grow despite continued interest rate competition from bank and non-bank sources, and serves us well when alternative funding sources become more expensive. As such, we also believe that our significant core deposit franchise in East Texas provides a stable funding source for meaningful loan growth in our existing markets. In addition, we strive to build comprehensive banking relationships with new borrowers through deposit and treasury management products and services.
- *Pursue Strategic Acquisitions.* We intend to continue to grow through strategic acquisitions within our current markets and in other complementary markets, however the culture, economics and location of potential new acquisitions is critical in our decision making. Recent market valuations of bank stocks industry-wide have generally caused the economic aspect of acquisitions to be less desirable for our shareholders. However, we seek acquisitions that provide meaningful financial benefits through long-term organic growth opportunities and expense reductions, while maintaining our current risk profile. We believe that many smaller financial institutions will consider us an ideal long-term partner due to our community banking philosophy, commitment to employee stock ownership and our culture of teamwork.
- *Establish De Novo Banking Locations.* We intend to open *de novo* banking locations in our existing and other attractive markets in Texas to further diversify our banking location network. In 2021, we opened a second *de novo* banking location in the Austin suburb of Georgetown, Texas and opened a third *de novo* location in the Lakeway area of Austin in January 2022.
- *Increase Earnings Streams.* We seek to maintain asset quality in a manner that allows us to maintain our current earnings streams, while also providing additional services such as robust treasury management, trust and wealth management and Small Business Association guaranteed loans to our customers in order to augment and diversify our revenue sources. For the year ended December 31, 2022, noninterest income

represented \$23.5 million, or 18.2%, of our total revenue of \$129.2 million (defined as net interest income after the provision for credit losses plus noninterest income).

The charts below illustrate our meaningful asset, loan, deposit and net income growth for the last five years:



(1) Total loans, including loans held for sale.

(2) Core earnings defined as pre-tax, pre-provision, pre-PPP related net earnings. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

Although we are devoting substantial resources in furtherance of our expansion strategy, there are no assurances that we will be able to further implement our expansion strategy or that any of the components of our expansion strategy will be successful.

We believe the following competitive strengths support our growth and expansion strategy:



- *Experienced Executive Management Team.* The Bank has a seasoned and experienced executive management team with nearly 346 years of experience in financial services businesses. Our executive management team has successfully managed profitable organic growth, executed acquisitions, developed a strong credit culture and implemented a relationship-based approach to commercial and consumer banking. In addition, our executive management team has extensive knowledge of the bank regulatory landscape, significant experience navigating interest rate and credit cycles, including high inflation and recessionary periods, and has a long history of working together.
- *Employee Ownership Mentality.* As of December 31, 2022, our Company-only directors, our executive officers and our employee stock ownership plan, or KSOP, as a group, beneficially owned approximately 25.2% of our outstanding shares of common stock. Our KSOP owned 9.1% of our outstanding shares. Many of our employees' interests in the KSOP represent material portions of their net worth, particularly our long-tenured employees. We believe that the KSOP's material ownership position promotes an owner-operator mentality among our employees, from senior officers to entry-level employees, which we believe enhances our employees' dedication to our organization and the execution of our strategy.
- *Proven Successful Execution of Growth Strategies.* We have developed a strategic growth plan that allows the Company to quickly identify and efficiently execute corporate transactions that we believe enhance our geographic footprint and enterprise value. During the prior 10 years, we have successfully integrated ten acquired locations into our Company through what we believe is an effective combination of comprehensive integration planning, extensive management experience with expansion, and a welcoming and flexible culture of employee ownership. In that same time period, we also established eleven *de novo* locations outside of our historical East Texas market, achieving our objectives for organic growth within our anticipated time periods and successfully integrating new local management teams and employees into our Company. Accordingly, we have a proven track record of executing value-added acquisitions and achieving consistent, meaningful organic growth.
- *Scalable Platform.* Utilizing the significant prior experience of our management team and employees, we believe that we have built a strong and scalable operational platform, including technology and banking processes and infrastructure, capable of supporting future organic growth and acquisitions when the right opportunities arise. We maintain operational systems and staffing that we believe are stronger than necessarily required for a financial institution of our size in order to successfully execute integrations when needed and accommodate future growth without a commensurate need for expansion of our back office capabilities. We believe our platform allows us to focus on growing the revenue-generating divisions of our business while maintaining our operational efficiencies, resulting in improved profitability.
- *Disciplined Credit Culture and Robust Risk Management Systems.* We seek to prudently mitigate and manage our risks through a disciplined, enterprise-wide approach to risk management, particularly credit, compliance, operational and interest rate risk. All of the Bank's executive officers serve on key operational and risk management committees. We endeavor to maintain asset quality through an emphasis on local market knowledge, long-term customer relationships, consistent and thorough underwriting for all loans and a conservative credit culture.
- *Brand Strength and Reputation.* We believe our brand recognition, including the Guaranty name and our iconic "G" logo, which is prominently displayed in all of our advertising and marketing materials and has been trademarked to preserve its integrity, is an important element of our business model and a key driver of our future growth. We believe our reputation for providing personal and dependable service and active community involvement is well established in our traditional East Texas market, and we are continuously striving to replicate that brand awareness and reputation in our newer markets of the Dallas/Fort Worth metroplex, Greater Houston and Central Texas through a high level of community involvement, deliberate and effective digital marketing and the targeted hiring of employees with strong relationships and reputations within these markets. In addition, in 2022, we appointed a Community Development Officer who works closely with bank leadership, employees and community members to develop plans to improve quality of life across the Texas communities that we serve.
- *Stable Core Deposit Base.* We believe our traditional East Texas market provides a historically stable source of core deposits that serves as a good source of funding when there is volatility in interest rates and an increasing desire for core deposits make them more difficult and more expensive to attract, especially in competitive markets. However, a significant emphasis is impressed upon our banker's in all of markets to develop core deposits because we believe that our stable core deposit base enhances our ability to pursue loans in large, high growth markets and to fund other revenue sources such as our mortgage and warehouse lending division.

## Our Banking Services

*Lending Activities.* We offer a variety of loans, including commercial lines of credit, working capital loans, commercial real estate-backed loans (including loans secured by owner occupied commercial properties), term loans, equipment financing, acquisition, expansion and development loans, borrowing base loans, real estate construction loans, homebuilder loans, letters of credit and other loan products to small- and medium-sized businesses, real estate developers, mortgage lenders, manufacturing and industrial companies and other businesses. We also offer various consumer loans to individuals and professionals including residential real estate loans, home equity loans, installment loans, unsecured and secured personal lines of credit, and standby letters of credit. Lending activities originate from the efforts of our bankers, with an emphasis on lending to individuals, professionals, small- to medium-sized businesses and commercial companies located in our market areas. Although all lending involves a degree of risk, we believe that commercial business loans and commercial real estate loans present greater risks than other types of loans in our portfolio. We work to mitigate these risks through conservative underwriting policies and consistent monitoring of credit quality indicators.

We adhere to what we believe are disciplined underwriting standards, but also remain cognizant of the need to serve the credit needs of customers in our primary market areas by offering flexible loan solutions in a responsive and timely manner. We maintain asset quality through an emphasis on local market knowledge, long-term customer relationships, consistent and thorough underwriting for all loans and a conservative credit culture. We also seek to maintain a broadly diversified loan portfolio across customer, product and industry types. Our lending policies do not provide for any loans that are highly speculative, subprime, or that have high loan-to-value ratios. These components, together with active credit management, are the foundation of our credit culture, which we believe is critical to enhancing the long-term value of our organization to our customers, employees, shareholders and communities.

We have a service-driven, relationship-based, business-focused credit culture, rather than a price-driven, transaction-based culture. Substantially all of our loans are made to borrowers located or operating in our primary market areas with whom we have ongoing relationships across various product lines. The limited number of loans secured by properties located in out-of-market areas have been made strictly to borrowers who are well-known to us.

Our credit approval policies provide for various levels of officer and senior management lending authority for new credits and renewals, which are based on position, capability and experience. Loans in excess of an individual officer's lending limit may be approved by two or more executive officers, with stacking authority, combining their individual lending limits, up to a current maximum of \$5.0 million. Loans presenting aggregate lending exposure in excess of \$5.0 million are subject to approval of the Bank's Directors' Loan Committee, although all loans with aggregate exposure over \$1.0 million are provided for review. These limits are reviewed periodically by the Bank's board of directors. We believe that our credit approval process provides for thorough underwriting and efficient decision making.

Credit risk management involves a partnership between our loan officers and our credit approval, credit administration and collections personnel. We conduct monthly loan meetings, attended by substantially all of our loan officers, related loan production staff and credit administration staff at which asset quality and delinquencies are reviewed. Our evaluation and compensation program for our loan officers includes significant goals, such as the percentages of past due loans and charge-offs to total loans in the officer's portfolio, that we believe motivate the loan officers to focus on the origination and maintenance of high quality credits consistent with our strategic focus on asset quality.

*Deposit Activities.* Our deposits serve as the primary funding source for lending, investing and other general banking purposes. We provide a full range of deposit products and services, including a variety of checking and savings accounts, certificates of deposit, money market accounts, debit cards, remote deposit capture, online banking, mobile banking, e-Statements, bank-by-mail and direct deposit services. We also offer business accounts and cash management services, including business checking and savings accounts and treasury management services. We solicit deposits through our relationship-driven team of dedicated and accessible bankers and through community focused marketing. We also seek to cross-sell deposit products at loan origination.

Given the diverse nature of our banking location network and our relationship-driven approach to our customers, we believe our deposit base is comparatively less sensitive to interest rate variations than our competitors. Nevertheless, we attempt to competitively price our deposit products to promote core deposit growth. We believe that our loan pricing encourages deposits from our loan customers.

*Guaranty Bank & Trust Wealth Management Group.* We deliver a comprehensive suite of trust services through Guaranty Bank & Trust Wealth Management Group, a division of our Bank. We provide traditional trustee, custodial and escrow services for institutional and individual accounts, including corporate escrow accounts, serving as custodian for self-

directed individual retirement accounts and other retirement accounts. In addition, we offer clients comprehensive investment management solutions whereby we manage all or a portion of a client's investment portfolio on a discretionary basis. Finally, we provide retirement plan services, such as 401(k) programs, through a national vendor.

*Other Products and Services.* We offer banking products and services that are attractively priced with a focus on customer convenience and accessibility. We offer a full suite of online banking services including access to account balances, online transfers, online bill payment and electronic delivery of customer statements, as well as ATMs, and banking by telephone, mail and personal appointment. We also offer debit cards, night depository, direct deposit, cashier's checks, and letters of credit, as well as treasury management services, including wire transfer services, positive pay, remote deposit capture and automated clearinghouse services.

## **Investments**

We manage our investment portfolio primarily for liquidity purposes, with a secondary focus on returns. We separate our portfolio into two categories: (1) short-term investments with maturities less than one year, including federal funds sold; and (2) investments with maturities exceeding one year (the effective duration is approximately 3.99 years as of December 31, 2022), all of which are classified as available for sale and can be used for pledging on public deposits, selling under repurchase agreements and meeting unforeseen liquidity needs. We regularly evaluate the composition of this category as changes occur with respect to the interest rate yield curve. Although we may sell investment securities from time to time to take advantage of changes in interest rate spreads, it is our policy not to sell investment securities unless we can reinvest the proceeds at a similar or higher spread, so as not to take gains to the detriment of future income.

## **Our Markets**

We consider our current market regions to be East Texas, Central Texas, the Dallas/Fort Worth MSA and the Houston MSA. We serve these communities from our corporate headquarters in Addison, Texas, our operational headquarters in Mount Pleasant, Texas and through a network of 15 banking locations within East Texas, six banking locations in Central Texas, seven banking locations in the Dallas/Fort Worth metroplex and four banking locations in the Houston metroplex. As part of our strategic plan, we intend to further diversify our markets through entry into other large metropolitan markets in Texas and/or continued expansion in our existing newer markets.

## **Competition**

The banking and financial services industry is highly competitive, and we compete with a wide range of financial institutions within our markets, including local, regional and national commercial banks and credit unions. We also compete with mortgage companies, brokerage firms, consumer finance companies, mutual funds, securities firms, insurance companies, third-party payment processors, fintech companies and other financial intermediaries for certain of our products and services. Some of our competitors are not subject to the regulatory restrictions and level of regulatory supervision applicable to us.

Interest rates on loans and deposits, as well as prices on fee-based services, are typically significant competitive factors within banking and financial services industry. Many of our competitors are much larger financial institutions that have greater financial resources than we do and compete aggressively for market share. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. Other important competitive factors in our industry and markets include office locations and hours, quality of customer service, community reputation, continuity of personnel and services, capacity and willingness to extend credit, and ability to offer sophisticated banking products and services. While we seek to remain competitive with respect to fees charged, interest rates and pricing, we believe that our broad and sophisticated commercial banking product suite, our high-quality customer service culture, our positive reputation and long-standing community relationships will enable us to compete successfully within our markets and enhance our ability to attract and retain customers.

## **Human Capital Resources**

As of December 31, 2022, we employed 494 full-time equivalent persons. We provide extensive training to our employees in an effort to ensure that our customers receive superior customer service. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We consider our relations with our employees to be good. For additional information regarding our human capital resources, please see the Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 17, 2023, a copy of which will be filed with the SEC.

## Our Corporate Information

Our principal executive offices are located at 16475 Dallas Parkway, Suite 600, Addison, Texas 75001, and our telephone number is (888) 572-9881. Our website is [www.gnty.com](http://www.gnty.com). We make available at this address, free of charge, our annual report on Form 10-K, our annual report to shareholders, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, or the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission, or SEC. These documents are also available on the SEC's website at [www.sec.gov](http://www.sec.gov). The information contained on or accessible from our website does not constitute part of this Annual Report on Form 10-K and is not incorporated by reference herein.

## Supervision and Regulation

The U.S. banking industry is highly regulated under federal and state law. Consequently, our growth and earnings performance will be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include the Board of Governors of the Federal Reserve ("Federal Reserve"), Federal Deposit Insurance Corporation ("FDIC"), Consumer Financial Protection Bureau ("CFPB"), Office of the Comptroller of the Currency ("OCC"), Internal Revenue Service ("IRS") and state taxing authorities. The effect of these statutes, regulations and policies, and any changes to such statutes, regulations and policies, can be significant and cannot be predicted.

The material statutory and regulatory requirements that are applicable to the Company and its subsidiaries are summarized below. The description below is not intended to summarize all laws and regulations applicable to the Company and its subsidiaries, and is based upon the statutes, regulations, policies, interpretive letters and other written guidance that are in effect as of the date of this Annual Report on Form 10-K.

### **Guaranty Bancshares, Inc.**

As a bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, or the BHC Act, and to supervision, examination and enforcement by the Federal Reserve. The BHC Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. The Federal Reserve's jurisdiction also extends to any company that we directly or indirectly control, such as any nonbank subsidiaries and other companies in which we own a controlling investment.

*Financial Services Industry Reform.* In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was enacted. The Dodd-Frank Act broadly affected the financial services industry by implementing changes to the financial regulatory landscape aimed at strengthening the sound operation of the financial services sector.

In addition, the Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters affecting publicly-traded companies. However, the Jumpstart our Business Startups Act of 2012, or JOBS Act, provided certain exceptions to these requirements for so long as a publicly-traded company qualifies as an emerging growth company. In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, or EGRRCPA, revised certain aspects of the Dodd-Frank Act. Among other things, EGRRCPA exempts banks with less than \$10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading and clarifies definitions pertaining to HVCRE, which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings. Further changes effected by the passage of EGRRCPA are discussed below.

*Revised Rules on Regulatory Capital.* Regulatory capital rules pursuant to the Basel III requirements, released in July 2013 and effective January 1, 2015, implemented higher minimum capital requirements for bank holding companies and banks. These rules include a new common equity Tier 1, or CET1, capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The revised capital rules require banks and bank holding companies to maintain a minimum CET1 capital ratio of 4.5% of risk-based assets, a total Tier 1 capital ratio of 6.0% of risk-based assets, a total capital ratio of 8.0% of risk-based assets and a leverage ratio of 4.0% of average assets.

The capital rules also require banks to maintain a CET1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8.0%, a total capital ratio of 10.0% and a leverage ratio of 5.0% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements. The risk-based ratios include a "capital conservation buffer" of 2.5% above its



minimum risk-based capital requirements that must be composed of common equity Tier 1 capital. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk-weighted assets. An institution would be subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffered ratio.

The EGRRCPA directed the federal banking agencies to develop a new, optional capital ratio for use by eligible community banks. Effective January 1, 2020, certain banks and their holding companies that satisfy the definition of a qualifying community banking organization, or QCBO, have the option to elect out of complying with the Basel III Capital Rules and to instead comply with the community bank leverage ratio, or CBLR, of 9%. QCBOs whose leverage ratios fall between 8% and 9% have a two-quarter grace period to comply with the 9% requirement.

A QCBO is defined as a bank, a savings association, a bank holding company or a savings and loan holding company with:

- total consolidated assets of less than \$10 billion;
- total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25% or less of total consolidated assets;
- total trading assets and trading liabilities of 5% or less of total consolidated assets;
- MSAs of 25% or less of CBLR tangible equity; and
- temporary difference DTAs of 25% or less of CBLR tangible equity.

A QCBO may elect out of complying with the Basel III Capital Rules if, at the time of the election, the QCBO has a CBLR above 9%. The numerator of the CBLR is referred to as “CBLR tangible equity” and is calculated as the QCBO’s total capital as reported in compliance with Call Report and FR Y-9C instructions, or Reporting Instructions (prior to including non-controlling interests in consolidated subsidiaries) less:

- Accumulated other comprehensive income (referred to in the industry as AOCI);
- Intangible assets, calculated in accordance with Reporting Instructions, other than mortgage servicing assets; and
- Deferred tax assets that arise from net operating loss and tax credit carry forwards net of any related valuations allowances.

The denominator of the CBLR is the QCBO’s average assets, calculated in accordance with reporting instructions and less intangible assets and deferred tax assets deducted from CBLR tangible equity. At this time, the Company and the Bank have not elected to comply with the community bank leverage ratio framework, but the Company and the Bank will continue to consider making such election in the future.

*Imposition of Liability for Undercapitalized Subsidiaries.* Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution’s holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5.0% of the institution’s assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

*Acquisitions by Bank Holding Companies.* The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it acquires all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank or bank holding company if after such acquisition it would own or control, directly or indirectly, more than 5.0% of the voting shares of such bank or bank holding company. In approving bank or bank holding company acquisitions by bank holding companies, the Federal Reserve is required to consider, among other things, the

effect of the acquisition on competition, the financial condition, managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served (including the record of performance under the CRA), the effectiveness of the applicant in combating money laundering activities and the extent to which the proposed acquisition would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. Our ability to make future acquisitions will depend on our ability to obtain approval for such acquisitions from the Federal Reserve. The Federal Reserve could deny our application based on the above criteria or other considerations. For example, we could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of a proposed acquisition.

*Control Acquisitions.* Federal and state laws, including the BHC Act and the Change in Bank Control Act, or CBCA, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution or bank holding company. Whether an investor “controls” a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25.0% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10.0% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor’s ownership of our voting securities were to exceed certain thresholds, the investor could be deemed to “control” us for regulatory purposes, which could subject such investor to regulatory filings or other regulatory consequences. The requirements of the BHC Act and the CBCA could limit our access to capital and could limit parties who could acquire shares of our common stock.

*Regulatory Restrictions on Dividends; Source of Strength.* Guaranty Bancshares, Inc. is regarded as a legal entity separate and distinct from Guaranty Bank & Trust. The principal source of the Company’s revenues is dividends received from Guaranty Bank & Trust. Federal law currently imposes limitations upon certain capital distributions by national banks, such as certain cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The Federal Reserve and OCC regulate all capital distributions by the Bank directly or indirectly to the Company, including dividend payments. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless (1) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends, (2) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (3) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, we should not pay cash dividends that exceed our net income in any year or that can only be funded in ways that weaken our financial strength, including by borrowing money to pay dividends.

Under Federal Reserve policy, bank holding companies have historically been required to act as a source of financial and managerial strength to each of their banking subsidiaries, and the Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support Guaranty Bank & Trust, including at times when we may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. As discussed below, a bank holding company, in certain circumstances, could be required to guarantee the capital restoration plan of an undercapitalized banking subsidiary. If the capital of Guaranty Bank & Trust were to become impaired, the Federal Reserve could assess the Company for the deficiency. If the Company failed to pay the assessment within three months, the Federal Reserve could order the sale of the Company’s stock in Guaranty Bank & Trust to cover the deficiency.

In the event of a bank holding company’s bankruptcy under Chapter 11 of the U.S. Bankruptcy Code, the trustee will be deemed to have assumed and will be required to cure immediately any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

*Scope of Permissible Activities.* Under the BHC Act, the Company is prohibited from acquiring a direct or indirect interest in or control of more than 5.0% of the voting shares of any company that is not a bank or financial holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to or performing services for its subsidiary banks, except that the Company may engage in, directly or indirectly, and may own shares of companies engaged in certain activities found by the Federal Reserve to be so closely related to banking or managing and controlling banks as to be a proper incident thereto. These activities include, among others, operating a mortgage, finance, credit card or factoring company; performing certain data processing operations; providing investment and financial advice; acting as an insurance agent for certain types of credit-related insurance; leasing personal



property on a full-payout, nonoperating basis; and providing certain stock brokerage and investment advisory services. In approving acquisitions or the addition of activities, the Federal Reserve considers, among other things, whether the acquisition or the additional activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

Notwithstanding the foregoing, the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act of 1999, effective March 11, 2000, or the GLB Act, amended the BHC Act and eliminated the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers. The GLB Act permitted bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. The GLB Act defines “financial in nature” to include, among other things, securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve has determined to be closely related to banking. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve. We currently have no plans to make a financial holding company election, although we may make a financial holding company election in the future if we desire to engage in any lines of business that are impermissible for bank holding companies but permissible for financial holding companies.

*Safe and Sound Banking Practices.* Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve’s Regulation Y, for example, generally requires a bank holding company to provide the Federal Reserve with prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10.0% or more of the bank holding company’s consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. In certain circumstances, the Federal Reserve could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices, result in breaches of fiduciary duty or which constitute violations of laws or regulations, and can assess civil money penalties or impose enforcement action for such activities. The penalties can be in excess of \$2,200,000 for each day the activity continues.

*Anti-tying Restrictions.* Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other nonbanking services offered by a bank holding company or its affiliates.

### ***Guaranty Bank & Trust, N.A.***

The Bank is subject to various requirements and restrictions under the laws of the United States, and to regulation, supervision and examination by the OCC. The Bank is also an insured depository institution and, therefore, subject to regulation by the FDIC, although the OCC is the Bank’s primary federal regulator. The OCC and the FDIC have the power to enforce compliance with applicable banking statutes and regulations. Such requirements and restrictions include requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon and restrictions relating to investments and other activities of the Bank.

*Capital Adequacy Requirements.* The OCC monitors the capital adequacy of the Bank by using a combination of risk-based guidelines and leverage ratios. The OCC considers the Bank’s capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of the Bank and the banking system. Under the revised capital rules which became effective on January 1, 2015, national banks are required to maintain four minimum capital standards: (1) a Tier 1 capital to adjusted total assets ratio, or “leverage capital ratio,” of at least 4.0%, (2) a Tier 1 capital to risk-weighted assets ratio, or “Tier 1 risk-based capital ratio,” of at least 6.0%, (3) a total risk-based capital (Tier 1 plus Tier 2) to risk-weighted assets ratio, or “total risk-based capital ratio,” of at least 8.0%, and (4) a CET1 capital ratio of 4.5%. In addition, the OCC’s prompt corrective action standards discussed below, in effect, increase the minimum regulatory capital ratios for banking organizations. These capital requirements are minimum requirements. Higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions, or if required by the banking regulators due to the economic conditions impacting our market. For example, OCC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

*Corrective Measures for Capital Deficiencies.* The federal banking regulators are required by the Federal Deposit Insurance Act, or FDI Act, to take “prompt corrective action” with respect to capital-deficient institutions that are FDIC-insured. Agency regulations define, for each capital category, the levels at which institutions are “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” Under the revised capital rules, which became effective on January 1, 2015, a “well capitalized” bank has a total risk-based capital ratio of 10.0% or higher, a Tier 1 risk-based capital ratio of 8.0% or higher, a leverage ratio of 5.0% or higher, a CET1 capital ratio of 6.5% or higher, and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An “adequately capitalized” bank has a total risk-based capital ratio of 8.0% or higher, a Tier 1 risk-based capital ratio of 6.0% or higher, a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth), a CET1 capital ratio of 4.5% or higher, and does not meet the criteria for a well-capitalized bank. A bank is “undercapitalized” if it fails to meet any one of the ratios required to be adequately capitalized.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As a national bank’s capital decreases, the OCC’s enforcement powers become more severe. A significantly undercapitalized national bank is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The OCC has very limited discretion in dealing with a critically undercapitalized national bank and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

*Branching.* National banks are required by the National Bank Act to adhere to branching laws applicable to state banks in the states in which they are located. Under the Dodd-Frank Act, *de novo* interstate branching by national banks is permitted if, under the laws of the state where the branch is to be located, a state bank chartered in that state would have been permitted to establish a branch. Under current Texas law, banks are permitted to establish branch offices throughout Texas with prior regulatory approval. In addition, with prior regulatory approval, banks are permitted to acquire branches of existing banks located in Texas. Banks located in Texas may also branch across state lines by merging with banks or by purchasing a branch of another bank in other states if allowed by the applicable states’ laws.

*Restrictions on Transactions with Affiliates and Insiders.* Transactions between the Bank and its nonbanking subsidiaries and/or affiliates, including the Company, are subject to Section 23A and 23B of the Federal Reserve Act and Regulation.

In general, Section 23A of the Federal Reserve Act imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company or its subsidiaries. Covered transactions with any single affiliate may not exceed 10.0% of the capital stock and surplus of the Bank, and covered transactions with all affiliates may not exceed, in the aggregate, 20.0% of the Bank’s capital and surplus. For a bank, capital stock and surplus refers to the bank’s Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for credit losses excluded from Tier 2 capital. The Bank’s transactions with all of its affiliates in the aggregate are limited to 20.0% of the foregoing capital. “Covered transactions” are defined by statute to include a loan or extension of credit to an affiliate, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In addition, in connection with covered transactions that are extensions of credit, the Bank may be required to hold collateral to provide added security to the Bank, and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates, including an expansion of what types of transactions are covered transactions to include credit exposures related to derivatives, repurchase agreement and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding covered transactions must be satisfied.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as

those prevailing at the time for comparable transactions with or involving other nonaffiliated persons. The Federal Reserve has also issued Regulation W which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretive guidance with respect to affiliate transactions.

The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to herein as “insiders”) contained in Section 22(h) of the Federal Reserve Act and in Regulation O promulgated by the Federal Reserve apply to all insured institutions and their subsidiaries and bank holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. Generally, the aggregate of these loans cannot exceed the institution’s total unimpaired capital and surplus, although a bank’s regulators may determine that a lesser amount is appropriate. Loans to senior executive officers of a bank are even further restricted. Insiders are subject to enforcement actions for accepting loans in violation of applicable restrictions.

*Restrictions on Distribution of Bank Dividends and Assets.* Dividends paid by the Bank have provided a substantial part of the Company’s operating funds and for the foreseeable future it is anticipated that dividends paid by the Bank to the Company will continue to be our principal source of operating funds. Earnings and capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. In general terms, federal law provides that the Bank’s board of directors may, from time to time and as it deems expedient, declare a dividend out of its net profits. Generally, the total of all dividends declared in a year shall not, unless approved by the OCC, exceed the net profits of that year combined with its net profits of the past two years. At December 31, 2022, the Bank had \$67.8 million available for payment of dividends.

In addition, under the Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, the Bank may not pay any dividend if it is undercapitalized or the payment of the dividend would cause it to become undercapitalized. The OCC may further restrict the payment of dividends by requiring that the Bank maintain a higher level of capital than otherwise required for it to be adequately capitalized for regulatory purposes. Moreover, if, in the opinion of the OCC, the Bank is engaged in an unsound practice (which could include the payment of dividends), it may require, generally after notice and hearing, that the Bank cease such practice. The OCC has indicated that paying dividends that deplete a depository institution’s capital base to an inadequate level would be an unsafe banking practice. The OCC has also issued policy statements providing that insured depository institutions generally should pay dividends only out of current operating earnings.

Further, in the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its shareholders, including any depository institution holding company (such as us) or any shareholder or creditor thereof.

*Incentive Compensation Guidance.* The federal banking agencies have issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. The incentive compensation guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon three primary principles: (1) balanced risk-taking incentives, (2) compatibility with effective controls and risk management and (3) strong corporate governance. Any deficiencies in compensation practices that are identified may be incorporated into the organization’s supervisory ratings, which can affect its ability to make acquisitions or take other actions. In addition, under the incentive compensation guidance, a banking organization’s federal supervisor may initiate enforcement action if the organization’s incentive compensation arrangements pose a risk to the safety and soundness of the organization. Further, a provision of the Basel III capital standards described above would limit discretionary bonus payments to bank executives if the institution’s regulatory capital ratios fail to exceed certain thresholds. The scope and content of the U.S. banking regulators’ policies on executive compensation are continuing to develop and are likely to continue evolving in the future.

*Audit Reports.* For insured institutions with total assets of \$1.0 billion or more, requirements include financial statements prepared in accordance with GAAP, management’s certifications signed by our and the Bank’s chief executive officer and chief accounting or financial officer concerning management’s responsibility for the financial statements, and an attestation by the auditors regarding the Bank’s internal controls must be submitted. For institutions with total assets of more than \$3.0 billion, independent auditors may be required to review quarterly financial statements. FDICIA requires that the Bank have an independent audit committee, consisting of outside directors who are independent of management of the Bank. The committees of such institutions must include members with experience in banking or financial management, must

have access to outside counsel and must not include representatives of large customers. The Bank's audit committee consists entirely of independent directors.

*Deposit Insurance Assessments.* The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor through the Deposit Insurance Fund and safeguards the safety and soundness of the banking and thrift industries. The maximum amount of deposit insurance for banks and savings institutions is \$250,000 per depositor. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors and is calculated based on an institution's average consolidated total assets minus average tangible equity.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the Deposit Insurance Fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, the Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings.

*Financial Modernization.* Under the GLB Act, banks may establish financial subsidiaries and engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting as principal, insurance company portfolio investment, real estate development, real estate investment, annuity issuance and merchant banking activities. To do so, a bank must be well capitalized, well managed and have a CRA rating from its primary federal regulator of satisfactory or better. Subsidiary banks of financial holding companies or banks with financial subsidiaries must remain well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions. Such actions or restrictions could include divestiture of the "financial in nature" subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory or better. Neither we nor the Bank maintains a financial subsidiary.

*Brokered Deposit Restrictions.* Insured depository institutions that are categorized as adequately capitalized institutions under the FDI Act and corresponding federal regulations cannot accept, renew or roll over brokered deposits, without receiving a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on any deposits. The EGRRCPA exempted reciprocal deposits from the definition of brokered deposits. Insured depository institutions that are categorized as undercapitalized capitalized institutions under the FDI Act and corresponding federal regulations may not accept, renew, or roll over brokered deposits. The Bank is not currently subject to such restrictions.

*Concentrated Commercial Real Estate Lending Regulations.* The federal banking regulatory agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (1) total reported loans for acquisition, construction, land development, and other land represent 100.0% or more of total capital or (2) total reported loans secured by multifamily and nonfarm residential properties and loans for acquisition, construction, land development, and other land represent 300.0% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address, among other things, Board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. We are currently operating with real estate loan portfolios within such percentage levels.

*Community Reinvestment Act.* The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their entire assessment area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its assessment area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The Financial Institution Reform Recovery and Enforcement Act, or FIRREA, requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The Bank received a "satisfactory" rating in its most recent CRA examination.



*Consumer Laws and Regulations.* The Bank is subject to numerous laws and regulations intended to protect consumers in transactions with the Bank. These laws include, among others, laws regarding unfair, deceptive and abusive acts and practices, usury laws, and other federal consumer protection statutes. These federal laws include the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Real Estate Procedures Act of 1974, the S.A.F.E. Mortgage Licensing Act of 2008, the Truth in Lending Act and the Truth in Savings Act, among others. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those enacted under federal law. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans and conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission and registration rights, action by state and local attorneys general and civil or criminal liability.

In addition, the Dodd-Frank Act created the CFPB. The CFPB has broad authority to regulate the offering and provision of consumer financial products. The Dodd-Frank Act gives the CFPB authority to supervise and examine depository institutions with more than \$10.0 billion in assets for compliance with these federal consumer laws. The authority to supervise and examine depository institutions with \$10.0 billion or less in assets for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. Accordingly, the CFPB may participate in examinations of the Bank, which currently has assets of less than \$10.0 billion, and could supervise and examine our other direct or indirect subsidiaries that offer consumer financial products or services. The CFPB also has supervisory and examination authority over certain nonbank institutions that offer consumer financial products. The Dodd-Frank Act identifies a number of covered nonbank institutions, and also authorizes the CFPB to identify additional institutions that will be subject to its jurisdiction. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

*Mortgage Lending Rules.* The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. Under the Dodd-Frank Act and related rules, financial institutions may not make a residential mortgage loan unless they make a "reasonable and good faith determination" that the consumer has a "reasonable ability" to repay the loan. The Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure but provides a full or partial safe harbor from such defenses for loans that are "qualified mortgages." The rules define "qualified mortgages," imposing both underwriting standards - for example, a borrower's debt-to-income ratio may not exceed 43.0% - and limits on the terms of their loans. Certain loans, including interest-only loans and negative amortization loans, cannot be qualified mortgages. EGRRCPA, among other matters, expanded the definition of qualified mortgages for banks with less than \$10 billion in assets.

*Anti-Money Laundering and OFAC.* Under federal law, including the Bank Secrecy Act, or BSA, the USA PATRIOT Act of 2001 and the Anti-Money Laundering Act of 2020, certain financial institutions, such as the Bank, must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated BSA officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification especially in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. The Financial Crimes Enforcement Network, or FinCEN, has issued rules that clarify and strengthen the due diligence requirements for banks with regard to their customers.

The Office of Foreign Assets Control, or OFAC, administers laws and Executive Orders that prohibit U.S. entities from engaging in transactions with certain prohibited parties. OFAC publishes lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Generally, if a bank identifies a transaction, account or wire transfer relating to a person or entity on an OFAC list, it must freeze the account or block the transaction, file a suspicious activity report and notify the appropriate authorities.

Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's compliance in connection with the regulatory review of applications, including applications for bank mergers and acquisitions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing and comply with OFAC sanctions, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution.

*Privacy.* The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through financial services companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services. In addition to applicable federal privacy regulations, the Bank is subject to certain state privacy laws.

*Federal Home Loan Bank System.* The FHLB system, of which the Bank is a member, consists of 12 regional FHLBs governed and regulated by the Federal Housing Finance Board, or FHFB. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. The reserves are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. The FHLBs make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the Boards of directors of each regional FHLB.

As a system member, according to currently existing policies and procedures, the Bank is entitled to borrow from the Dallas FHLB provided it posts acceptable collateral. The Bank is also required to own a certain amount of capital stock in the FHLB. The Bank is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and collateral requirements with respect to home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to the Bank are secured by a portion of the respective mortgage loan portfolio, certain other investments and the capital stock of the FHLB held by the Bank.

*Enforcement Powers.* The federal banking agencies, including our primary federal regulator, the OCC, have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements, breaches of fiduciary duty or the maintenance of unsafe and unsound conditions or practices could subject the Company or the Bank and their subsidiaries, as well as their respective officers, directors, and other institution-affiliated parties, to administrative sanctions and potentially substantial civil money penalties. For example, the regulatory authorities may appoint the FDIC as conservator or receiver for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized, fails to become adequately capitalized when required to do so, fails to submit a timely and acceptable capital restoration plan or materially fails to implement an accepted capital restoration plan.

### **Effect of Governmental Monetary Policies**

The commercial banking business is affected not only by general economic conditions but also by U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the “discount window,” open market operations, the imposition of and changes in reserve requirements against member banks’ deposits and certain borrowings by banks and their affiliates and assets of foreign branches. These policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on deposits. We cannot predict the nature of future fiscal and monetary policies or the effect of these policies on our operations and activities, financial condition, results of operations, growth plans or future prospects.

### **Impact of Current Laws and Regulations**

The cumulative effect of these laws and regulations, while providing certain benefits, adds significantly to the cost of our operations and thus have a negative impact on our profitability. There has also been a notable expansion in recent years of financial service providers that are not subject to the examination, oversight, and other rules and regulations to which we are subject. Those providers, because they are not so highly regulated, may have a competitive advantage over us and may continue to draw large amounts of funds away from traditional banking institutions, with a continuing adverse effect on the banking industry in general.



## Future Legislation and Regulatory Reform

In light of current economic conditions, regulators have increased their focus on the regulation of financial institutions. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures. New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. Future legislation, regulation and policies, and the effects of that legislation and regulation and those policies, may have a significant influence on our operations and activities, financial condition, results of operations, growth plans or future prospects and the overall growth and distribution of loans, investments and deposits. Such legislation, regulation and policies have had a significant effect on the operations and activities, financial condition, results of operations, growth plans and future prospects of commercial banks in the past and are expected to continue to do so.

### ITEM 1A. RISK FACTORS.

*Investing in our common stock involves a high degree of risk. Before you decide to invest in our common stock, you should carefully consider the risks described below, together with all other information included in this Annual Report on Form 10-K, including the disclosures in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included in "Item 8. Financial Statements and Supplementary Data." The following is a summary of the significant risk factors that we believe could adversely affect our business, followed by more detailed descriptions of those risks. We believe the risks described below are the risks that are material to us as of the date of this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition, results of operations and growth prospects could be materially and adversely affected. In that case, you could experience a partial or complete loss of your investment.*

#### **Risks Related to Our Business**

- We may not be able to implement aspects of our expansion strategy, which may adversely affect our ability to maintain our historical earnings trends.
- We may not be able to overcome the integration and other risks associated with acquisitions, which could have an adverse effect on our ability to implement our business strategy.
- As a business operating in the financial services industry, adverse conditions in the general business or economic environment could adversely affect our business, financial condition and results of operations in the future.
- We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.
- We are dependent on the use of data and modeling in our management's decision-making, and faulty data or modeling approaches could negatively impact our decision-making ability or possibly subject us to regulatory scrutiny in the future.
- The small- to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair our borrowers' ability to repay loans.
- Our commercial real estate and real estate construction loan portfolio exposes us to credit risks that may be greater than the risks related to other types of loans.
- Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.
- Appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, other real estate owned and repossessed personal property may not accurately describe the net value of the asset.
- Our allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio.
- If we fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and timely, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports, we could be subject to regulatory penalties and the price of our common stock may decline.

- We rely heavily on our executive management team and other key employees, and we could be adversely affected by the unexpected loss of their services.
- A lack of liquidity could impair our ability to fund operations and adversely impact our business, financial condition and results of operations.
- We may need to raise additional capital in the future, and such capital may not be available when needed or at all.
- We are subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.
- Our business is concentrated in, and largely dependent upon, the continued growth and welfare of our primary markets, and adverse economic conditions in these markets could negatively impact our operations and customers.
- We face strong competition from financial services companies and other companies that offer banking services.
- Our trust and wealth management division derives its revenue from noninterest income and is subject to operational, compliance, reputational, fiduciary and strategic risks that could adversely affect our business, financial condition and results of operations.
- Negative public opinion regarding our company or failure to maintain our reputation in the communities we serve could adversely affect our business and prevent us from growing our business.
- We could recognize losses on investment securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.
- The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.
- System failure or cyber security breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.
- We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology or technology needed to compete effectively with larger institutions may not be available to us on a cost effective basis.
- We are subject to certain operational risks, including, but not limited to, customer, employee or third-party fraud and data processing system failures and errors.
- Our primary markets are susceptible to natural disasters and other catastrophes that could negatively impact the economies of our markets, our operations or our customers, any of which could have an adverse effect on us.
- If the goodwill that we have recorded or may record in connection with a business acquisition becomes impaired, it could require charges to earnings.
- We may be adversely affected by changes in U.S. tax laws.

### ***Risk Related to Regulation of Our Industry***

- The ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, could adversely affect our business, financial condition, and results of operations.
- We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could adversely affect us.
- Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations could adversely affect us.
- We are subject to stringent capital requirements, which may result in lower returns on equity, require the raising of additional capital, limit our ability to repurchase shares or pay dividends and discretionary bonuses, or result in regulatory action.
- Financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.
- We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

- Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.
- We are subject to commercial real estate lending guidance issued by the federal banking regulators that impacts our operations and capital requirements.

#### ***Risks Related to an Investment in Our Common Stock***

- The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.
- Securities analysts may not initiate or continue coverage on us.
- Our management and board of directors have significant control over our business.
- The holders of our existing debt obligations, as well as debt obligations that may be outstanding in the future, will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest.
- We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.
- Our dividend policy may change without notice, and our future ability to pay dividends is subject to restrictions.
- Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management.
- An investment in our common stock is not an insured deposit and is subject to risk of loss.

#### **Risks Related to Our Business**

***We may not be able to implement aspects of our expansion strategy, which may adversely affect our ability to maintain our historical earnings trends.***

Our expansion strategy focuses on organic growth, supplemented by strategic acquisitions and expansion of the Bank's banking location network, or *de novo* branching. We may not be able to execute on aspects of our expansion strategy, which may impair our ability to sustain our historical rate of growth or prevent us from growing at all. More specifically, we may not be able to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable acquisition candidates. Various factors, such as economic conditions and competition with other financial institutions, may impede or prohibit the growth of our operations, the opening of new banking locations and the consummation of acquisitions. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our growth. The success of our strategy also depends on our ability to effectively manage growth, which is dependent upon a number of factors, including our ability to adapt our credit, operational, technology and governance infrastructure to accommodate expanded operations. If we fail to implement one or more aspects of our strategy, we may be unable to maintain our historical earnings trends, which could have an adverse effect on our business, financial condition and results of operations.

***We may not be able to manage the risks associated with our anticipated growth and expansion through de novo branching.***

Our business strategy includes evaluating strategic opportunities to grow through *de novo* branching, and we believe that banking location expansion has been meaningful to our growth since inception. *De novo* branching carries with it certain potential risks, including significant startup costs and anticipated initial operating losses; an inability to gain regulatory approval; an inability to secure the services of qualified senior management to operate the *de novo* banking location and successfully integrate and promote our corporate culture; poor market reception for *de novo* banking locations established in markets where we do not have a preexisting reputation; challenges posed by local economic conditions; challenges associated with securing attractive locations at a reasonable cost; and the additional strain on management resources and internal systems and controls. Failure to adequately manage the risks associated with our anticipated growth through *de novo* branching could have an adverse effect on our business, financial condition and results of operations.

***We may not be able to overcome the integration and other risks associated with acquisitions, which could have an adverse effect on our ability to implement our business strategy.***

Although we plan to continue to grow our business organically and through *de novo* branching, we also intend to pursue acquisition opportunities that we believe complement our activities and have the ability to enhance our profitability and provide attractive risk-adjusted returns. Our acquisition activities could be material to our business and involve a number of risks, including the following:

- intense competition from other banking organizations and other acquirers for potential merger candidates;
- market pricing for desirable acquisitions resulting in returns that are less attractive than we have traditionally sought to achieve;
- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including consumer compliance issues;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- losing key employees and customers;
- reputational issues if the target's management does not align with our culture and values;
- significant problems relating to the conversion of the financial and customer data of the target;
- integration of acquired customers into our financial and customer product systems;
- risks of impairment to goodwill; or
- regulatory timeframes for review of applications may limit the number and frequency of transactions we may be able to consummate.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions, and any acquisition we may consider will be subject to prior regulatory approval. Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy, which, in turn, could have an adverse effect on our business, financial condition and results of operations.

***A key piece of our expansion strategy is a focus on decision-making authority at the branch and market level, and our business, financial condition, results of operations and prospects could be adversely affected if our local teams do not follow our internal policies or are negligent in their decision-making.***

In order to be able to provide the responsive and individualized customer service that distinguishes us from competitors and in order to attract and retain management talent, we empower our local management teams to make certain business decisions on the local level. Lending authorities are assigned to branch presidents and their banking teams based on their experience, with all loan relationships in excess of internal specified maximums being reviewed by the Bank's Directors' Loan Committee, comprised of senior management of the Bank, or the Bank's board of directors, as the case may be. Our local lenders may not follow our internal procedures or otherwise act in our best interests with respect to their decision-making. A failure of our employees to follow our internal policies, or actions taken by our employees that are negligent or not in our best interests could have an adverse effect on our business, financial condition and results of operations.

***As a business operating in the financial services industry, adverse conditions in the general business or economic environment could adversely affect our business, financial condition and results of operations in the future.***

Our business and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. Uncertainty about the federal fiscal policymaking process, and the medium and long-term fiscal outlook of the federal government and U.S. economy, is a concern for businesses, consumers and investors in the U.S. In addition, economic conditions in foreign countries, including global political hostilities or public health outbreaks and uncertainty over the stability of foreign currency, could affect the stability of global financial markets, which could hinder domestic economic growth. The current economic environment is characterized by interest rates that have increased at a historically rapid rate, from historically low levels, which impacts our ability to retain deposits. We are unable to predict changes in market interest rates. In addition, financial institutions in Texas can be affected by volatility with the oil and gas industry and significant decreases in energy prices. Although we do not have material direct exposure to the oil and gas industry, we retain some indirect exposure, as some of our customers' businesses are directly affected by volatility with the oil and gas industry and energy prices.

Business and consumer customers of the Bank may experience varying degrees of financial distress resulting from economic conditions and Federal Reserve monetary policies, which may adversely affect their ability to timely pay interest and principal on their loans and the value of the collateral securing their obligations. This in turn can influence the recognition of credit losses in our loan portfolios and may increase our allowance for credit losses.

***We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.***

The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Many of our loans are made to small- to medium-sized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. A failure to effectively measure and limit the credit risk associated with our loan portfolio could lead to unexpected losses and have an adverse effect on our business, financial condition and results of operations.

***We are dependent on the use of data and modeling in our management's decision-making, and faulty data or modeling approaches could negatively impact our decision-making ability or possibly subject us to regulatory scrutiny in the future.***

The use of statistical and quantitative models and other quantitative analyses is endemic to bank decision-making, and the employment of such analyses is becoming increasingly widespread in our operations. Liquidity stress testing, interest rate sensitivity analysis, and the identification of possible violations of anti-money laundering regulations are all examples of areas in which we are dependent on models and the data that underlies them. The use of statistical and quantitative models is also becoming more prevalent in regulatory compliance. While we are not currently subject to annual Dodd-Frank Act stress testing, or DFAST, and the Comprehensive Capital Analysis and Review, or CCAR, submissions, we anticipate that model-derived testing may become more extensively implemented by regulators in the future.

We anticipate data-based modeling will penetrate further into bank decision-making, particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely and in differing applications. While we believe these quantitative techniques and approaches improve our decision-making, they also create the possibility that faulty data or flawed quantitative approaches could negatively impact our decision-making ability or, if we become subject to regulatory stress-testing in the future, adverse regulatory scrutiny. Secondly, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision-making.

***The small- to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair our borrowers' ability to repay loans.***

We focus our business development and marketing strategy primarily on small- to medium-sized businesses. As of December 31, 2022, we had approximately \$1.75 billion of loans to businesses, which represents approximately 73.6% of



our total loan portfolio. Small- to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small- and medium-sized business often depends on the management skills, talents and efforts of a small group of people, and the death, disability or resignation of one or more of these people could have an adverse effect on the business and its ability to repay its loan. If our borrowers are unable to repay their loans, our business, financial condition and results of operations could be adversely affected.

***Our commercial real estate and real estate construction loan portfolio exposes us to credit risks that may be greater than the risks related to other types of loans.***

As of December 31, 2022, approximately \$1.45 billion, or 60.1%, of our total loans were nonresidential real estate loans (including owner occupied commercial real estate loans), which included approximately \$377.1 million, or 15.9%, of our total loans, that were construction and land development loans. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate due to the fluctuation of real estate values. Additionally, non-owner occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Unexpected deterioration in the credit quality of our non-owner occupied commercial real estate loan portfolio could require us to increase our allowance for credit losses, which would reduce our profitability and could have an adverse effect on our business, financial condition and results of operations.

Construction and land development loans also involve risks because loan funds are secured by a project under construction and the project is of uncertain value prior to its completion. It can be difficult to accurately evaluate the total funds required to complete a project, and construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, we may be unable to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project, incur taxes, maintenance and compliance costs for a foreclosed property and may have to hold the property for an indeterminate period of time, any of which could adversely affect our business, financial condition and results of operations.

***Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.***

As of December 31, 2022, approximately \$2.00 billion, or 84.3%, of our total loans were loans with real estate as a primary or secondary component of collateral. Real estate values in many Texas markets have experienced periods of fluctuation over the last five years. The market value of real estate can fluctuate significantly in a short period of time. As a result, adverse developments affecting real estate values and the liquidity of real estate in our primary markets or in Texas generally could increase the credit risk associated with our loan portfolio, and could result in losses that adversely affect credit quality, financial condition and results of operations. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses would have an adverse effect on our business, financial condition and results of operations. If real estate values decline, it is also more likely that we would be required to increase our allowance for credit losses, which would adversely affect our business, financial condition and results of operations.

***Appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, other real estate owned and repossessed personal property may not accurately describe the net value of the asset.***

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in value in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our other real estate owned, or OREO, and personal property that we acquire through foreclosure proceedings and to determine certain

estimated losses. If any of these valuations are inaccurate, our combined and consolidated financial statements may not reflect the correct value of our OREO, and our allowance for credit losses may not reflect accurate estimate losses. This could have an adverse effect on our business, financial condition or results of operations. As of December 31, 2022, we held \$8,000 of repossessed property and equipment, and \$38,000 of OREO.

***We engage in lending secured by real estate and may be forced to foreclose on the collateral and own the underlying real estate, subjecting us to the costs and potential risks associated with the ownership of the real property, or consumer protection initiatives or changes in state or federal law may substantially raise the cost of foreclosure or prevent us from foreclosing at all.***

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we would be exposed to the risks inherent in the ownership of real estate. As of December 31, 2022, we held \$38,000 of assets in OREO. In the prior year we held no assets in OREO. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to general or local economic condition, environmental cleanup liability, assessments, interest rates, real estate tax rates, operating expenses of the mortgaged properties, ability to obtain and maintain adequate occupancy of the properties, zoning laws, governmental and regulatory rules, and natural disasters. Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate, or write-downs in the value of other real estate owned, could have an adverse effect on our business, financial condition and results of operations.

Additionally, consumer protection initiatives or changes in state or federal law may substantially increase the time and expense associated with the foreclosure process or prevent us from foreclosing at all. While historically Texas has had foreclosure laws that are favorable to lenders, a number of states in recent years have either considered or adopted foreclosure reform laws that make it substantially more difficult and expensive for lenders to foreclose on properties in default, and we cannot be certain that Texas will not adopt similar legislation in the future. Foreclosure and eviction moratoria were put in place in many markets in response to the COVID-19 pandemic, and similar moratoria may delay or prevent foreclosures in the future. Additionally, federal regulators have prosecuted a number of mortgage servicing companies for alleged consumer law violations. If new state or federal laws or regulations are ultimately enacted that significantly raise the cost of foreclosure or raise outright barriers, such could have an adverse effect on our business, financial condition and results of operation.

***A portion of our loan portfolio is comprised of commercial loans secured by receivables, inventory, equipment or other commercial collateral, the deterioration in value of which could expose us to credit losses.***

As of December 31, 2022, approximately \$301.0 million, or 12.7%, of our total loans were commercial loans to businesses, excluding PPP. In general, these loans are collateralized by general business assets, including, among other things, accounts receivable, inventory and equipment, and most are backed by a personal guaranty of the borrower or principal. These commercial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate exposing us to increased credit risk. In addition, a portion of our customer base, including customers in the energy and real estate business, may be in industries which are particularly sensitive to commodity prices or market fluctuations, such as energy prices. Accordingly, negative changes in commodity prices and real estate values and liquidity could impair the value of the collateral securing these loans. Significant adverse changes in the economy or local market conditions in which our commercial lending customers operate could cause rapid declines in loan collectability and the values associated with general business assets resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations.

***Our allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio.***

We maintain an allowance for credit losses that represents management's judgment of probable losses and risks inherent in our loan portfolio. As of December 31, 2022, our allowance for credit losses in our loan portfolio totaled \$32.0 million, which represents approximately 1.34% of our total loans. The level of the allowance reflects management's continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of the allowance for credit losses is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Inaccurate management assumptions, deterioration of economic conditions affecting borrowers, new information regarding existing



loans, identification or deterioration of additional problem loans, acquisition of problem loans and other factors, both within and outside of our control, may require us to increase our allowance for credit losses. In addition, our regulators, as an integral part of their periodic examination, review our methodology for calculating, and the adequacy of, our allowance for credit losses and may direct us to make additions to the allowance based on their judgments about information available to them at the time of their examination. Further, if actual charge-offs in future periods exceed the amounts allocated to the allowance for credit losses, we may need additional provisions for credit losses to restore the adequacy of our allowance for credit losses. Finally, the measure of our allowance for credit losses is dependent on the adoption and interpretation of accounting standards. The Financial Accounting Standards Board issued a new credit impairment model, the Current Expected Credit Loss, or CECL model, which became applicable to us on January 1, 2020. CECL requires financial institutions to estimate and develop a provision for credit losses at origination for the lifetime of the loan, as opposed to reserving for incurred or probable losses up to the balance sheet date. Under the CECL model, credit deterioration is reflected in the income statement in the period of origination or acquisition of the loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes. Accordingly, the CECL model required many financial institutions, like the Bank, to increase their allowances for credit losses. Increases in our level of allowance for credit losses for any reason, could adversely affect our business, financial condition and results of operations.

***If we fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and timely, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports, we could be subject to regulatory penalties and the price of our common stock may decline.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on that system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act in our annual report on Form 10-K, which will require us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting in our annual report on Form 10-K.

We will continue to periodically test and update, as necessary, our internal control systems, including our financial reporting controls. Our actions, however, may not be sufficient to result in an effective internal control environment, and any future failure to maintain effective internal control over financial reporting could impair the reliability of our financial statements which in turn could harm our business, impair investor confidence in the accuracy and completeness of our financial reports and our access to the capital markets and cause the price of our common stock to decline and subject us to regulatory penalties.

***We rely heavily on our executive management team and other key employees, and we could be adversely affected by the unexpected loss of their services.***

Our success depends in large part on the performance of our executive management team and other key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for qualified employees is intense, and the process of locating key personnel with the combination of skills, attributes and business relationships required to execute our business plan may be lengthy. We may not be successful in retaining our key employees, and the unexpected loss of services of one or more of our key personnel could have an adverse effect on our business because of their skills, knowledge of and business relationships within our primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, or at all, which could have an adverse effect on our business, financial condition, results of operations and future prospects.

***We earn income by originating residential mortgage loans and SBA 7(a) loans for resale in the secondary mortgage market, and disruptions in that market could reduce our operating income.***

Historically, we have earned income by originating mortgage loans and Small Business Administration 7(a) loans for sale in the secondary market. For the mortgage loans, a historical focus of our loan origination and sales activities has been to enter into formal commitments and informal agreements with larger banking companies and mortgage investors.

Under these arrangements, we originate single family mortgages that are priced and underwritten to conform to previously agreed criteria before loan funding and are delivered to the investor shortly after funding. For the SBA 7(a) loans, we obtain various bids for the purchase of the SBA guaranteed portion of the loan from investors and will generally sell the guaranteed portion to the investor with the highest bid. For the years ended December 31, 2022 and 2021, we earned approximately \$2.4 million and \$5.5 million, respectively, from these activities. However, in the recent past, disruptions in the secondary market for residential mortgage loans have limited the market for, and liquidity of, most mortgage loans other than conforming Fannie Mae and Federal Home Loan Mortgage Corporation, or Freddie Mac, loans. Additionally, the risk appetite for purchasing of SBA 7(a) guaranteed loans fluctuates, occasionally resulting in bids that are not favorable for us to sell the guaranteed portion of the loan. The effects of these disruptions in the secondary market for residential mortgage loans and SBA 7(a) loans may reappear.

In addition, because government-sponsored entities like Fannie Mae and Freddie Mac, who account for a substantial portion of the secondary market, are governed by federal law, any future changes in laws that significantly affect the activity of these entities could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the federal government. The federal government has for many years considered proposals to reform Fannie Mae and Freddie Mac, but the results of any such reform and their impact on us are difficult to predict. To date, no reform proposal has been enacted.

These disruptions may not only affect us but also the ability and desire of mortgage investors and other banks to purchase residential mortgage or SBA 7(a) loans that we originate. As a result, we may not be able to maintain or grow the income we receive from originating and reselling residential mortgage and SBA 7(a) loans, which would reduce our operating income. Additionally, we may be required to hold mortgage loans that we originated for sale, increasing our exposure to interest rate risk and the value of the residential real estate that serves as collateral for the mortgage loan.

***Delinquencies, defaults and foreclosures in residential mortgages create a higher risk of repurchases and indemnity requests.***

We originate residential mortgage loans for sale to government-sponsored enterprises, such as Fannie Mae, Freddie Mac and other investors. As a part of this process, we make various representations and warranties to these purchasers that are tied to the underwriting standards under which the investors agreed to purchase the loan. If a representation or warranty proves to be untrue, we could be required to repurchase one or more of the mortgage loans or indemnify the investor. Repurchase and indemnity obligations tend to increase during weak economic times, as investors seek to pass on the risks associated with mortgage loan delinquencies to the originator of the mortgage. If we are forced to repurchase additional mortgage loans that we have previously sold to investors, or indemnify those investors, our business, financial condition and results of operations could be adversely affected.

***A lack of liquidity could impair our ability to fund operations and adversely impact our business, financial condition and results of operations.***

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, the sale of loans, and other sources could have a substantial negative effect on our liquidity.

Our most important source of funds is deposits. As of December 31, 2022, approximately \$2.31 billion, or 86.3%, of our total deposits were demand, savings and money market accounts. Historically our savings, money market deposit accounts and demand accounts have been stable sources of funds. However, these deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors that may be outside of our control, such as a loss of confidence by customers in us or the banking sector generally, customer perceptions of our financial health and general reputation, increasing competitive pressures from other financial services firms for consumer or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits, increasing our funding costs and reducing our net interest income and net income.

The \$354.5 million remaining balance of deposits consisted of certificates of deposit, of which \$283.9 million, or 10.6% of our total deposits, were due to mature within one year. Historically, a majority of our certificates of deposit are renewed upon maturity as long as we pay competitive interest rates. These customers are, however, interest-rate conscious and may be willing to move funds into higher-yielding investment alternatives. If customers transfer money out of the Bank's

deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities, and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by our ability to borrow from the Federal Reserve Bank of Dallas and the Federal Home Loan Bank of Dallas, or the FHLB. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in Texas or by one or more adverse regulatory actions against us.

Liquidating investment securities with unrealized losses would negatively impact the results from operations due to the recognition of a loss in that period and reduction in the Company's future earnings potential on those securities, unless they are reinvested in higher yielding assets. Furthermore, recognizing a loss on the sale of those investment securities may also have an impact on the Company's overall financial performance and investor perception, potentially damaging investor confidence and causing a decline in stock price.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have an adverse effect on our business, financial condition and results of operations.

***We may need to raise additional capital in the future, and such capital may not be available when needed or at all.***

We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including interbank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve System. We may not be able to obtain capital on acceptable terms — or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition or results of operations.

***We have a concentration of deposit accounts with state and local municipalities that is a material source of our funding, and the loss of these deposits or significant fluctuations in balances held by these public bodies could force us to fund our business through more expensive and less stable sources.***

As of December 31, 2022, \$304.0 million, or approximately 11.3%, of our total deposits consisted of deposit accounts of public bodies, such as state or local municipalities, or public funds. These types of deposits are often secured and typically fluctuate on a seasonal basis due to timing differences between tax collection and expenditures. Withdrawals of deposits or significant fluctuation in a material portion of our largest public fund depositors could force us to rely more heavily on borrowings and other sources of funding for our business and withdrawal demands, adversely affecting our net interest margin and results of operations. We may also be forced, as a result of any withdrawal of deposits, to rely more heavily on other, potentially more expensive and less stable funding sources. Consequently, the occurrence of any of these events could have an adverse effect on our business, financial condition and results of operations.

***We are subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.***

The majority of our banking assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest-earning assets, such as loans and investment securities, and interest paid by us on our interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning

that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international economic weakness and disorder and instability in domestic and foreign financial markets. As of December 31, 2022, approximately 48.7% of our interest-earning assets and approximately 42.6% of our interest-bearing liabilities had a variable rate. Our interest rate sensitivity profile was asset sensitive as of December 31, 2022, meaning that we estimate our net interest income would increase more from rising interest rates than from falling interest rates; however, customer and market responses to a changing interest rate environment are highly uncertain and there is no guarantee that our net interest income would increase if interest rates rise.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In addition, in a low interest rate environment, loan customers often pursue long-term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have an adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. If short-term interest rates continue to remain at their historically low levels for a prolonged period or if longer-term interest rates fall further, we could experience net interest margin compression as our interest-earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem. Such an occurrence would have an adverse effect on our net interest income and could have an adverse effect on our business, financial condition and results of operations.

***Our business is concentrated in, and largely dependent upon, the continued growth and welfare of our primary markets, and adverse economic conditions in these markets could negatively impact our operations and customers.***

Our business, financial condition and results of operations are affected by changes in the economic conditions of our primary markets of East Texas, Central Texas, Houston MSA and the Dallas/Fort Worth MSA. Our success depends to a significant extent upon the business activity, population, income levels, employment trends, deposits and real estate activity in our primary markets. Economic conditions within our primary markets, and the state of Texas in general, are influenced by the energy sector generally and the price of oil and gas specifically. Although our customers’ business and financial interests may extend well beyond our primary markets, adverse conditions that affect our primary markets, including future declines in oil prices, could reduce our growth rate, affect the ability of our customers to repay their loans, affect the value of collateral underlying our loans, affect our ability to attract deposits and generally affect our business, financial condition, results of operations and future prospects. Due to our geographic concentration within our primary markets, we may be less able than other larger regional or national financial institutions to diversify our credit risks across multiple markets.

***We face strong competition from financial services companies and other companies that offer banking services.***

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with commercial banks, savings banks, credit unions, nonbank financial services companies and other financial institutions operating within or near the areas we serve. Additionally, certain large banks headquartered outside of our markets and large community banking institutions target the same customers we do. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the internet and for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. The banking industry is experiencing rapid changes in technology, and, as a result, our future success will depend in part on our ability to address our customers’ needs by using technology. Customer loyalty can be influenced by a competitor’s new products, especially offerings that could provide cost savings or a higher return to the customer. Increased lending activity of competing banks following the recent downturn has also led to increased competitive



pressures on loan rates and terms for high-quality credits. We may not be able to compete successfully with other financial institutions in our markets, and we may have to pay higher interest rates to attract deposits, accept lower yields to attract loans and pay higher wages for new employees, resulting in lower net interest margins and reduced profitability.

Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, some of our current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we may be able to accommodate. Our inability to compete successfully in the markets in which we operate could have an adverse effect on our business, financial condition or results of operations.

***Our trust and wealth management division derives its revenue from noninterest income and is subject to operational, compliance, reputational, fiduciary and strategic risks that could adversely affect our business, financial condition and results of operations.***

Our trust and wealth management division subjects us to a number of different risks from our commercial activities, any of which could adversely affect our business, financial condition and results of operations. Operational or compliance risk entails inadequate or failed internal processes, people and systems or changes driven by external events. Success in the trust and wealth management business is highly dependent on reputation. Damage to our reputation from negative opinion in the marketplace could adversely impact both revenue and net income. Such results could also be affected by errors in judgment by management or the board, the improper implementation of business decisions or by unexpected external events. Our success in this division is also dependent upon our continuing ability to generate investment results that satisfy our clients and attract prospective clients, which may be adversely impacted by factors that are outside of our control. In addition, our trust and wealth management division is subject to fiduciary risks and risks associated with adverse decisions regarding the scope of fiduciary liabilities. If any claims or legal actions regarding our fiduciary role are not resolved in a manner favorable to us, we may be exposed to significant financial liability and our reputation could be damaged. Either of these results may adversely impact demand for our products and services, including those unrelated to our trust and wealth management division, or otherwise have an adverse effect on our business, financial condition or results of operation.

***Additional risks resulting from our mortgage warehouse lending business could have an adverse effect on our business, financial condition and results of operations.***

A portion of our lending involves the origination of mortgage warehouse lines of credit. Risks associated with our mortgage warehouse loans include credit risks relating to the mortgage bankers that borrow from us, including the risk of intentional misrepresentation or fraud; changes in the market value of mortgage loans originated by the mortgage banker, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit, due to changes in interest rates during the time in warehouse; and originations of mortgage loans that are unsalable or impaired, which could lead to decreased collateral value and the failure of a purchaser of the mortgage loan to ultimately purchase the loan from the mortgage banker. Any one or a combination of these events may adversely affect our loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels, which, in turn, could adversely affect our business, financial condition and results of operations.

***New lines of business, products, product enhancements or services may subject us to additional risks.***

From time to time, we implement new lines of business, or offer new products and product enhancements as well as new services within our existing lines of business and we will continue to do so in the future. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In implementing, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although we may not assign the appropriate level of resources or expertise necessary to make these new lines of business, products, product enhancements or services successful or to realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have an adverse impact on our business, financial condition or results of operations.



***Negative public opinion regarding our company or failure to maintain our reputation in the communities we serve could adversely affect our business and prevent us from growing our business.***

As a community bank, our reputation within the communities we serve is critical to our success. We believe we have set ourselves apart from our competitors by building strong personal and professional relationships with our customers and by being active members of the communities we serve. As such, we strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, we may be less successful in attracting new talent and customers or may lose existing customers, and our business, financial condition and results of operations could be adversely affected. Further, negative public opinion can expose us to litigation and regulatory action and delay and impede our efforts to implement our expansion strategy, which could further adversely affect our business, financial condition and results of operations.

***We could recognize losses on investment securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.***

While we attempt to invest a significant majority of our total assets in loans (our loan to asset ratio was 71.0% as of December 31, 2022), we invest a percentage of our total assets (20.8% as of December 31, 2022) in investment securities with the primary objectives of providing a source of liquidity, providing an appropriate return on funds invested, managing interest rate risk, meeting pledging requirements and meeting regulatory capital requirements. As of December 31, 2022, the fair value of our available for sale investment securities portfolio was \$188.9 million, which included a net unrealized loss of \$19.2 million. Factors beyond our control can significantly and adversely influence the fair value of securities in our portfolio. For example, fixed-rate securities are generally subject to decreases in market value when interest rates rise. The Federal Open Market Committee increased the target federal funds rate significantly in 2022 and is expected to further raise the target federal funds in 2023. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.

***The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.***

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in the section captioned “*Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in this Annual Report on Form 10-K, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider “critical” because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events or regulatory views concerning such analysis differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures, in each case resulting in our needing to revise or restate prior period financial statements, cause damage to our reputation and the price of our common stock, and adversely affect our business, financial condition and results of operations.

***There could be material changes to our financial statements and disclosures if there are changes in accounting standards or regulatory interpretations of existing standards.***

From time to time the Financial Accounting Standards Board or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how new or existing standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently and retrospectively, in each case resulting in our

needing to revise or restate prior period financial statements, which could materially change our financial statements and related disclosures, cause damage to our reputation and the price of our common stock, and adversely affect our business, financial condition and results of operations.

***Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.***

We outsource some of our operational activities and accordingly depend on a number of relationships with third-party service providers. Specifically, we rely on third parties for certain services, including, but not limited to, core systems support, informational website hosting, internet services, online account opening and other processing services. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, a cyber security breach involving any of our third-party service providers, or the termination or change in terms of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third-party service providers could entail significant delay, expense and disruption of service.

As a result, if these third-party service providers experience difficulties, are subject to cyber security breaches, or terminate their services, and we are unable to replace them with other service providers, particularly on a timely basis, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

In addition, the Bank's primary federal regulator, the Office of the Comptroller of the Currency, or OCC, has issued guidance outlining the expectations for third-party service provider oversight and monitoring by financial institutions. The federal banking agencies, including the OCC, have recently issued enforcement actions against financial institutions for failure in oversight of third-party providers and violations of federal banking law by such providers when performing services for financial institutions. Accordingly, our operations could be interrupted if any of our third-party service providers experience difficulty, are subject to cyber security breaches, terminate their services or fail to comply with banking regulations, which could adversely affect our business, financial condition and results of operations. In addition, our failure to adequately oversee the actions of our third-party service providers could result in regulatory actions against the Bank, which could adversely affect our business, financial condition and results of operations.

***System failure or cyber security breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.***

Our computer systems and network infrastructure could be vulnerable to hardware and cyber security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal sources. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect our computer systems and network infrastructure, including our digital, mobile and internet banking activities, against damage from physical break-ins, cyber security breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as acts of cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a system breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

***We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology or technology needed to compete effectively with larger institutions may not be available to us on a cost effective basis.***

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We may experience operational challenges as we implement these new technology enhancements or products, which could impair our ability to realize the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. Third parties upon which we rely for our technology needs may not be able to develop on a cost effective basis systems that will enable us to keep pace with such developments. As a result, they may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may lose customers seeking new technology-driven products and services to the extent we are unable to provide such products and services. Accordingly, the ability to keep pace with technological change is important and the failure to do so could adversely affect our business, financial condition and results of operations.

***We are subject to certain operational risks, including, but not limited to, customer, employee or third-party fraud and data processing system failures and errors.***

Employee errors and employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls to mitigate operational risks, including data processing system failures and errors and customer or employee fraud, as well as insurance coverage designed to protect us from material losses associated with these risks, including losses resulting from any associated business interruption. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could adversely affect our business, financial condition and results of operations.

In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans we will originate, as well as the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms we would not have extended. Whether a misrepresentation is made by the applicant or another third party, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the resulting monetary losses we may suffer, which could adversely affect our business, financial condition and results of operations.

***Our primary markets are susceptible to natural disasters and other catastrophes that could negatively impact the economies of our markets, our operations or our customers, any of which could have an adverse effect on us.***

A significant portion of our business is generated from our primary markets of East Texas, Central Texas, the Dallas/Fort Worth MSA and the Houston MSA, which are susceptible to damage by tornadoes, floods, droughts, hurricanes and other natural disasters and adverse weather. In addition to natural disasters, man-made events, such as acts of terror and governmental response to acts of terror, malfunction of the electronic grid and other infrastructure breakdowns, could adversely affect economic conditions in our primary markets. These catastrophic events can disrupt our operations, cause widespread property damage, and severely depress the local economies in which we operate. If the economies in our primary markets experience an overall decline as a result of a catastrophic event, demand for loans and our other products and services could be reduced. In addition, the rates of delinquencies, foreclosures, bankruptcies and losses on loan portfolios may increase substantially, as uninsured property losses or sustained job interruption or loss may materially impair

the ability of borrowers to repay their loans. Moreover, the value of real estate or other collateral that secures the loans could be materially and adversely affected by a catastrophic event. A natural disaster or other catastrophic event could, therefore, result in decreased revenue and loan losses that have an adverse effect on our business, financial condition and results of operations.

***We may be subject to environmental liabilities in connection with the real properties we own and the foreclosure on real estate assets securing our loan portfolio.***

In the course of our business, we may purchase real estate in connection with our acquisition and expansion efforts, or we may foreclose on and take title to real estate or otherwise be deemed to be in control of property that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

The cost of removal or abatement may substantially exceed the value of the affected properties or the loans secured by those properties, we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the property or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced or we may elect not to foreclose on the property and, as a result, we may suffer a loss upon collection of the loan. Any significant environmental liabilities could have an adverse effect on our business, financial condition and results of operations.

***We are subject to claims and litigation pertaining to intellectual property.***

Banking and other financial services companies, such as our company, rely on technology companies to provide information technology products and services necessary to support their day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of our vendors, or other individuals or companies, may from time to time claim to hold intellectual property sold to us by our vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to our operations and distracting to management. If we are found to infringe one or more patents or other intellectual property rights, we may be required to pay substantial damages or royalties to a third party. In certain cases, we may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase our operating expenses. If legal matters related to intellectual property claims were resolved against us or settled, we could be required to make payments in amounts that could have an adverse effect on our business, financial condition and results of operations.

***If the goodwill that we have recorded or may record in connection with a business acquisition becomes impaired, it could require charges to earnings.***

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired.

Our goodwill impairment test involves a two-step process. Under the first step, the estimation of fair value of the reporting unit is compared to its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such



adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2022, our goodwill totaled \$32.2 million. While we have not recorded any impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of our existing goodwill or goodwill we may acquire in the future will not result in findings of impairment and related write-downs, which could adversely affect our business, financial condition and results of operations.

***We may be adversely affected by changes in U.S. tax laws.***

The tax laws applicable to our business activities may change over time. Legislative initiatives, including initiatives currently under discussion, may impact our results of operations by increasing the corporate income tax rate applicable to our business or by enacting other changes that increase our effective tax rate.

**Risks Related to the Regulation of Our Industry**

***The ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, could adversely affect our business, financial condition, and results of operations.***

On July 21, 2010, the Dodd-Frank Act was signed into law, and the process of implementation is ongoing. The Dodd-Frank Act imposes significant regulatory and compliance changes on many industries, including ours. On May 24, 2018, the EGRRCPA became law. Among other things, the EGRRCPA changes certain of the regulatory requirements of the Dodd-Frank Act and includes provisions intended to relieve the regulatory burden on community banks. There remains significant uncertainty surrounding the manner in which the provisions of the Dodd-Frank Act and the EGRRCPA will ultimately be implemented by the various regulatory agencies and the full extent of the impact of the requirements on our operations is unclear. The changes resulting from this legislation may impact the profitability of our business activities, require changes to certain of our business practices, require the development of new compliance infrastructure, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations could adversely affect our business, financial condition and results of operations.

***We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could adversely affect us.***

Banking is highly regulated under federal and state law. As such, we are subject to extensive regulation, supervision and legal requirements that govern almost all aspects of our operations. These laws and regulations are not intended to protect our shareholders. Rather, these laws and regulations are intended to protect customers, depositors, the Deposit Insurance Fund and the overall financial stability of the United States. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividend or distributions that the Bank can pay to us, restrict the ability of institutions to guarantee our debt and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP would require. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional operating costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, enforcement actions and fines and other penalties, any of which could adversely affect our results of operations, regulatory capital levels and the price of our securities. Further, any new laws, rules and regulations, such as the Dodd-Frank Act, could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations.

***Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations could adversely affect us.***

As part of the bank regulatory process, the OCC and the Board of Governors of the Federal Reserve System, or Federal Reserve, periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, one of these federal banking agencies were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, asset sensitivity, risk management or other aspects of any of our operations have become unsatisfactory, or that our Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions



include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital levels, to restrict our growth, to assess civil monetary penalties against us, the Bank or their respective officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank’s deposit insurance. If we become subject to such regulatory actions, our business, financial condition, results of operations and reputation could be adversely affected.

***We are subject to stringent capital requirements, which may result in lower returns on equity, require the raising of additional capital, limit our ability to repurchase shares or pay dividends and discretionary bonuses, or result in regulatory action.***

The Dodd-Frank Act required the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank and savings and loan holding companies, referred to herein as the Basel III capital rules. See the section in Item 1 of this Annual Report on Form 10-K captioned “*Supervision and Regulation — Guaranty Bancshares, Inc. — Revised Rules on Regulatory Capital.*”

As a result of the enactment of the Basel III capital rules, we became subject to increased required capital levels. Our inability to comply with these more stringent capital requirements could, among other things, result in lower returns on equity; require the raising of additional capital; limit our ability to repurchase shares or pay dividends and discretionary bonuses; or result in regulatory actions, any of which could adversely affect our business, financial condition and results of operation.

***Many of our new activities and expansion plans require regulatory approvals, and failure to obtain them may restrict our growth.***

We intend to complement and expand our business by pursuing strategic acquisitions of financial institutions and other complementary businesses. Generally, we must receive federal regulatory approval before we can acquire an FDIC-insured depository institution or related business. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, our future prospects, and the impact of the proposal on U.S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution’s record of compliance under the Community Reinvestment Act, or the CRA) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. We may also be required to sell banking locations as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to continue *de novo* branching as a part of our expansion strategy. *De novo* branching and acquisitions carry with them numerous risks, including the inability to obtain all required regulatory approvals. The failure to obtain these regulatory approvals for potential future strategic acquisitions and *de novo* banking locations could impact our business plans and restrict our growth.

***Financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.***

The Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network, established by the U.S. Department of the Treasury, or the Treasury Department, to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and the Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Treasury Department’s Office of Foreign Assets Control.

In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti-money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and

the inability to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and *de novo* branching.

***We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.***

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, or CFPB, the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are “unfair, deceptive, or abusive” in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The ongoing broad rulemaking powers of the CFPB have potential to have a significant impact on the operations of financial institutions offering consumer financial products or services. The CFPB has indicated that it may propose new rules on overdrafts and other consumer financial products or services, which could have an adverse effect on our business, financial condition and results of operations if any such rules limit our ability to provide such financial products or services.

A successful regulatory challenge to an institution’s performance under the CRA, fair lending or consumer lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have an adverse effect on our business, financial condition and results of operations.

***Increases in FDIC insurance premiums could adversely affect our earnings and results of operations.***

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. As a result of economic conditions and the enactment of the Dodd-Frank Act, the FDIC has in recent years increased deposit insurance assessment rates, which in turn raised deposit premiums for many insured depository institutions. If recent increases in premiums are insufficient for the Deposit Insurance Fund to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. Further, if there are additional financial institution failures that affect the Deposit Insurance Fund, we may be required to pay higher FDIC premiums. Our FDIC insurance related costs were \$1.1 million for the year ended December 31, 2022, compared to \$851,000 for the year ended December 31, 2021. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could adversely affect our earnings and results of operations.

***The Federal Reserve may require us to commit capital resources to support the Bank.***

The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. Under the “source of strength” doctrine that was codified by the Dodd-Frank Act, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank at times when the bank holding company may not be inclined to do so and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Accordingly, we could be required to provide financial assistance to the Bank if it experiences financial distress.

A capital injection may be required at a time when our resources are limited, and we may be required to borrow the funds or raise capital to make the required capital injection. Any loan by a bank holding company to its subsidiary bank is subordinate in right with payment to deposits and certain other indebtedness of such subsidiary bank. In the event of a bank holding company’s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company’s general unsecured creditors, including the holders of any note obligations. Thus, any borrowing by a bank holding company for the purpose of making a capital injection to a subsidiary bank often becomes more difficult and expensive relative to other corporate borrowings.

***We could be adversely affected by the soundness of other financial institutions.***

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Any such losses could adversely affect our business, financial condition and results of operations.

***Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.***

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the U.S. money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of securities by the Federal Reserve, adjustments of both the discount rate and the federal funds rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Although we cannot determine the effects of such policies on us at this time, such policies could adversely affect our business, financial condition and results of operations.

***We are subject to commercial real estate lending guidance issued by the federal banking regulators that impacts our operations and capital requirements.***

The federal banking regulators have issued guidance regarding concentrations in commercial real estate lending directed at institutions that have particularly high concentrations of commercial real estate loans within their lending portfolios. This guidance suggests that institutions whose commercial real estate loans exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk and may be required to maintain higher capital ratios than institutions with lower concentrations in commercial real estate lending. Based on our commercial real estate concentration as of December 31, 2022, we believe that we are operating within the guidelines. However, increases in our commercial real estate lending, particularly as we expand into metropolitan markets and make more of these loans, could subject us to additional supervisory analysis. We cannot guarantee that any risk management practices we implement will be effective to prevent losses relating to our commercial real estate portfolio. Management has implemented controls to monitor our commercial real estate lending concentrations, but we cannot predict the extent to which this guidance will impact our operations or capital requirements.

**Risks Related to an Investment in Our Common Stock**

***The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.***

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may affect the market price and trading volume of our common stock, including, without limitation:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;

- operating and stock price performance of companies that investors deemed comparable to us;
- additional or anticipated sales of our common stock or other securities by us or our existing shareholders;
- additions or departures of key personnel;
- perceptions in the marketplace regarding our competitors or us, including the perception that investment in Texas is unattractive or less attractive during periods of low oil prices;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our primary markets or the financial services industry.

The stock market and, in particular, the market for financial institution stocks have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

***The market price of our common stock could decline significantly due to actual or anticipated issuances or sales of our common stock in the future.***

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments and pursuant to compensation and incentive plans. If any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued in connection with an acquisition or under a compensation or incentive plan), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock and could impair our ability to raise capital through future sales of our securities.

***Securities analysts may not initiate or continue coverage on us.***

The trading market for our common stock depends, in part, on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover us. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline. If we are covered by securities analysts and are the subject of an unfavorable report, the price of our common stock may decline.

***Our management and board of directors have significant control over our business.***

As of December 31, 2022, our Company-only directors and executive officers beneficially owned an aggregate of 2,382,386 shares, or approximately 19.8%, of our issued and outstanding shares of common stock, including 259,104 shares that are held by our KSOP and allocated to the accounts of our named executive officers. As of December 31, 2022, our KSOP owned an aggregate of 1,091,957 shares, or approximately 9.1% of our issued and outstanding shares. A committee consisting of four independent directors of the Company, which we refer to herein as the KSOP Committee, currently serves as trustee of the KSOP. Each KSOP participant will have the right to vote the shares allocated to such participant's account on all matters requiring a vote of our shareholders, but the KSOP committee, as trustee of the KSOP, retains sole voting power over all shares held by the KSOP that are not allocated to participants' accounts and all shares for which they have received no voting instructions from the participant. As of December 31, 2022, there were no shares owned by our KSOP that were unallocated to participants' accounts.

As a result of their significant control over our business, our management and board of directors may be able to significantly affect the outcome of the election of directors and the potential outcome of other matters submitted to a vote of



our shareholders, such as mergers, the sale of substantially all of our assets and other extraordinary corporate matters. The interests of these insiders could conflict with the interests of our other shareholders, including you.

***The holders of our existing debt obligations, as well as debt obligations that may be outstanding in the future, will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest.***

In the event of any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of debt holders against us. As of December 31, 2022, we had a senior, unsecured line of credit with an available balance of \$25.0 million, with none advanced. We also had \$41.9 million of subordinated debt obligations and approximately \$7.2 million of junior subordinated debentures issued to statutory trusts that, in turn, issued \$7.0 million of trust preferred securities. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us. Our debt obligations are senior to our shares of common stock. As a result, we must make payments on our debt obligations before any dividends can be paid on our common stock. In the event of our bankruptcy, dissolution or liquidation, these existing and any future debt obligations must be satisfied in full before any distributions can be made to the holders of our common stock. We have the right to defer distributions on our junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our common stock. To the extent that we issue additional debt obligations or junior subordinated debentures, the additional debt obligations or additional junior subordinated debentures will be senior to our shares of common stock.

***We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.***

Our amended and restated certificate of formation authorizes us to issue up to 15,000,000 shares of one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our common stock at a premium over the market price, and materially adversely affect the market price and the voting and other rights of the holders of our common stock.

***We are dependent upon the Bank for cash flow, and the Bank's ability to make cash distributions is restricted.***

Our primary asset is Guaranty Bank & Trust. As such, the Company depends upon the Bank for cash distributions (through dividends on the Bank's common stock) that the Company uses to pay its operating expenses, satisfy its obligations (including its junior subordinated debentures and other debt obligations) and to pay dividends on the Company's common stock. Federal statutes, regulations and policies restrict the Bank's ability to make cash distributions to the Company. These statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. Further, the OCC has the ability to restrict the Bank's payment of dividends by supervisory action. If the Bank is unable to pay dividends to the Company, we will not be able to satisfy our obligations or pay dividends on our common stock.

***Our dividend policy may change without notice, and our future ability to pay dividends is subject to restrictions.***

We anticipate that dividends will be declared and paid in the month following the end of each calendar quarter, and we anticipate paying a quarterly dividend on our common stock in an amount equal to approximately 25.0% to 30.0% of our net income for the immediately preceding quarter. However, holders of our common stock are entitled to receive only such cash dividends as our board of directors may declare out of funds legally available for such payments. Any declaration and payment of dividends on common stock will depend upon the ability of the Bank to make cash distributions to the Company, our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to the common stock and other factors deemed relevant by our board of directors. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely affect the amount of dividends, if any, paid to our common shareholders.

The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the Federal Reserve prior to declaring and paying a dividend

that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to our capital structure, including interest on the junior subordinated debentures underlying our trust preferred securities and our other debt obligations. If required payments on our outstanding junior subordinated debentures, held by our unconsolidated subsidiary trusts, or our other debt obligations, are not made or are deferred, or dividends on any preferred stock we may issue are not paid, we will be prohibited from paying dividends on our common stock.

***Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management.***

Our certificate of formation and our bylaws (each as amended and restated) may have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control or a replacement of our board of directors or management. Our governing documents include provisions that:

- empower our board of directors, without shareholder approval, to issue our preferred stock, the terms of which, including voting power, are to be set by our board of directors;
- divide our board of directors into three classes serving staggered three-year terms;
- provide that directors may only be removed from office for cause and only upon a majority shareholder vote;
- eliminate cumulative voting in elections of directors;
- permit our board of directors to alter, amend or repeal our amended and restated bylaws or to adopt new bylaws;
- require the request of holders of at least 50.0% of the outstanding shares of our capital stock entitled to vote at a meeting to call a special shareholders' meeting;
- prohibit shareholder action by less than unanimous written consent, thereby requiring virtually all actions to be taken at a meeting of the shareholders;
- require shareholders that wish to bring business before annual or special meetings of shareholders, or to nominate candidates for election as directors at our annual meeting of shareholders, to provide timely notice of their intent in writing; and
- enable our board of directors to increase or decrease, between annual meetings, the number of persons serving as directors and to fill the vacancies created as a result of an increase by a majority vote of the directors present at a meeting of directors.

In addition, certain provisions of Texas law, including a provision which restricts certain business combinations between a Texas corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control. Furthermore, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or its holding company. These laws include the Bank Holding Company Act of 1956, as amended, or the BHC Act, and the Change in Bank Control Act, or the CBCA. These laws could delay or prevent an acquisition.

Furthermore, our amended and restated certificate of formation provides that the state courts located in Titus County, Texas, the county in which our legacy headquarters in Mount Pleasant lie, will be the exclusive forum for: (a) any actual or purported derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of fiduciary duty by any of our directors or officers, (c) any action asserting a claim against us or our directors or officers arising pursuant to the TBOC, our certificate of formation, or our bylaws; or (d) any action asserting a claim against us or our officers or directors that is governed by the internal affairs doctrine. By becoming a shareholder of our Company, you will be deemed to have notice of and have consented to the provisions of our amended and restated certificate of formation related to choice of forum. The choice of forum provision in our amended and restated certificate of formation may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of formation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business, operating results, and financial condition.

***An investment in our common stock is not an insured deposit and is subject to risk of loss.***

Any shares of our common stock you purchase will not be savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and will not be insured or guaranteed by the FDIC or any other government agency. Your investment will be subject to investment risk, and you must be capable of affording the loss of your entire investment.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

As of December 31, 2022 the Bank operates 32 banking locations, all of which are located in Texas. Our principal executive office is located at 16475 Dallas Parkway, Suite 600, Addison, Texas 75001. The Bank currently operates banking locations in the following Texas locations: Austin (two locations), Georgetown, Bogata, Bryan, College Station (two locations), Commerce, Conroe, Dallas (two locations), Denton (two locations), Fort Worth, Hallsville, Houston (three locations), Longview, Mount Pleasant (two locations), Mount Vernon, New Boston, Paris (two locations), Pittsburg, Rockwall, Royse City, Sulphur Springs, and Texarkana (three locations).

As of December 31, 2022, we owned 21 of our branch locations, had one location in which we owned the building and had a long-term land lease on the real property associated with the branch, and leased the remaining 10 locations. The terms of our leases generally range from one to 13 years and give us the option to renew for subsequent terms of equal duration or otherwise extend the lease term subject to price adjustment based on market conditions at the time of renewal. We believe that the 11 leases to which we are subject are generally on terms consistent with prevailing market terms, and none of the leases are with our directors, officers, beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

**ITEM 3. LEGAL PROCEEDINGS.**

The Company is from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. The Company intends to defend itself vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on the Company combined results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against the Company could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect the Company's reputation, even if resolved in our favor.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

#### **Market Information for Common Stock**

Beginning on March 7, 2023, shares of our common stock are traded on the New York Stock Exchange under the symbol "GNTY". Prior to that date, our shares were traded on the Nasdaq Global Select Market (the "Nasdaq") since our initial public offering ("IPO") on May 9, 2017. Prior to our IPO, there was no public trading market for our common stock.

As of March 8, 2023, there were 348 holders of record of our common stock. The number of holders of record does not represent the actual number of beneficial owners of our common stock because securities dealers and others frequently hold shares in "street name" for the benefit of individual owners who have the right to vote shares.

#### **Dividend Policy**

See "*Consolidated Financial Statements—Note 16—Regulatory Matters*" for the frequency and amount of cash dividends paid by us. Also, see "*Item 1. Business—Regulation and Supervision—Guaranty Bancshares, Inc.—Regulatory Restrictions on Dividends*" for restrictions on our present or future ability to pay dividends, particularly those restrictions arising under federal and state banking laws.

#### **Unregistered Sales of Equity Securities**

None.

#### **Equity Compensation Plan Information**

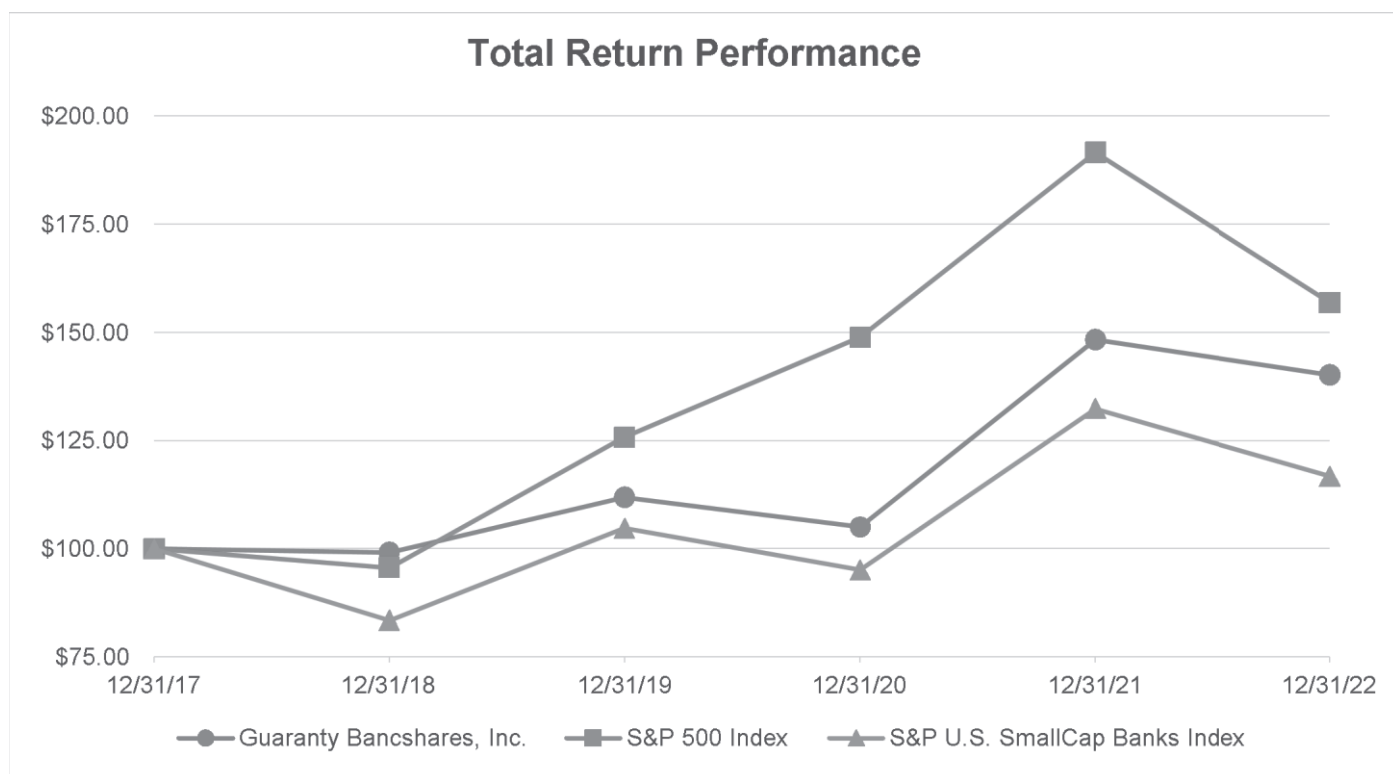
See "*Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*"

#### **Stock Performance Graph**

The following table and graph compares the cumulative total shareholder return on our common stock to the cumulative total return of the S&P 500 Index and the S&P U.S. SmallCap Banks Index for the period of December 31, 2017 through December 31, 2022. The following assumes \$100 was invested in each of our common stock, the S&P 500 and the S&P U.S. SmallCap Banks Index values on December 31, 2017, and assumes the reinvestment of dividends, if any.



The historical stock price performance for our common stock shown on the graph below is not necessarily indicative of future stock performance.



	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Guaranty Bancshares, Inc.	\$ 100.00	\$ 99.14	\$ 111.88	\$ 105.05	\$ 148.35	\$ 140.19
S&P 500 Index	100.00	95.62	125.72	148.85	191.58	156.88
S&P U.S. SmallCap Banks Index	100.00	83.44	104.69	95.08	132.36	116.69

Source: S&P Global Market Intelligence

### Stock Repurchases

On April 21, 2022, the Company announced the adoption of a new stock repurchase program that authorized the repurchase of up to 1,000,000 shares of Company common stock. The stock repurchase program will be effective until the earlier of April 21, 2024, or the date all shares authorized for repurchase under the program have been repurchased, unless shortened or extended by the board of directors. The repurchase plan permits shares to be acquired from time to time in the open market or negotiated transactions at prices management considers to be attractive and in the best interest of both the Company and its shareholders, subject to compliance with applicable laws and regulations, general market and economic conditions, the financial and regulatory condition of the Company, liquidity and other factors.

There were 250,625 shares of Company common stock repurchased during the year ended December 31, 2022, at a weighted-average price per share of \$35.26. No shares of Company common stock were repurchased during the quarter ended December 31, 2022. As of December 31, 2022, authority to repurchase 805,612 shares remains available under the stock repurchase program approved on April 21, 2022.

### ITEM 6. [RESERVED].

Not applicable.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes included in "Item 8: Financial Statements and Supplementary Data." This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under "Forward-Looking Statements," "Risk Factors" and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements.

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- our ability to prudently manage our growth and execute our strategy;
- risks associated with our acquisition and *de novo* branching strategy;
- business and economic conditions generally and in the financial services industry, nationally and within our primary markets;
- deterioration of our asset quality;
- changes in the value of collateral securing our loans;
- changes in management personnel;
- liquidity risks associated with our business;
- interest rate risk associated with our business;
- our ability to maintain important deposit customer relationships and our reputation;
- operational risks associated with our business;
- volatility and direction of market interest rates;
- increased competition in the financial services industry, particularly from regional and national institutions;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- further government intervention in the U.S. financial system;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or public health outbreaks (such as coronavirus) or other international or domestic calamities, and other matters beyond our control; and
- other factors that are discussed in "Item 1A. Risk Factors."

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Annual Report on Form 10-K. If one or more events related to these or other risks or uncertainties

materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## **General**

We were incorporated in 1990 to serve as the holding company for Guaranty Bank & Trust. Since our founding, we have built a reputation based on financial stability and community leadership. In May 2017, we consummated an initial public offering of our common stock, which began trading on the Nasdaq Global Select Market until March 7, 2023, at which time our listing was transferred to the New York Stock Exchange, where our common stock continues to trade.

As of December 31, 2022, we operate 32 banking locations in the East Texas, Dallas/Fort Worth, Central Texas and Greater Houston regions of the state. Our principal executive office is located at 16475 Dallas Parkway, Suite 600, Addison, Texas, 75001 and our telephone number is (888) 572-9881. Our website address is [gnty.com](http://gnty.com). Information contained on our website does not constitute a part of this Report and is not incorporated by reference into this filing or any other report.

As a bank holding company that operates through one segment, we generate most of our revenue from interest on loans and investments, customer service and loan fees, fees related to the sale of mortgage loans, and trust and wealth management services. We incur interest expense on deposits and other borrowed funds, as well as noninterest expense, such as salaries and employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and control the interest expenses of our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities.

Changes in market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as in the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and shareholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target markets and throughout the State of Texas.

## **Impact of COVID-19**

In March 2020, the outbreak of the novel coronavirus disease 2019 ("COVID-19") was recognized as a pandemic by the World Health Organization and resulted in a wide variety of health and economic impacts to individuals and businesses.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. It contained substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act included the Paycheck Protection Program ("PPP"), a program designed to aid small- and medium-sized businesses through federally guaranteed loans distributed through banks. PPP loans were intended to provide eligible businesses with funding for payroll and other costs to help those businesses remain viable and allow their workers to pay their bills and the loans were forgivable to the extent that the borrower could demonstrate that the funds were used for such costs. In December 2020, several portions of the CARES Act were extended as part of the Consolidated Appropriations Act, including additional stimulus payments to consumers and a second round of PPP loans ("PPP2") for small businesses during 2021.

## Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates, and the potential sensitivity of our consolidated financial statements to those judgments and assumptions, is critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate.

### *Loans and Allowance for Credit Losses (ACL)*

Loans are stated at the amount of unpaid principal, reduced by unearned income and an allowance for credit losses. Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Fees associated with the origination of loans and certain direct loan origination costs are netted and the net amount is deferred and recognized over the life of the loan as an adjustment of yield.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. A loan may continue to accrue interest, even if it is more than 90 days past due, if the loan is both well collateralized and it is in the process of collection. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured in accordance with the terms of the loan agreement.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Recoveries will not exceed the aggregate of loan amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. We use the weighted-average remaining maturity method (WARM method) as the basis for the estimation of expected credit losses. The WARM method uses a historical average annual charge-off rate. This average annual charge-off rate contains loss content over a historical lookback period and is used as a foundation for estimating the credit loss reserve for the remaining outstanding balances of loans in a pool or segment of our loan portfolio at the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments, to determine the unadjusted historical charge-off rate. The calculation of the unadjusted historical charge-off rate is then adjusted for current conditions and for reasonable and supportable forecast periods. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historic loss factors. In early 2020, to address the uncertainties resulting from COVID-19, an additional qualitative factor was added to specifically address COVID-related economic factors and potential credit losses, in addition to our standard qualitative factors. This specific qualitative factor was removed in early 2022.

The allowance for credit losses is measured on a collective (pool or segment) basis when similar risk characteristics exist. Our loan portfolio segments include both regulatory call report codes and internally identified risk ratings for our commercial loan segments and delinquency status for our consumer loan segments. We also have separate segments for our warehouse lines of credit, for our internally originated SBA loans, for our SBA loans acquired from Westbound Bank, and for loans originated under the PPP program.

In general, the loans in our portfolio have low historical credit losses. The credit quality of loans in our portfolio is impacted by delinquency status and debt service coverage generated by our borrowers' businesses and fluctuations in the



value of real estate collateral. Management considers delinquency status to be the most meaningful indicator of the credit quality of one-to-four single family residential, home equity loans and lines of credit and other consumer loans. In general, these types of loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as “seasoning.” As a result, a portfolio of older loans will usually behave more predictably than a portfolio of newer loans. We consider the majority of our consumer type loans to be “seasoned” and that the credit quality and current level of delinquencies and defaults represents the level of reserve needed in the allowance for credit losses. If delinquencies and defaults were to increase, we may be required to increase our provision for credit losses, which would adversely affect our results of operations and financial condition. Delinquency statistics are updated at least monthly.

Internal risk ratings are considered the most meaningful indicator of credit quality for new commercial and industrial, construction, and commercial real estate loans. Internal risk ratings are a key factor that impacts management’s estimates of loss factors used in determining the amount of the allowance for credit losses. Internal risk ratings are updated on a continuous basis.

Loans with unique risk characteristics are evaluated on an individual basis. Loans evaluated individually are excluded from the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

For off-balance sheet credit exposures, we estimate expected credit losses over the contractual period in which we are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelable by us. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

From time to time, we modify our loan agreement with a borrower. A modified loan is considered a troubled debt restructuring (TDR) when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. We review each troubled debt restructured loan and determine on a case-by-case basis if the loan can be grouped with its like segment for allowance consideration or whether it should be individually evaluated for a specific allowance for credit loss allocation. If individually evaluated, an allowance for credit loss allocation is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral. Most modifications made as a direct result of COVID-19 were not TDRs pursuant to the CARES Act and the April 7, 2020 Interagency guidance and GAAP.

We have certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and industrial loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate collateral. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing our real estate portfolio are generally diverse in terms of type and geographic location throughout the State of Texas. This diversity helps us reduce the exposure to adverse economic events that affect any single market or industry.

We utilize methodical credit standards and analysis to supplement our policies and procedures in underwriting consumer loans. Our loan policy addresses types of consumer loans that may be originated as well as the underlying

collateral, if secured, which must be perfected. The relatively small individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize risk.

### *Marketable Securities*

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

From time to time, we have reclassified certain securities from available for sale to held to maturity. Such transfers are made at fair value at the date of transfer. The unrealized holding gains and losses at the date of transfer are retained in other comprehensive (loss) income and in the carrying value of the held to maturity securities and are amortized or accreted over the remaining life of the security. These unamortized unrealized losses and unaccreted unrealized gains on our transferred securities are included in accumulated other comprehensive (loss) income on our balance sheet and netted to an unrealized loss of \$5.9 million at December 31, 2022. This amount will be amortized out of accumulated other comprehensive (loss) income over the remaining life of the underlying securities as an adjustment of the yield on those securities.

Management evaluates securities for an allowance for credit losses based on whether they are classified as held to maturity or available for sale. For held to maturity securities, management measures expected credit losses on a collective basis by major security type and credit rating. The estimate of expected credit losses considers historical credit loss information that is then adjusted for current conditions and reasonable and supportable forecasts. For available for sale securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically relate to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive (loss) income.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses expense. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

### *Fair Values of Financial Instruments*

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

## **Discussion and Analysis of Results of Operations for the Years Ended December 31, 2022 and 2021**

*A discussion regarding our results of operations for the year ended December 31, 2021 compared to the year ended December 31, 2020 can be found under "Item 7. Management's Discussion and Analysis of Financial Condition and Result of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 11, 2022, which is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and our Investor Relations website at [investors.gnty.com](http://investors.gnty.com).*

*Net Interest Income*

Our operating results depend primarily on our net interest income. Fluctuations in market interest rates impact the yield and rates paid on interest-earning assets and interest-bearing liabilities, respectively. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact our net interest income. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders' equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Net interest income, before the provision for credit losses, was \$107.8 million for the year ended December 31, 2022 compared to \$95.6 million for the year ended December 31, 2021, an increase of \$12.3 million, or 12.8%. The increase in net interest income before the provision (or reverse provision) for credit losses resulted primarily from an increase in average interest-earning assets of \$321.8 million, or 11.7%, which resulted in a \$20.7 million increase in interest income despite only a 28 basis point increase in yield between the two periods. The increase in average loans outstanding from the prior year was primarily due to organic growth. Excluding PPP loans, the average loans outstanding for the year ended December 31, 2022 increased \$318.9 million, or 17.8%, from the prior year. The increase in interest income was partially offset by an \$8.4 million, or 120.0%, increase in interest expense during the year ended December 31, 2022.

The \$8.4 million increase in interest expense for the year ended December 31, 2022 was primarily related to an increase in the cost of interest-bearing deposits of 23 basis points in conjunction with a \$68.9 million, or 4.3%, increase in average interest-bearing deposits over the same period in 2021. Interest expense was also affected by a 206 basis point increase in the rate paid on our average outstanding FHLB advances and fed funds purchased, which increased \$83.7 million, or 170.6%, compared to the year ended December 31, 2021. The average deposit balance increase is the result of organic growth, apparent changes in consumer and business spending habits, and lack of stable investment alternatives for some depositors, and the increase in the average balance of FHLB advances and fed funds purchased was to meet liquidity needs and to hedge interest rate risk.

For the year ended December 31, 2022, net interest margin on a taxable equivalent basis and net interest spread were 3.54% and 3.18%, respectively, compared to 3.51% and 3.32% for the year ended December 31, 2021, which reflects a 28 basis point increase in the average yield on interest-earning assets, partially offset by a 42 basis point increase in the average rate on interest-bearing liabilities from the prior year.

Variances in the provisions for credit losses, resulting primarily from the effects of COVID-19, and participation in the PPP program, created temporary extraordinary results in the calculation of net earnings and related performance ratios.

The following table illustrates net earnings and net core earnings per share, which are pre-tax, pre-provision and pre-extraordinary PPP income, as well as net core performance ratios for the years ended December 31, 2022 and 2021.

	Year Ended December 31,	
	2022	2021
<i>(dollars in thousands, except per share data)</i>		
Net earnings attributable to Guaranty Bancshares, Inc.	\$ 40,447	\$ 39,806
Adjustments:		
Provision for (reversal of) credit losses	2,150	(1,700)
Income tax provision	8,834	8,750
PPP interest income, including fees	(1,277)	(7,822)
Net core earnings attributable to Guaranty Bancshares, Inc.†	\$ 50,154	\$ 39,034
Total average assets	\$ 3,260,584	\$ 2,922,950
Adjustments:		
PPP loans average balance	(11,820)	(115,402)
Total average assets, adjusted†	\$ 3,248,764	\$ 2,807,548
Total average equity	\$ 293,910	\$ 290,051

#### PERFORMANCE RATIOS

Net earnings attributable to Guaranty Bancshares, Inc. to average assets	1.24%	1.36%
Net earnings attributable to Guaranty Bancshares, Inc. to average equity	\$ 13.76	\$ 13.72
Net core earnings attributable to Guaranty Bancshares, Inc. to average assets, as adjusted†	1.54	1.39
Net core earnings attributable to Guaranty Bancshares, Inc. to average equity†	17.06	13.46

#### PER COMMON SHARE DATA

Weighted-average common shares outstanding, basic	11,980,209	12,065,182
Earnings per common share, basic	\$ 3.38	\$ 3.30
Net core earnings attributable to Guaranty Bancshares, Inc. per common share, basic†	4.19	3.24

† Non-GAAP financial metric. Calculations of this metric and reconciliations to GAAP are included in "—Non-GAAP Financial Measures".



## Average Balance Sheet Amounts, Interest Earned and Yield Analysis

The following table presents an analysis of net interest income and net interest spread for the periods indicated, including average outstanding balances for all major categories of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average rates earned or paid on such assets or liabilities, respectively. The table also sets forth the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the years ended December 31, 2022 and 2021, the amount of interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

	2022			Year Ended December 31, 2021			2020		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
<i>(dollars in thousands)</i>									
<b>ASSETS</b>									
Interest-earning assets:									
Total loans <sup>(1)</sup>	\$ 2,126,810	\$104,503	4.91%	\$ 1,911,540	\$ 92,497	4.84%	\$ 1,872,914	\$ 93,335	4.98%
Securities available for sale	287,764	5,808	2.02	356,232	6,839	1.92	338,510	7,798	2.30
Securities held to maturity	518,213	10,789	2.08	74,270	2,141	2.88	35,935	956	2.66
Nonmarketable equity securities	18,791	1,246	6.63	10,043	740	7.37	10,761	439	4.08
Interest-bearing deposits in other banks	121,609	863	0.71	399,285	333	0.08	146,659	514	0.35
Total interest-earning assets	3,073,187	123,209	4.01	2,751,370	102,550	3.73	2,404,779	103,042	4.28
Allowance for credit losses	(29,415)			(31,888)			(29,100)		
Noninterest-earning assets	216,812			203,468			195,324		
Total assets	<u>\$ 3,260,584</u>			<u>\$ 2,922,950</u>			<u>\$ 2,571,003</u>		
<b>LIABILITIES AND EQUITY</b>									
Interest-bearing liabilities:									
Interest-bearing deposits	\$ 1,670,287	\$ 9,753	0.58%	\$ 1,601,375	\$ 5,651	0.35%	\$ 1,468,353	\$ 11,624	0.79%
Advances from FHLB and fed funds purchased	132,764	3,855	2.90	49,056	413	0.84	75,940	470	0.62
Line of credit	—	34	—	6,066	216	3.56	6,727	213	3.17
Subordinated debt	46,977	1,722	3.67	19,810	700	3.53	17,198	702	4.08
Securities sold under agreements to repurchase	8,596	16	0.19	14,812	12	0.08	18,115	51	0.28
Total interest-bearing liabilities	1,858,624	15,380	0.83	1,691,119	6,992	0.41	1,586,333	13,060	0.82
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	1,082,513			916,562			696,454		
Accrued interest and other liabilities	25,537			25,218			24,450		
Total noninterest-bearing liabilities	1,108,050			941,780			720,904		
Equity	293,910			290,051			263,766		
Total liabilities and equity	<u>\$ 3,260,584</u>			<u>\$ 2,922,950</u>			<u>\$ 2,571,003</u>		
Net interest rate spread <sup>(2)</sup>			3.18%			3.32%			3.46%
Net interest income		<u>\$107,829</u>			<u>\$ 95,558</u>			<u>\$ 89,982</u>	
Net interest margin <sup>(3)</sup>			3.51%			3.47%			3.74%
Net interest margin, fully taxable equivalent <sup>(4)</sup>			3.54%			3.51%			3.77%

(1) Includes average outstanding balances of loans held for sale of \$2.4 million and \$3.4 million for the years ended December 31, 2022 and 2021, respectively.

(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

(3) Net interest margin is equal to net interest income divided by average interest-earning assets.

(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, using a marginal tax rate of 21%.

The Bank's participation in the PPP program created temporary extraordinary results in the calculation of net interest margin. To illustrate the impact of the PPP program on net interest margin, the table below excludes PPP1 and PPP2 loans and their associated fees and costs for the quarter and years ended December 31, 2022 and 2021.

	For the Year Ended					
	December 31, 2022			December 31, 2021		
	Average Outstanding Balance	Interest Earned	Average Yield	Average Outstanding Balance	Interest Earned	Average Yield
<i>(dollars in thousands)</i>						
Total interest-earning assets	\$ 3,073,187	\$123,209	4.01%	\$ 2,751,370	\$102,550	3.73%
Total loans	2,126,810	104,503	4.91	1,911,540	92,497	4.84
Adjustments:						
PPP loans average balance and net fees <sup>(1)</sup>	(11,820)	(1,277)	10.80	(115,402)	(7,223)	6.26
Total loans, net of PPP effects	\$ 2,114,990	\$103,226	4.88%	\$ 1,796,138	\$ 85,274	4.75%
Total interest-earning assets, net of PPP effects <sup>†</sup>	\$ 3,061,367	\$121,932	3.98%	\$ 2,635,968	\$ 95,327	3.62%
Net interest income, fully taxable equivalent ("FTE")		\$108,729			\$ 96,634	
Net interest margin, FTE			3.54%			3.51%
Net interest income, FTE, net of PPP effects <sup>†</sup>		107,452			89,411	
Net interest margin, FTE, net of PPP effects <sup>†</sup>			3.51%			3.39%

<sup>†</sup> Non-GAAP financial metric. Calculations of this and reconciliations to GAAP are included in "—Non-GAAP Financial Measures"

(1) Interest earned consists of interest income of \$115,000 and \$1.1 million, and net origination fees recognized in earnings of \$1.2 million and \$6.1 million for the years ended December 31, 2022 and 2021, respectively.

The following tables present the change in interest income and interest expense for the periods indicated for all major components of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Year Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to Change in		Total Increase (Decrease)
	Volume	Rate	
<i>(in thousands)</i>			
Interest-earning assets:			
Total loans	\$ 10,419	\$ 1,587	\$ 12,006
Securities available for sale	(1,315)	284	(1,031)
Securities held to maturity	9,022	(374)	8,648
Nonmarketable equity securities	645	(139)	506
Interest-earning deposits in other banks	(222)	752	530
Total increase in interest income	\$ 18,549	\$ 2,110	\$ 20,659
Interest-bearing liabilities:			
Interest-bearing deposits	\$ 241	\$ 3,861	\$ 4,102
Advances from FHLB and fed funds purchased	703	2,739	3,442
Line of credit	(216)	34	(182)
Subordinated debt	959	63	1,022
Securities sold under agreements to repurchase	(5)	9	4
Total increase in interest expense	1,682	6,706	8,388
Increase (decrease) in net interest income	\$ 16,867	\$ (4,596)	\$ 12,271

(in thousands)	For the Year Ended December 31, 2021 vs. 2020		
	Increase (Decrease)		Total Increase (Decrease)
	Due to Change in		
	Volume	Rate	
<b>Interest-earning assets:</b>			
Total loans	\$ 1,924	\$ (2,762)	\$ (838)
Securities available for sale	408	(1,367)	(959)
Securities held to maturity	1,020	165	1,185
Nonmarketable equity securities	(29)	330	301
Interest-earning deposits in other banks	884	(1,065)	(181)
Total increase (decrease) in interest income	\$ 4,207	\$ (4,699)	\$ (492)
<b>Interest-bearing liabilities:</b>			
Interest-bearing deposits	\$ 1,051	\$ (7,024)	\$ (5,973)
Advances from FHLB and fed funds purchased	(167)	110	(57)
Line of credit	(21)	24	3
Subordinated debentures	107	(109)	(2)
Securities sold under agreements to repurchase	(9)	(30)	(39)
Total increase in interest expense	961	(7,029)	(6,068)
Increase in net interest income	\$ 3,246	\$ 2,330	\$ 5,576

### Provision for Credit Losses

The provision for credit losses is a charge to income in order to bring our allowance for credit losses to a level deemed appropriate by management based on factors such as historical loss experience, trends in classified and past due loans, volume and growth in the loan portfolio, current economic conditions in our markets and value of the underlying collateral. Loans are charged off against the allowance for credit losses when determined appropriate. Although management believes it uses the best information available to make determinations with respect to the provision for credit losses, future adjustments may be necessary if economic conditions differ from the assumptions used in making the determination. For a full description of the factors taken into account by our management in determining the allowance for credit losses see “— *Financial Condition—Allowance for Credit Losses.*”

During the year ended December 31, 2022, we recorded a provision for credit losses of \$2.2 million, compared to a reverse provision of \$1.7 million in 2021. The provision in 2022 was recorded primarily to incorporate economic forecasts for a recession into our CECL model, as well as to account for our continued organic loan growth during the year ended December 31, 2022. At the onset of the COVID pandemic in 2020, we established COVID-specific qualitative factors to estimate the potential impact of the pandemic to our loan portfolio as a whole, which led to a provision during 2020 of \$13.2 million. As the economic, health and other impacts of the virus became more clear and cases began to decline, we reduced the COVID-specific qualitative factors during 2021 and fully unwound these specific factors during the first quarter of 2022, which resulted in a \$1.25 million reverse provision during the first quarter of 2022 and no provision in the second quarter of 2022. Minimal updates were made to our qualitative factors, including forecasted conditions, during the third quarter of 2022. However, in the fourth quarter of 2022, consensus among economists, as typified by a Wall Street Journal survey, indicated that an economic recession is likely in 2023. Using this information, along with other economic indicators (such as the inverted yield curve), we adjusted certain qualitative factors to account for the forecasted information and during the fourth quarter of 2022, we recorded a \$2.8 million provision for credit losses to account for these economic indicators and our continued organic loan growth. As of December 31, 2022, our allowance for credit losses as a percentage of total loans was 1.34%.

As of December 31, 2022, there were \$14.1 million in loan balances past due 30 or more days, which included \$9.6 million in loan balances for nonperforming (nonaccrual) loans, compared to \$5.9 million and \$2.8 million, respectively, as of December 31, 2021. The increase in nonperforming assets during the year ended December 31, 2022 compared to 2021 resulted primarily from the addition of four loans to nonaccrual assets during the second quarter of 2022, which had a combined book balance of \$6.7 million as of December 31, 2022. These four loans are Small Business Administration (SBA) 7(a), partially guaranteed (75%) loans, acquired in the June 2018 acquisition of Westbound Bank. They are collateralized by two hotels, were identified as problem assets prior to COVID-19, but obtained government stimulus and other relief which allowed the two related borrowers to remain current through early 2022. Management continues to work toward a satisfactory resolution for these four loans, however, in the event of foreclosure, a significant loss is not expected due to estimated current collateral values and the SBA guarantees. Another previously classified loan was downgraded to non-accrual status during the fourth quarter of 2022 with a principal balance of \$1.4 million. The loan is well-secured and has a low loan-to-value ratio with guarantor support. Management expects this loan to be paid in full by the second quarter of

2023. Total nonperforming (nonaccrual) loans were \$10.8 million and \$2.8 million as of December 31, 2022 and 2021, respectively.

Net charge-offs for the year ended December 31, 2022 totaled \$609,000, compared to \$1.5 million in 2021. The decrease in net charge-offs was primarily due to the resolution of three nonperforming loans which had resulted in charge-offs realized of \$745,000 during the year ended December 31, 2021.

The following table shows the ratio of net charge-offs (recoveries) to average loans outstanding by loan category for the dates indicated:

	Year Ended December 31,		
	2022	2021	2020
Commercial and industrial	0.04%	0.10%	(0.01%)
Real estate:			
Commercial real estate	—	0.13%	—
1-4 family residential	(0.01%)	—	0.02%
Consumer	0.48%	0.23%	0.22%
Agricultural	—	(0.05%)	(0.01%)
Overdrafts	55.85%	49.85%	54.14%
Net charge-offs to total loans	<u>0.03%</u>	<u>0.08%</u>	<u>0.02%</u>

### Noninterest Income

Our primary sources of recurring noninterest income are service charges on deposit accounts, merchant and debit card fees, fiduciary income, gains on the sale of both mortgage and SBA loans, and income from bank-owned life insurance. Noninterest income does not include loan origination fees to the extent they exceed the direct loan origination costs, which are generally recognized over the life of the related loan as an adjustment to yield using the interest method.

The following table presents components of noninterest income for the years ended December 31, 2022 and 2021 and the period-over-period variations in the categories of noninterest income:

(in thousands)	Year Ended December 31,		Increase (Decrease)
	2022	2021	2022 vs. 2021
Noninterest income:			
Service charges	\$ 4,288	\$ 3,772	\$ 516
Gain on sales of investment securities	172	—	172
Gain on sale of loans	2,435	5,528	(3,093)
Fiduciary and custodial income	2,498	2,333	165
Bank-owned life insurance income	842	840	2
Merchant and debit card fees	7,121	6,717	404
Loan processing fee income	761	669	92
Warehouse lending fees	291	812	(521)
Mortgage fee income	389	612	(223)
Other noninterest income	4,688	3,293	1,395
Total noninterest income	<u>\$ 23,485</u>	<u>\$ 24,576</u>	<u>\$ (1,091)</u>

Total noninterest income decreased \$1.1 million, or 4.4%, for the year ended December 31, 2022 compared to 2021. Material changes in the components of noninterest income are discussed below.

**Service Charges on Deposit Accounts.** We earn fees from our customers for deposit related services, and these fees typically constitute a significant and generally predictable component of our non-interest income. Service fee income was \$4.3 million for the year ended December 31, 2022 compared to \$3.8 million for the same period in 2021, an increase of \$516,000, or 13.7%, resulting from growth in the number of DDAs and debit card usage volume during 2022. The total number of DDAs increased by 2,019 accounts, from 52,848 as of December 31, 2021 to 54,867 as of December 31, 2022.

**Net Realized Gain on Securities Transactions.** We sell securities from time-to-time, which results in gains or losses being recognized in the income statement as noninterest income. During the year ended December 31, 2022 we sold securities for a net gain of \$172,000. No securities were sold during the year ended December 31, 2021.

**Gain on Sale of Loans.** We originate long-term fixed-rate mortgage loans and Small Business Administration (SBA) loans for resale into the secondary market. We sold 271 mortgage loans for \$72.8 million during the year ended December



31, 2022 compared to 501 mortgage loans for \$116.1 million for the year ended December 31, 2021, which is consistent with the industry wide decline in overall mortgage volumes attributable to increased mortgage loan rates during the year. Gain on sale of loans was \$2.4 million for the year ended December 31, 2022, a decrease of \$3.1 million, or 56.0%, compared to \$5.5 million for the year ended December 31, 2021. \$2.0 million and \$392,000 of the gain in the current year was attributable to the sales of mortgage loans and SBA 7(a) loans, respectively, while the gain during the prior year consisted of \$4.4 million in mortgage loan sales and \$1.1 million in SBA 7(a) loan sales.

*Fiduciary and Custodial Income.* We have trust powers and provide fiduciary and custodial services through our trust and wealth management division. Fiduciary income was \$2.5 million and \$2.3 million for the year ended December 31, 2022 and 2021, respectively, an increase of \$165,000, or 7.1%. The revenue increase resulted primarily from 66 new accounts that opened in 2022, which have generated additional income. Furthermore, revenue for our services fluctuates by month with the market value for all publicly traded assets, which are primarily held in irrevocable trusts and investment management accounts that carry higher fees. Additionally, our custody-only assets are carried in a tiered percentage rate fee schedule charged against market value.

*Merchant and Debit Card Fees.* We earn interchange income related to the activity of our customers' merchant debit card usage. Debit card interchange income was \$7.1 million for the year ended December 31, 2022, compared to \$6.7 million for 2021, an increase of \$404,000, or 6.0%. The increase was primarily due to an annual earnings credit received from our debit card vendor and growth in the number of DDAs and debit card usage volume during 2022. The total number of DDAs increased by 2,019 accounts, from 52,848 as of December 31, 2021 to 54,867 as of December 31, 2022.

*Loan Processing Fee Income.* Revenue earned from collection of loan processing fees was \$761,000 for the year ended December 31, 2022, compared to \$669,000 for 2021, an increase of \$92,000, or 13.8%. The increase in loan processing fee income is primarily attributable to an increase in the volume of newly originated, renewed or extended loans during the period.

*Warehouse Lending Fees.* A portion of our lending involves the origination of mortgage warehouse lines of credit. The decrease in warehouse lending fees of \$521,000, or 64.2%, results from a decrease in overall warehouse lending activity in 2022. The average annual balance of mortgage warehouse lines decreased from \$66.6 million for the year ended December 31, 2021, to \$20.0 million for the year ended December 31, 2022, a decrease of \$46.6 million or 70.0%.

*Mortgage Fee Income.* Mortgage fee income consists of lender processing fees such as underwriting fees, administrative fees and funding fees that are collected from mortgage loans that the Bank intends to sell on the secondary market. The decrease of \$223,000, or 36.4%, from December 31, 2021 was primarily due to a lower volume of mortgage purchases and refinances during 2022, which was attributed to increased mortgage loan rates during the year.

*Other.* This category includes a variety of other income producing activities, including mortgage loan origination fees, wire transfer fees, loan administration fees, and other fee income. Other noninterest income increased \$1.4 million, or 42.4%, for the year ended December 31, 2022, compared to the same period in 2021, resulting primarily from a net gain of \$685,000 from the termination of three interest rate swaps during the first quarter of 2022 and a gain on sale of an airplane asset for \$894,000 during the third quarter of 2022.

#### *Noninterest Expense*

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The largest component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of our facilities and our furniture, fixtures and office equipment, professional and regulatory fees, including FDIC assessments, data processing expenses, and advertising and promotion expenses.

For the year ended December 31, 2022, noninterest expense totaled \$79.9 million, an increase of \$6.6 million, or 9.0%, compared to \$73.3 million for the year ended December 31, 2021. The following table presents, for the periods indicated, the major categories of noninterest expense:

(in thousands)	Year Ended December 31,		Increase (Decrease)
	2022	2021	2022 vs. 2021
Employee compensation and benefits	\$ 47,477	\$ 42,345	\$ 5,132
Non-staff expenses:			
Occupancy expenses	11,129	10,944	185
Legal and professional fees	2,825	2,599	226
Software and technology	5,482	4,594	888
Amortization	724	1,154	(430)
Director and committee fees	836	823	13
Advertising and promotions	1,593	1,758	(165)
ATM and debit card expense	2,715	2,445	270
Telecommunication expense	750	807	(57)
FDIC insurance assessment fees	1,101	851	250
Other noninterest expense	5,275	4,958	317
Total noninterest expense	\$ 79,907	\$ 73,278	\$ 6,629

Material changes in the components of noninterest expense are discussed below.

**Employee Compensation and Benefits.** Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were \$47.5 million for the year ended December 31, 2022, an increase of \$5.1 million, or 12.1%, compared to \$42.3 million in 2021. Employee compensation and benefits expense increased due to higher salaries, higher insurance expense accruals due to increased claims experienced and increased bonus accruals due to higher net earnings.

**Legal and Professional Fees.** Legal and professional fees, which include audit, loan review and regulatory assessments other than FDIC insurance assessment fees, were \$2.8 million and \$2.6 million for the years ended December 31, 2022 and 2021, respectively, an increase of \$226,000, or 8.7%. The increase resulted primarily from an increase of \$151,000 in external auditor fees and a \$42,000 increase in semi-annual OCC assessment fees in 2022 compared to 2021.

**Software and Technology.** Software and technology expenses increased \$888,000, or 19.3%, from \$4.6 million for the year ended December 31, 2021 to \$5.5 million for the year ended December 31, 2022. The increase is attributable primarily to new software investments to enhance automation and efficiencies, digital banking initiatives, cybersecurity monitoring and tools, and other technology capabilities. We also moved to a higher asset tier for billing related to our core processing system, which resulted in higher expense paid during the year ended December 31, 2022.

**Amortization.** Amortization costs include amortization of software and core deposit premiums. Amortization costs were \$724,000 for the year ended December 31, 2022, a decrease of \$430,000, or 37.3%, compared to \$1.2 million in 2021. The decrease in amortization expense during 2022 was due to a \$232,000 decrease in amortization expense on core deposit intangibles associated with previously acquired deposits being fully amortized and a \$198,000 decrease in software amortization.

**ATM and Debit Card Expense.** We pay processing fees related to the activity of our customers' ATM and debit card usage. ATM and debit card expenses were \$2.7 million for the year ended December 31, 2022, an increase of \$270,000, or 11.0%, compared to \$2.4 million for the same period in 2021 as a result of increased ATM and debit card usage by our customers.

**FDIC Insurance Assessment Fees.** FDIC insurance assessment fees were \$1.1 million for the year ended December 31, 2022, an increase of \$250,000, or 29.4%, compared to \$851,000 for the same period in 2021. The increase was primarily due to an increase in the insurance assessment rate resulting from changes in certain financial ratios used in the calculation and an overall increase in our assessment base, which is calculated as average total assets less average tangible equity.

## Income Tax Expense

The amount of income tax expense we incur is influenced by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at current income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

For the year ended December 31, 2022 and 2021, income tax expense totaled \$8.8 million. The slight \$84,000 increase in income tax expense was primarily due to an increase in net earnings before taxes of \$701,000. Our effective tax rates for the years ended December 31, 2022 and 2021 were 17.93% and 18.02%, respectively.

## Discussion and Analysis of Financial Condition as of December 31, 2022

### Assets

Our total assets increased \$265.4 million, or 8.6%, from \$3.09 billion as of December 31, 2021 to \$3.35 billion as of December 31, 2022. Our asset growth was primarily due to an increase in gross loans of \$470.1 million. Our cash and cash equivalents decreased \$393.1 million as we deployed excess cash during the year primarily into investments securities, which increased \$171.5 million, and loan growth. The increase in loans was due to organic growth.

### Loan Portfolio

Our primary source of income is derived through interest earned on loans to small- to medium-sized businesses, commercial companies, professionals and individuals located in our primary market areas. A substantial portion of our loan portfolio consists of commercial and industrial loans and real estate loans secured by commercial real estate properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our earning asset base.

Our loan portfolio is the largest category of our earning assets. As of December 31, 2022, total gross loans held for investment were \$2.38 billion, an increase of \$470.1 million, or 24.6%, from the December 31, 2021 balance of \$1.91 billion. In addition to these amounts, \$3.2 million and \$4.1 million in loans were classified as held for sale as of December 31, 2022 and 2021, respectively. The increase in loans was due to organic growth.

Total loans, excluding those held for sale, as a percentage of deposits, were 88.7% and 71.4% as of December 31, 2022 and 2021, respectively. Total loans, excluding those held for sale, as a percentage of total assets, were 71.0% and 61.8% as of December 31, 2022 and 2021, respectively.

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

	As of December 31,					
	2022		2021		2020	
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	\$ 314,067	13.21%	\$ 324,289	17.00%	\$ 445,771	23.88%
Real estate:						
Construction and development	377,135	15.86%	307,797	16.13%	270,407	14.48%
Commercial real estate	887,587	37.32%	622,842	32.64%	594,216	31.83%
Farmland	185,817	7.81%	145,501	7.63%	78,508	4.21%
1-4 family residential	493,061	20.73%	410,673	21.52%	389,096	20.84%
Multi-family residential	45,147	1.90%	30,971	1.62%	21,701	1.16%
Consumer and overdrafts	61,676	2.59%	51,328	2.69%	51,386	2.75%
Agricultural	13,686	0.58%	14,639	0.77%	15,734	0.85%
Total loans held for investment	\$ 2,378,176	100.00%	\$ 1,908,040	100.00%	\$ 1,866,819	100.00%
Total loans held for sale	\$ 3,156		\$ 4,129		\$ 5,542	

**Commercial and Industrial.** Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. These loans are primarily made based on the identified cash flows of the borrower, and secondarily, on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and generally include personal guarantees. Commercial and industrial loans decreased \$10.2 million, or 3.2%, to \$314.1 million as of December 31, 2022 from \$324.3 million as of December 31, 2021. The decrease in the commercial and industrial

portfolio was primarily due to a \$33.0 million decrease in our warehouse lending portfolio during the year caused by a reduction in mortgage purchase and refinancing volumes as a result of higher interest rates.

**Construction and Development.** Construction and land development loans are comprised of loans to fund construction, land acquisition and land development construction. The properties securing the portfolio are located throughout Texas and are generally diverse in terms of type. Construction and development loans increased \$69.3 million, or 22.5%, to \$377.1 million as of December 31, 2022 from \$307.8 million as of December 31, 2021. The increase resulted from normal fluctuations in construction project volume in our markets, as well as increased construction completion timelines due to supply chain constraints.

**Commercial Real Estate.** Commercial real estate loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. These loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the portfolio are located primarily within our markets and are generally diverse in terms of type. This diversity helps reduce our exposure to adverse economic events that affect any single industry. Commercial real estate loans increased \$264.7 million, or 42.5%, to \$887.6 million as of December 31, 2022 from \$622.8 million as of December 31, 2021. The increase in commercial real estate loans during the period was driven by organic growth.

**Farmland.** Farmland loans are comprised of loans used for agricultural purposes, and include land with a 1-4 family residential structure if the value of the land exceeds the value of the residence. These loans are subject to risk related to climate change, fluctuations in feed and cattle prices and changes in property values. Farmland loans increased \$40.3 million, or 27.7%, to \$185.8 million as of December 31, 2022 from \$145.5 million as of December 31, 2021.

**1-4 Family Residential.** Our 1-4 family residential loan portfolio is comprised of loans secured by 1-4 family homes, which are both owner occupied and investor owned. Our 1-4 family residential loans have a relatively small average balance spread across many individual borrowers compared to our other loan categories. Our 1-4 family residential loans increased \$82.4 million, or 20.1%, to \$493.1 million as of December 31, 2022 from \$410.7 million as of December 31, 2021. This increase is due to normal fluctuations in residential loans, as well as the decision to retain more of the loans originated in our mortgage department within our bank portfolio, rather than selling them on the secondary market.

**Other Loan Categories.** Other categories of loans included in our loan portfolio include agricultural loans made to farmers and ranchers relating to their operations, multi-family residential loans and consumer loans. None of these categories of loans represents a significant portion of our total loan portfolio.

**Contractual Loan Maturities.** The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of December 31, 2022 are summarized in the following table:

	As of December 31, 2022				
	One Year or Less	After One Through Five Years	After Five Through Fifteen Years	After Fifteen Years	Total
(in thousands)					
Commercial and industrial	\$ 108,683	\$ 138,804	\$ 64,753	\$ 1,827	\$ 314,067
Real estate:					
Construction and development	194,152	65,953	75,399	41,631	377,135
Commercial real estate	39,788	258,214	279,125	310,460	887,587
Farmland	13,073	91,450	45,577	35,717	185,817
1-4 family residential	27,983	42,940	184,055	238,083	493,061
Multi-family residential	1,429	21,080	16,757	5,881	45,147
Consumer	13,923	43,570	2,305	1,878	61,676
Agricultural	8,491	4,747	448	—	13,686
Total loans	\$ 407,522	\$ 666,758	\$ 668,419	\$ 635,477	\$ 2,378,176
Amounts with fixed rates	\$ 254,745	\$ 515,258	\$ 45,291	\$ 42,393	\$ 857,687
Amounts with adjustable rates	\$ 152,777	\$ 151,500	\$ 623,128	\$ 593,084	\$ 1,520,489

### Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may



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

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

Nonperforming assets as a percentage of total loans were 0.46% at December 31, 2022, compared to 0.15% at December 31, 2021. The Bank's nonperforming assets consist primarily of nonaccrual loans. Four loans were added to nonaccrual status in the second quarter of 2022 and are Small Business Administration (SBA) 7(a), partially guaranteed (75%) loans, acquired in the June 2018 acquisition of Westbound Bank, with combined book balances of \$6.7 million as of December 31, 2022. These loans, collateralized by two hotels, were identified as problem assets prior to COVID-19 but obtained government stimulus and other relief which allowed the two related borrowers to remain current through early 2022. Management continues to work toward a satisfactory resolution for these four loans, however, in the event of foreclosure, a significant loss is not expected due to estimated current collateral values and the SBA guarantees. Another previously classified loan was downgraded to non-accrual status during the fourth quarter with a principal balance of \$1.4 million. The loan is considered well-secured and has a low loan-to-value ratio with guarantor support. Management expects this loan will be paid in full by the second quarter of 2023. No losses are anticipated.

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

<i>(dollars in thousands)</i>	<b>As of December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Nonaccrual loans	\$ 10,848	\$ 2,831	\$ 12,705
Accruing loans 90 or more days past due	—	—	—
Total nonperforming loans	10,848	2,831	12,705
Other real estate owned:			
Commercial real estate, construction and development, and farmland	—	—	—
Residential real estate	38	—	404
Total other real estate owned	38	—	404
Repossessed assets owned	—	14	6
Total other assets owned	38	14	410
Total nonperforming assets	\$ 10,886	\$ 2,845	\$ 13,115
Restructured loans-nonaccrual	\$ 6,728	\$ 103	\$ 90
Restructured loans-accruing	\$ 642	\$ 9,466	\$ 9,626
Ratio of nonaccrual loans to total loans <sup>(1)</sup>	0.46%	0.15%	0.68%
Ratio of allowance for credit losses to nonaccrual loans	294.75%	1074.99%	264.61%
Ratio of nonperforming assets to total assets	0.32%	0.09%	0.48%

(1) Excludes loans held for sale of \$3.2 million, \$4.1 million and \$5.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table presents information regarding nonaccrual loans by category as of the dates indicated:

<i>(dollars in thousands)</i>	<b>As of December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Nonaccrual loans by category:			
Commercial and industrial	\$ 115	\$ 148	\$ 27
Real estate:			
Construction and development	1,435	—	—
Commercial real estate	7,271	642	10,604
Farmland	109	298	115
1-4 family residential	1,691	1,535	1,667
Multi-family residential	—	—	—
Consumer	170	160	212
Agricultural	57	48	80
<b>Total</b>	<b>\$ 10,848</b>	<b>\$ 2,831</b>	<b>\$ 12,705</b>

### *Potential Problem Loans*

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

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

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

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

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

Loans that were modified for reasons related to the COVID-19 pandemic that avoided TDR status have all returned to contractual payment schedules and are monitored for risk rating classification consistent with all other loans.

The following tables summarize the internal ratings of our performing, classified and nonaccrual (as well as substandard) loans, by category, as of:

**December 31, 2022**

<i>(in thousands)</i>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Loss</b>	<b>Nonaccrual</b>	<b>Total</b>
Commercial and industrial	\$ 311,685	\$ 1,369	\$ 898	\$ —	\$ —	\$ 115	\$ 314,067
Real estate:							
Construction and development	374,795	905	—	—	—	1,435	377,135
Commercial real estate	867,426	7,321	5,569	—	—	7,271	887,587
Farmland	185,615	—	93	—	—	109	185,817
1-4 family residential	491,171	199	—	—	—	1,691	493,061
Multi-family residential	45,147	—	—	—	—	—	45,147
Consumer and overdrafts	61,456	50	—	—	—	170	61,676
Agricultural	13,594	3	32	—	—	57	13,686
<b>Total</b>	<b>\$ 2,350,889</b>	<b>\$ 9,847</b>	<b>\$ 6,592</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10,848</b>	<b>\$ 2,378,176</b>

**December 31, 2021**

<i>(in thousands)</i>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Loss</b>	<b>Nonaccrual</b>	<b>Total</b>
Commercial and industrial	\$ 323,479	\$ 102	\$ 560	\$ —	\$ —	\$ 148	\$ 324,289
Real estate:							
Construction and development	306,242	944	611	—	—	—	307,797
Commercial real estate	573,535	6,103	42,562	—	—	642	622,842
Farmland	145,105	26	72	—	—	298	145,501
1-4 family residential	409,120	18	—	—	—	1,535	410,673
Multi-family residential	30,971	—	—	—	—	—	30,971
Consumer and overdrafts	51,087	81	—	—	—	160	51,328
Agricultural	14,506	13	72	—	—	48	14,639
<b>Total</b>	<b>\$ 1,854,045</b>	<b>\$ 7,287</b>	<b>\$ 43,877</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,831</b>	<b>\$ 1,908,040</b>

**Allowance for Credit Losses**

We maintain an allowance for credit losses (“ACL”) that represents management’s best estimate of the appropriate level of losses and risks inherent in our applicable financial assets under the current expected credit loss model. The amount of the allowance for credit losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. The determination of the amount of allowance involves a high degree of judgment and subjectivity. Refer to Note 1 of the notes to the financial statements for discussion regarding our ACL methodologies for loans held for investment and available for sale securities.

For available for sale debt securities in an unrealized loss position, the Company evaluates the securities at each measurement date to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors, including changes in interest rates. Any impairment that is not credit related is recognized in other comprehensive (loss) income, net of applicable taxes. Credit-related impairment is recognized as an ACL on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings through provision for credit loss expense. As of December 31, 2022, the Company determined that all available for sale securities that experienced a decline in fair value below the amortized costs basis were due to noncredit-related factors, therefore no related ACL was recorded and there was no related provision expense recognized during the year ended December 31, 2022.

For held to maturity debt securities, the Company evaluates expected credit losses on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to U.S. Treasury and residential mortgage backed securities issued by the U.S. governments, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities. With regard to municipal securities, management considers 1) issuer bond ratings, 2) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, 3) internal forecasts and 4) whether or not such securities are guaranteed by the Texas Permanent School Fund or pre-refunded by the issuers. As of December 31, 2022, the Company determined there were no credit related concerns that warrant an ACL for the held to maturity portfolio.

In determining the ACL for loans held for investment, we primarily estimate losses on segments of loans with similar risk characteristics and where the potential loss can be identified and reasonably determined. For loans that do not share similar risk characteristics with our existing segments, they are evaluated individually for an ACL. Our portfolio is segmented by regulatory call report codes, with additional segments for warehouse mortgage loans, SBA loans acquired from Westbound Bank, SBA loans originated by us and SBA PPP loans. The segments are further disaggregated by internally assigned risk rating classifications. The balance of the ACL is determined using the current expected credit loss model, which considers historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and reasonable and supportable forecasts of the impact of future economic conditions on loan loss rates. Please see “*Critical Accounting Policies - Allowance for Credit Losses.*”

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

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

As of December 31, 2022, the allowance for credit losses totaled \$32.0 million, or 1.34%, of total loans, excluding those held for sale. As of December 31, 2021, the allowance for credit losses totaled \$30.4 million, or 1.59%, of total loans, excluding those held for sale, and totaled 1.95%, excluding PPP loans and loans held for sale. The increase in the ACL of \$1.5 million, or 5.1%, was primarily to incorporate economic forecasts for a recession into our CECL model, as well as to account for our continued organic loan growth during the year ended December 31, 2022. At the onset of the COVID pandemic in 2020, we established COVID-specific qualitative factors to estimate the potential impact of the pandemic to our loan portfolio as a whole, which led to a provision during 2020 of \$13.2 million. As the economic, health and other impacts of the virus became more clear and cases began to decline, we reduced the COVID-specific qualitative factors during 2021 and fully unwound these specific factors during the first quarter of 2022, which resulted in a \$1.25 million reverse provision during the first quarter of 2022 and no provision in the second quarter of 2022. Minimal updates were made to our qualitative factors, including forecasted conditions, during the third quarter of 2022. However, in the fourth quarter of 2022, consensus among economists, as typified by a Wall Street Journal survey, indicated that an economic recession is likely in 2023. Using this information, along with other economic indicators (such as the inverted yield curve), we adjusted certain qualitative factors to account for the forecasted information and during the fourth quarter of 2022, we recorded a \$2.8 million provision for credit losses to account for these economic indicators and our continued organic loan growth.



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

<i>(dollars in thousands)</i>	<b>As of and for the Years Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Average loans outstanding <sup>(1)</sup>	\$ 2,126,810	\$ 1,911,540	\$ 1,872,914
Gross loans outstanding at end of period <sup>(2)</sup>	\$ 2,378,176	\$ 1,908,040	\$ 1,866,819
Allowance for credit losses at beginning of the period	30,433	33,619	16,202
Impact of adopting ASC 326	—	—	4,548
Provision for credit losses	2,150	(1,700)	13,200
Charge offs:			
Commercial and industrial	192	411	68
Real Estate:			
Commercial real estate	—	816	—
1-4 family residential	—	—	68
Consumer	322	151	155
Agriculture	—	—	18
Overdrafts	335	263	234
Total charge-offs	849	1,641	543
Recoveries:			
Commercial and industrial	72	21	101
Real Estate:			
Construction and development	—	1	—
Commercial real estate	1	30	1
1-4 family residential	30	—	2
Consumer	55	35	37
Agriculture	—	8	20
Overdrafts	82	60	51
Total recoveries	240	155	212
Net charge-offs	609	1,486	331
Allowance for credit losses at end of period	\$ 31,974	\$ 30,433	\$ 33,619
Ratio of allowance to end of period loans <sup>(2)</sup>	1.34%	1.59%	1.80%
Ratio of net charge-offs to average loans <sup>(1)</sup>	0.03%	0.08%	0.02%

(1) Includes average outstanding balances of loans held for sale of \$2.4 million, \$3.4 million and \$6.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.

(2) Excludes loans held for sale of \$3.2 million, \$4.1 million and \$5.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

We believe the successful execution of our expansion strategy through organic growth and strategic acquisitions is generally demonstrated by the upward trend in loan balances from December 31, 2018 to December 31, 2022. Loan balances, excluding loans held for sale, increased from \$1.66 billion as of December 31, 2018, to \$2.38 billion as of December 31, 2022. Net charge-offs have been minimal, representing on average 0.03% of average loan balances during the same period.

Although we believe that we have established our allowance for credit losses in accordance with GAAP and that the allowance for credit losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for credit losses will be subject to ongoing evaluations of the risks in our loan portfolio. If our primary market areas experience economic declines, if asset quality deteriorates or if we are successful in growing the size of our loan portfolio, our allowance could become inadequate and material additional provisions for credit losses could be required.

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

**As of December 31,**

	2022		2021		2020	
	Amount	Percent to Total	Amount	Percent to Total	Amount	Percent to Total
<i>(dollars in thousands)</i>						
Commercial and industrial	\$ 4,382	13.70%	\$ 3,600	11.83%	\$ 4,033	12.00%
Real estate:						
Construction and development	4,889	15.29%	4,221	13.87%	4,735	14.08%
Commercial real estate	12,658	39.59%	13,765	45.23%	15,780	46.94%
Farmland	2,008	6.28%	1,698	5.58%	1,220	3.63%
1-4 family residential	6,617	20.69%	5,818	19.12%	6,313	18.78%
Multi-family residential	490	1.53%	396	1.30%	363	1.08%
Total real estate	26,662	83.38%	25,898	85.10%	28,411	84.51%
Consumer and overdrafts	781	2.44%	766	2.51%	936	2.78%
Agricultural	149	0.48%	169	0.56%	239	0.71%
Total allowance for credit losses	\$ 31,974	100.00%	\$ 30,433	100.00%	\$ 33,619	100.00%

### Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of December 31, 2022, the carrying amount of our investment securities totaled \$697.9 million, an increase of \$171.5 million, or 32.6%, compared to \$526.5 million as of December 31, 2021. Investment securities represented 20.8% and 17.1% of total assets as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, securities available for sale totaled \$188.9 million and securities held to maturity, which includes the transfer of certain securities from our available for sale portfolio during the year, totaled \$509.0 million. As of December 31, 2021, securities available for sale totaled \$342.2 million, and \$184.3 million securities held to maturity. Held to maturity securities represented 72.9% and 35.0% of our investment portfolio as of December 31, 2022 and 2021, respectively.

The carrying values of our investment securities classified as available for sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive (loss) income in shareholders' equity. As of December 31, 2022, the Company determined that all available for sale securities that experienced a decline in fair value below their amortized cost basis were impacted by noncredit-related factors and that securities held to maturity have not experienced credit deterioration; therefore the Company carried no ACL with respect to our securities portfolio at December 31, 2022.

From time to time, we have reclassified certain securities from available for sale to held to maturity. Such transfers are made at fair value at the date of transfer. The unrealized holding gains and losses at the date of transfer are retained in other comprehensive (loss) income and in the carrying value of the held to maturity securities and are amortized or accreted over the remaining life of the security. These unamortized unrealized losses and unaccreted unrealized gains on our transferred securities are included in accumulated other comprehensive (loss) income on our balance sheet and netted to an unrealized loss of \$5.9 million at December 31, 2022. This amount will be amortized and accreted out of accumulated other comprehensive (loss) income over the remaining life of the underlying securities as an adjustment of the yield on those securities.

The following tables summarize the amortized cost and estimated fair value of our investment securities:

	As of December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
U.S. government agencies	\$ 9,141	\$ —	\$ 1,259	\$ 7,882
Treasury securities	133,735	—	2,921	130,814
Corporate bonds	29,964	—	2,177	27,787
Municipal securities	202,004	984	8,293	194,695
Mortgage-backed securities	278,589	1	30,264	248,326
Collateralized mortgage obligations	63,740	3	9,252	54,491
Total	<u>\$ 717,173</u>	<u>\$ 988</u>	<u>\$ 54,166</u>	<u>\$ 663,995</u>

	As of December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
U.S. government agencies	\$ 10,013	\$ —	\$ 42	\$ 9,971
Corporate bonds	35,080	940	85	35,935
Municipal securities	181,310	8,364	118	189,556
Mortgage-backed securities	224,563	1,477	1,816	224,224
Collateralized mortgage obligations	74,925	971	904	74,992
Total	<u>\$ 525,891</u>	<u>\$ 11,752</u>	<u>\$ 2,965</u>	<u>\$ 534,678</u>

We do not hold any Fannie Mae or Freddie Mac preferred stock, collateralized debt obligations, structured investment vehicles or second lien elements in our investment portfolio. As of December 31, 2022 and 2021, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages, non-U.S. agency mortgage-backed securities or corporate collateralized mortgage obligations.

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

	As of December 31, 2022									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
<i>(dollars in thousands)</i>										
U.S. government agencies	\$ —	—	\$ —	—	\$ 9,141	1.35%	\$ —	—	\$ 9,141	1.35%
Treasury securities	64,798	1.46%	68,937	2.51%	—	—	—	—	133,735	2.00%
Corporate bonds	—	—	9,690	3.41%	18,097	4.00%	—	—	27,787	3.80%
Municipal securities	19,151	3.48%	46,087	3.18%	56,844	3.21%	80,240	3.44%	202,322	3.32%
Mortgage-backed securities	3,042	2.43%	80,292	1.91%	170,487	2.51%	9,213	1.93%	263,034	2.31%
Collateralized mortgage obligations	626	3.82%	25,772	2.79%	32,107	1.47%	3,411	1.09%	61,916	1.98%
Total	<u>\$ 87,617</u>	<u>1.95%</u>	<u>\$230,778</u>	<u>2.49%</u>	<u>\$286,676</u>	<u>2.57%</u>	<u>\$ 92,864</u>	<u>3.15%</u>	<u>\$697,935</u>	<u>2.54%</u>

**As of December 31, 2021**

<i>(dollars in thousands)</i>	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
U.S. government agencies	\$ —	—	\$ —	—	\$ 9,971	1.35%	\$ —	—	\$ 9,971	1.35%
Corporate bonds	—	—	15,223	3.21%	20,712	4.01%	—	—	35,935	3.68%
Municipal securities	13,471	3.43%	57,858	3.31%	44,342	2.92%	65,639	3.19%	181,310	3.18%
Mortgage-backed securities	70	3.33%	129,327	1.38%	78,468	1.73%	16,396	2.08%	224,261	1.55%
Collateralized mortgage obligations	1,491	3.22%	65,897	1.99%	7,604	1.18%	—	—	74,992	1.93%
<b>Total</b>	<b><u>\$ 15,032</u></b>	<b>3.41%</b>	<b><u>\$268,305</u></b>	<b>2.04%</b>	<b><u>\$161,097</u></b>	<b>2.29%</b>	<b><u>\$ 82,035</u></b>	<b>2.95%</b>	<b><u>\$526,469</u></b>	<b>2.29%</b>

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and collateralized mortgage obligations are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly pay downs on mortgage-backed securities typically cause the average life of the securities to be much different from the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and, consequently, the average life of this security is typically lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 5.00 years with an estimated effective duration of 3.99 years as of December 31, 2022.

As of December 31, 2022 and 2021, respectively, we did not own securities of any one issuer, other than the U.S. government and its agencies, for which aggregate adjusted cost exceeded 10.0% of the consolidated shareholders' equity.

The average yield of our securities portfolio was 2.54% as of December 31, 2022, up from 2.29% as of December 31, 2021. The growth in average yield resulted primarily from increases in yields on mortgage-backed securities and municipal securities of 1.55% and 3.18% at December 31, 2021, respectively, to 2.31% and 3.32% at December 31, 2022, respectively. As of December 31, 2022, the fair value of available or sale and amortized cost of held to maturity mortgage-backed securities and municipal securities comprised 37.7% and 29.0% of the portfolio, respectively. As of December 31, 2021, mortgage-backed securities and municipal securities comprised 42.6% and 34.4% of the portfolio, respectively.

### Deposits

We offer a variety of deposit products, which have a wide range of interest rates and terms, including demand, savings, money market and time accounts. We rely primarily on competitive pricing policies, convenient locations and personalized service to attract and retain these deposits.

Average total deposits for the year ended December 31, 2022 were \$2.75 billion, an increase of \$234.9 million, or 4.3%, compared to \$2.52 billion for the year ended December 31, 2021. The average rate paid on total interest-bearing deposits was 0.58% and 0.35% for the years ended December 31, 2022 and 2021, respectively. The increase in average rates for 2022 was driven primarily by increases in market rates due to Federal Reserve interest rate hikes during the year.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

<i>(dollars in thousands)</i>	<b>For the Years Ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Average Balance</b>	<b>Average Rate</b>	<b>Average Balance</b>	<b>Average Rate</b>
NOW and interest-bearing demand accounts	\$ 364,941	0.47%	\$ 355,171	0.25%
Savings accounts	141,484	0.31%	119,818	0.10%
Money market accounts	831,833	0.61%	773,553	0.26%
Certificates and other time deposits	332,029	0.77%	352,833	0.74%
Total interest-bearing deposits	<u>1,670,287</u>	0.58%	<u>1,601,375</u>	0.35%
Noninterest-bearing demand accounts	1,082,513	—	916,562	—
<b>Total deposits</b>	<b><u>\$ 2,752,800</u></b>	<b>0.35%</b>	<b><u>\$ 2,517,937</u></b>	<b>0.22%</b>

The ratio of average noninterest-bearing deposits to average total deposits for the years ended December 31, 2022 and 2021 was 39.3% and 36.4%, respectively.

Total deposits as of December 31, 2022 were \$2.68 billion, an increase of \$10.3 million, or 0.4%, compared to \$2.67 billion as of December 31, 2021. The majority of the deposit balance increase was due to organic growth.

Noninterest-bearing deposits as of December 31, 2022 were \$1.05 billion compared to \$1.01 billion as of December 31, 2021, an increase of \$37.6 million, or 3.7%.

Total interest-bearing deposits as of December 31, 2022 were \$1.63 billion, compared to \$1.66 billion as of December 31, 2021, a decrease of \$27.3 million, or 1.6%.

The aggregate amount of certificates and other time deposits in denominations of \$250,000 or more as of December 31, 2022 and 2021 was \$130.0 million and \$111.3 million, respectively.

The following table sets forth the amount of uninsured certificates of deposit greater than \$250,000 by time remaining until maturity as of December 31, 2022:

<i>(dollars in thousands)</i>	<b>December 31, 2022</b>	
Under 3 months	\$	26,610
3 to 6 months		29,371
6 to 12 months		40,081
Over 12 months		13,565
Total	\$	<u>109,627</u>

Total deposits in denominations greater than \$250,000 as of December 31, 2022, 2021 and 2020 were \$1.49 billion, \$1.51 billion, and \$1.22 billion, respectively.

Factors affecting the cost of funding interest-bearing assets include the volume of noninterest- and interest-bearing deposits, changes in market interest rates and economic conditions in our primary market areas and their impact on interest paid on deposits, as well as the ongoing execution of our balance sheet management strategy. Cost of total deposits is calculated as total interest expense divided by average total deposits. Our cost of total deposits was 0.35% and 0.22% in 2022 and 2021, respectively. The increase in our cost of total deposits for 2022 was primarily due to increases in rates on interest-bearing deposits, which were 0.58% and 0.35% in 2022 and 2021, respectively, and offset by a \$166.0 million, or 18.1%, increase in the average balance of noninterest-bearing deposits from \$916.6 million in 2021 to \$1.08 billion in 2022.

### *Borrowings*

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

**Federal Home Loan Bank (FHLB) Advances.** The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2022 and 2021, total borrowing capacity of \$755.0 million and \$638.7 million, respectively, was available under this arrangement. Our outstanding FHLB advances mature within one year. As of December 31, 2022, approximately \$1.90 billion in real estate loans were pledged as collateral for our FHLB borrowings. We utilize these borrowings to meet liquidity needs and to hedge interest rate risk. The following table presents our FHLB borrowings as of the dates indicated:

<i>(dollars in thousands)</i>	<b>FHLB Advances</b>	
<b>December 31, 2022</b>		
Amount outstanding at year-end	\$	290,000
Weighted average interest rate at year-end		4.74%
Maximum month-end balance during the year	\$	290,000
Average balance outstanding during the year	\$	132,764
Weighted average interest rate during the year		2.89%
<b>December 31, 2021</b>		
Amount outstanding at year-end	\$	47,500
Weighted average interest rate at year-end		0.41%
Maximum month-end balance during the year	\$	49,099
Average balance outstanding during the year	\$	49,056
Weighted average interest rate during the year		0.42%



The following table presents our FHLB borrowings by maturity and weighted average rate as of December 31, 2022:

<i>(dollars in thousands)</i>	<b>Balance</b>	<b>Weighted Average Interest Rate</b>
Less than 90 days	\$ 140,000	4.40%
90 days to less than one year	150,000	5.07%
Total	<u>\$ 290,000</u>	<u>4.74%</u>

*Federal Reserve Bank of Dallas.* The Federal Reserve Bank of Dallas has an available borrower in custody arrangement, which allows us to borrow on a collateralized basis. Certain commercial and industrial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. As of December 31, 2022 and 2021, \$227.6 million and \$182.9 million, respectively, were available under this arrangement. As of December 31, 2022 and 2021, approximately \$289.5 million and \$236.4 million, respectively, in consumer and commercial and industrial loans were pledged as collateral. As of December 31, 2022 and 2021, no borrowings were outstanding under this arrangement.

*Other Borrowings.* We have historically used a line of credit with a correspondent bank as a source of funding for working capital needs, the payment of dividends when there is a temporary timing difference in cash flows, and repurchases of equity securities. In March 2017, we entered into an unsecured revolving line of credit for \$25.0 million, and we renewed that line of credit in March 2022. The line of credit bears interest at the prime rate (7.50% as of December 31, 2022) subject to a floor of 3.50%, with quarterly interest payments, and matures in March 2023. As of December 31, 2022, there was no outstanding balance on the line of credit. As of December 31, 2021, there was a \$5.0 million outstanding balance on this line of credit with the correspondent bank.

## **Liquidity and Capital Resources**

### *Liquidity*

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events, such as COVID-19. For the years ended December 31, 2022 and 2021, liquidity needs were primarily met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Although access to purchased funds from correspondent banks and overnight or longer term advances from the FHLB and the Federal Reserve Bank of Dallas are available, and have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. As of December 31, 2022 and 2021, we maintained two federal funds lines of credit with commercial banks that provide for the availability to borrow up to an aggregate \$60.0 million in federal funds. There were no funds under these lines of credit outstanding as of December 31, 2022 and 2021. In addition to these federal funds lines of credit, our \$25.0 million revolving line of credit discussed above in “*Other Borrowings*” provides an additional source of liquidity.

The following table illustrates, during the periods presented, the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the period indicated. Average assets were \$3.26 billion for the year ended December 31, 2022 and \$2.92 billion for the year ended December 31, 2021.

	Year Ended December 31, 2022	Year Ended December 31, 2021
<b>Sources of Funds:</b>		
Deposits:		
Noninterest-bearing	33.20%	31.36%
Interest-bearing	51.23%	54.79%
Advances from FHLB	4.07%	1.68%
Line of credit	0.00%	0.21%
Subordinated debt	1.44%	0.68%
Securities sold under agreements to repurchase	0.26%	0.51%
Accrued interest and other liabilities	0.79%	0.85%
Equity	9.01%	9.92%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Uses of Funds:</b>		
Loans	64.33%	64.31%
Securities available for sale	8.83%	12.19%
Securities held to maturity	15.89%	2.54%
Nonmarketable equity securities	0.58%	0.34%
Federal funds sold	3.26%	12.75%
Interest-bearing deposits in other banks	0.47%	0.91%
Other noninterest-earning assets	6.64%	6.96%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
Average noninterest-bearing deposits to average deposits	39.32%	36.40%
Average loans to average deposits	77.26%	75.92%

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans, including average loans held for sale, increased \$215.3 million, or 11.3%, for the year ended December 31, 2022 compared to 2021, while our average deposits increased \$234.9 million, or 9.3%, for the same time periods. We predominantly invest excess deposits in overnight deposits with our correspondent banks, federal funds sold, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth.

As of December 31, 2022, we had \$474.7 million in outstanding commitments to extend credit and \$8.3 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2021, we had \$405.3 million in outstanding commitments to extend credit and \$8.4 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2022 and 2021, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of December 31, 2022, we had cash and cash equivalents of \$106.5 million, compared to \$499.6 million as of December 31, 2021. The decrease was primarily due to the deployment of cash to secure funding for investment securities and loans.

### Capital Resources

Total shareholders' equity decreased to \$295.6 million as of December 31, 2022, compared to \$302.2 million as of December 31, 2021, a decrease of \$6.7 million, or 2.2%. The decrease from December 31, 2021 was primarily the result of an increase in other comprehensive loss, purchase of treasury stock and payment of dividends, offset by increases in net earnings.

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. See "Item 1. Business—Guaranty Bank & Trust, N.A.—Regulation and

*Supervision—Capital Adequacy Requirements*” for additional discussion regarding the regulatory capital requirements applicable to us and the Bank. As of December 31, 2022 and 2021, we were in compliance with all applicable regulatory capital requirements at the bank and bank holding company levels, and the Bank was classified as “well capitalized,” for purposes of the prompt corrective action regulations. As we deploy our capital, our regulatory capital levels may decrease depending on our level of earnings and provisions for credit losses. However, we expect to closely monitor our loan portfolio, operating expenses and overall capital levels in order to remain in compliance with all regulatory capital standards applicable to us.

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

<i>(dollars in thousands)</i>	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>Guaranty Bancshares, Inc. (consolidated)</b>				
Total capital (to risk weighted assets)	\$ 358,702	14.37%	\$ 297,370	14.51%
Tier 1 capital (to risk weighted assets)	292,966	11.74%	271,696	13.25%
Tier 1 capital (to average assets)	292,966	8.77%	271,696	9.18%
Common equity tier 1 risk-based capital	285,749	11.45%	261,386	12.75%
<b>Guaranty Bank &amp; Trust, N.A.</b>				
Total capital (to risk weighted assets)	\$ 361,125	14.48%	\$ 311,335	15.19%
Tier 1 capital (to risk weighted assets)	329,933	13.23%	285,661	13.94%
Tier 1 capital (to average assets)	329,933	9.89%	285,661	9.66%
Common equity tier 1 risk-based capital	329,933	13.23%	285,661	13.94%

### *Contractual Obligations*

We have issued subordinated debentures relating to the issuance of trust preferred securities.

In October 2002, we formed Guaranty (TX) Capital Trust II, which issued \$3.0 million in trust preferred securities to a third party in a private placement. Concurrent with the issuance of the trust preferred securities, the trust issued common securities to the Company in the aggregate liquidation value of \$93,000. The trust invested the total proceeds from the sale of the trust preferred securities and the common securities in \$3.1 million of the Company’s junior subordinated debentures. These debentures were redeemed in May 2022.

In July 2006, we formed Guaranty (TX) Capital Trust III, which issued \$2.0 million in trust preferred securities to a third party in a private placement. Concurrent with the issuance of the trust preferred securities, the trust issued common securities to the Company in the aggregate liquidation value of \$62,000. The trust invested the total proceeds from the sale of the trust preferred securities and the common securities in \$2.1 million of the Company’s junior subordinated debentures, which will mature on October 1, 2036.

In March 2015, we acquired DCB Trust I, which issued \$5.0 million in trust preferred securities to a third party in a private placement. Concurrent with the issuance of the trust preferred securities, the trust issued common securities to the Company in the aggregate liquidation value of \$155,000. The trust invested the total proceeds from the sale of the trust preferred securities and the common securities in \$5.2 million of the Company’s junior subordinated debentures, which will mature on June 15, 2037.

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

Both the DCB Trust I Debentures and the Trust III Debentures are redeemable, in whole or in part, at our option after at least 30, but not more than 60, days’ notice, on any interest payment date, at a redemption price equal to 100% of the amount to be redeemed, plus accrued interest to the date of redemption.

On March 4, 2022, the Company completed a private placement of \$35.0 million aggregate principal amount of its fixed-to-floating rate subordinated note due April 1, 2032. The subordinated note initially bears a fixed interest rate of 3.625% per year, due semi-annually in arrears on April 1 and October 1. Commencing on April 1, 2027, the interest rate on the subordinated note will reset each quarter at a floating interest rate equal to the then-current three month term Secured Overnight Financing Rate ("SOFR") plus 192 basis points. The Company may at its option redeem in whole or in part the subordinated note on or after March 4, 2027 without a premium. The subordinated note is treated as Tier 2 capital for regulatory purposes (subject to reductions in the amount includable as Tier 2 capital in the final five years prior to maturity), and is presented net of \$564,000 in related unamortized issuance costs on the consolidated balance sheets.

In May 2020, the Company issued \$10.0 million in debentures to directors and other related parties. The debentures have stated maturity dates between November 1, 2020 and November 1, 2024, and bear interest at fixed annual rates between 1.00% and 4.00%. The Company pays interest semi-annually on May 1st and November 1st in arrears during the term of the debentures. Various portions of these debentures have matured since issuance and \$7.5 million remains outstanding as of December 31, 2022. The debentures are redeemable by the Company at its option, in whole in or part, at any time 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 but unpaid interest.

The following table summarizes contractual obligations and other commitments to make future payments as of December 31, 2022 (other than non-time deposit obligations), which consist of future cash payments associated with our contractual obligations.

<i>(in thousands)</i>	<b>As of December 31, 2022</b>				
	<b>1 year or less</b>	<b>More than 1 year but less than 3 years</b>	<b>3 years or more but less than 5 years</b>	<b>5 years or more</b>	<b>Total</b>
Time deposits	\$ 283,934	\$ 59,661	\$ 10,944	\$ —	\$ 354,539
Advances from FHLB	290,000	—	—	—	290,000
Subordinated debt	3,500	4,000	—	42,000	49,500
Operating leases	1,950	3,819	3,170	4,581	13,520
<b>Total</b>	<b>\$ 579,384</b>	<b>\$ 67,480</b>	<b>\$ 14,114</b>	<b>\$ 46,581</b>	<b>\$ 707,559</b>

#### *Off-Balance Sheet Items*

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

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of December 31, 2022 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

<i>(in thousands)</i>	<b>As of December 31, 2022</b>				
	<b>1 year or less</b>	<b>More than 1 year but less than 3 years</b>	<b>3 years or more but less than 5 years</b>	<b>5 years or more</b>	<b>Total</b>
Standby and commercial letters of credit	\$ 5,080	\$ 2,298	\$ 7	\$ 904	\$ 8,289
Commitments to extend credit	238,488	99,101	17,191	119,965	474,745
<b>Total</b>	<b>\$ 243,568</b>	<b>\$ 101,399</b>	<b>\$ 17,198</b>	<b>\$ 120,869</b>	<b>\$ 483,034</b>

Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers. Management evaluated the likelihood of funding the standby and commercial letters of credit as of December 31, 2022, and determined the likelihood to be improbable. Therefore, no ACL was recorded for standby and commercial letters of credit as of December 31, 2022.

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

Loan agreements executed in connection with construction loans and commercial lines of credit have standard conditions which must be met prior to the Company being required to provide additional funding, including conditions precedent that typically include: (i) no event of default or potential default has occurred; (ii) that no material adverse events have taken place that would materially affect the borrower or the value of the collateral, (iii) that the borrower remains in compliance with all loan obligations and covenants and has made no misrepresentations; (iv) that the collateral has not been damaged or impaired; (v) that the project remains on budget and in compliance with all laws and regulations; and (vi) that all management agreements, lease agreements and franchise agreements that affect the value of the collateral remain in force. If the conditions precedent have not been met, the Company retains the option to cease current draws and/or future funding. As a result of these conditions within our loan agreements, management believes the credit risk of these off balance sheet items is minimal and we recorded no ACL with respect to these loan agreements as of December 31, 2022.

### **Recently Issued Accounting Pronouncements**

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

### **Impact of Inflation**

Our consolidated financial statements and related notes included elsewhere in this Report have been prepared in accordance with GAAP. GAAP requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or deflation.

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

### **Non-GAAP Financial Measures**

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

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

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



We believe that the tangible book value per common share measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total shareholders' equity to tangible common equity and presents tangible book value per common share compared to book value per common share:

<i>(dollars in thousands, except per share data)</i>	<b>As of December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Tangible Common Equity</b>			
Total shareholders' equity attributable to Guaranty Bancshares, Inc.	\$ 294,984	\$ 302,214	\$ 272,643
Adjustments:			
Goodwill	(32,160)	(32,160)	(32,160)
Core deposit intangible, net	(1,859)	(2,313)	(2,999)
Total tangible common equity attributable to Guaranty Bancshares, Inc.	\$ 260,965	\$ 267,741	\$ 237,484
Common shares outstanding <sup>*(1)</sup>	11,941,672	12,122,717	12,028,957
Book value per common share*	\$ 24.70	\$ 24.93	\$ 22.67
Tangible book value per common share*	\$ 21.85	\$ 22.09	\$ 19.74

\* Periods prior to the stock dividend issued during the first quarter of 2021 have been adjusted to give effect to the 10% stock dividend.

(1) Excludes the dilutive effect, if any, of 112,638, 146,576, 36,059, 72,822 and 100,034 shares of common stock issuable upon exercise of outstanding stock options as of December 31, 2022, 2021, 2020, 2019 and 2018, respectively, for which periods prior to the stock dividend issued during the first quarter of 2021 have been adjusted to give effect to the 10% stock dividend.

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

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

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

<i>(dollars in thousands)</i>	<b>As of December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Tangible Common Equity</b>			
Total shareholders' equity attributable to Guaranty Bancshares, Inc.	\$ 294,984	\$ 302,214	\$ 272,643
Adjustments:			
Goodwill	(32,160)	(32,160)	(32,160)
Core deposit intangible, net	(1,859)	(2,313)	(2,999)
Total tangible common equity attributable to Guaranty Bancshares, Inc.	\$ 260,965	\$ 267,741	\$ 237,484
<b>Tangible Assets</b>			
Total assets	\$ 3,351,495	\$ 3,086,070	\$ 2,740,832
Adjustments:			
Goodwill	(32,160)	(32,160)	(32,160)
Core deposit intangible, net	(1,859)	(2,313)	(2,999)
Total tangible assets	\$ 3,317,476	\$ 3,051,597	\$ 2,705,673
Tangible Common Equity to Tangible Assets	7.87%	8.77%	8.78%

**Core Earnings and Other COVID-19 Adjusted Measures.** The following tables reconcile, as of and for the dates set forth below, various metrics impacted by the effects of COVID-19 on reported data (dollars in thousands, except per share data).

### Net Core Earnings and Net Core Earnings per Common Share

<i>(dollars in thousands, except per share data)</i>	Year Ended December 31,	
	2022	2021
Net earnings attributable to Guaranty Bancshares, Inc.	\$ 40,447	\$ 39,806
Adjustments:		
Reversal of provision for credit losses	2,150	(1,700)
Income tax provision	8,834	8,750
PPP loans, including fees	(1,277)	(7,822)
Net core earnings attributable to Guaranty Bancshares, Inc.	\$ 50,154	\$ 39,034
Weighted-average common shares outstanding, basic	11,980,209	12,065,182
Earnings per common share, basic	\$ 3.38	\$ 3.30
Net core earnings attributable to Guaranty Bancshares, Inc. per common share, basic	4.19	3.24

### Net Core Earnings to Average Assets, as Adjusted, and Average Equity

<i>(dollars in thousands)</i>	Year Ended December 31,	
	2022	2021
Net core earnings attributable to Guaranty Bancshares, Inc.	\$ 50,154	\$ 39,034
Total average assets	3,260,584	2,922,950
Adjustments:		
PPP loans average balance	(11,820)	(115,402)
Total average assets, adjusted	\$ 3,248,764	\$ 2,807,548
Net core earnings attributable to Guaranty Bancshares, Inc. to average assets, as adjusted	1.54	1.39
Total average equity	\$ 293,910	\$ 290,051
Net core earnings attributable to Guaranty Bancshares, Inc. to average equity	17.06	13.46

### Total Interest-Earning Assets, net of PPP Effects

	For the Year Ended December 31, 2022		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
Total interest-earning assets	\$ 3,073,187	\$ 123,209	4.01%
Total loans	2,126,810	104,503	4.91
Adjustments:			
PPP loans average balance and net fees <sup>(1)</sup>	(11,820)	(1,277)	10.80
Total loans, net of PPP effects	\$ 2,114,990	\$ 103,226	4.88%
Total interest-earning assets, net of PPP effects	\$ 3,061,367	\$ 121,932	3.98%

(1) Interest earned consists of interest income of \$115,000 and net origination fees recognized in earnings of \$1.2 million for the year ended December 31, 2022.

## Net Interest Income and Net Interest Margin, Net of PPP Effects

<i>(dollars in thousands)</i>	Year Ended December 31,	
	2022	2021
Net interest income	\$ 107,829	\$ 95,558
Adjustments:		
PPP-related interest income	(115)	(1,144)
PPP-related net origination fees	(1,162)	(6,079)
PPP-related borrowings	—	—
Net interest income, net of PPP effects	\$ 106,552	\$ 88,335
Total average interest-earning assets	\$ 3,073,187	\$ 2,751,370
Total average interest-earning assets, net of PPP effects	3,061,367	2,635,968
Net interest margin <sup>(1)</sup>	3.51%	3.47%
Net interest margin, net of PPP effects <sup>(2)</sup>	3.48	3.35
Net interest income	\$ 107,829	\$ 95,558
Interest income tax adjustments	900	798
Net interest income, fully taxable equivalent ("FTE")	\$ 108,729	\$ 96,356
Net interest income, FTE, net of PPP effects	107,452	89,133
Net interest margin, FTE <sup>(3)</sup>	3.54%	3.51%
Net interest margin, FTE, net of PPP effects <sup>(4)</sup>	3.51	3.39

(1) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.

(2) Net interest margin is equal to net interest income, net of PPP effects, divided by average interest-earning assets, excluding average PPP loans, annualized. Taxes are not a part of this calculation.

(3) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.

(4) Net interest margin on a taxable equivalent basis is equal to net interest income, net of PPP effects, adjusted for nontaxable income divided by average interest-earning assets, excluding average PPP loans, annualized, using a marginal tax rate of 21%.

## Efficiency Ratio, Net of PPP Effects

<i>(dollars in thousands)</i>	Year Ended December 31,	
	2022	2021
Total noninterest expense	\$ 79,907	\$ 73,278
Adjustments:		
PPP-related deferred costs	—	599
Total noninterest expense, net of PPP effects	\$ 79,907	\$ 73,877
Net interest income	107,829	95,558
Net interest income, net of PPP effects	106,552	88,335
Total noninterest income	\$ 23,485	\$ 24,576
Efficiency ratio <sup>(1)</sup>	60.85%	61.00%
Efficiency ratio, net of PPP effects <sup>(2)</sup>	61.45	65.43

(1) The efficiency ratio was calculated by dividing total noninterest expense by net interest income plus noninterest income, excluding securities gains or losses. Taxes are not part of this calculation.

(2) The efficiency ratio, net of PPP effects, was calculated by dividing total noninterest expense, net of PPP-related deferred costs, by net interest income, net of PPP effects, plus noninterest income, excluding securities gains or losses. Taxes are not part of this calculation.

## ACL to Total Loans, Excluding PPP

<i>(dollars in thousands)</i>	Year Ended December 31,	
	2022	2021
Total loans	\$ 2,378,176	\$ 1,908,040
Adjustments:		
PPP loans	(529)	(50,611)
Total loans, excluding PPP	\$ 2,377,647	\$ 1,857,429
Allowance for credit losses	\$ 31,974	\$ 30,433
Allowance for credit losses / period-end loans	1.34%	1.59%
Allowance for credit losses / period-end loans, excluding PPP	1.34	1.64

## Loan Yield, Net of PPP Effects

<i>(dollars in thousands)</i>	Year Ended December 31, 2022			Year Ended December 31, 2021		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
Total loans	\$ 2,126,810	\$ 104,503	4.91%	\$ 1,911,540	\$ 92,497	4.84%
Adjustments:						
PPP loans average balance and net fees	(11,820)	(1,277)	10.80	(115,402)	(7,223)	6.26
Total loans, net of PPP effects	\$ 2,114,990	\$ 103,226	4.88%	\$ 1,796,138	\$ 85,274	4.75%
Effect of removing PPP loans on loan yield			(0.03%)			(0.09%)

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

### Interest Rate Sensitivity and Market Risk

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

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

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

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

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

On a quarterly basis, we run two simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rate changes over a twelve-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Our internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 10.0% for a 100 basis point shift, 15.0% for a 200 basis point shift and 25.0% for a 300 basis point shift.

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

Change in Interest Rates (Basis Points)	December 31, 2022		December 31, 2021	
	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
+300	0.43%	(18.35%)	13.70%	1.57%
+200	0.17%	(10.87%)	8.38%	2.75%
+100	(0.21%)	(5.17%)	2.66%	1.27%
Base	—	—	—	—
-100	0.34%	1.48%	(5.11%)	(1.92%)
-200	4.16%	(0.70%)	(14.47%)	(0.36%)

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

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES.

*Evaluation of disclosure controls and procedures.* As of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer



concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, were effective as of the end of the period covered by this report.

*Changes in internal control over financial reporting.* There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the year ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

As of December 31, 2022, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2022.

Whitley Penn LLP, Plano, Texas, (U.S. PCAOB Auditor Firm I.D.: 726), the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, is included in this Item under the heading "Attestation Report of Independent Registered Public Accounting Firm."

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Guaranty Bancshares, Inc.

### Opinion on Internal Control Over Financial Reporting

We have audited Guaranty Bancshares, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2022, based on criteria established in *2013 Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *2013 Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 10, 2023 expressed an unqualified opinion on those consolidated financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Report on Management's Assessment of Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Whitley Penn LLP

Plano, Texas  
March 10, 2023

## **ITEM 9B. OTHER INFORMATION.**

None.

## **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 17, 2023, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2022.

### **ITEM 11. EXECUTIVE COMPENSATION.**

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 17, 2023, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2022.

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

The information called for by this item related to security ownership of certain beneficial owners and management is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 17, 2023, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2022.

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

The information called for by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 17, 2023, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2022.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information concerning principal accounting fees and services is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders being held on May 17, 2023, a copy of which will be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2022.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

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

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page F-1 of this Annual Report on Form 10-K. Set forth below is a list of such Consolidated Financial Statements.
  - Report of Independent Registered Public Accounting Firm;
  - Consolidated Balance Sheets as of December 31, 2022 and 2021;
  - Consolidated Statements of Earnings for the Years Ended December 31, 2022, 2021 and 2020;
  - Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022, 2021 and 2020;
  - Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2022, 2021 and 2020;

- Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021 and 2020;
  - Notes to Consolidated Financial Statements.
2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.
  3. The exhibits to this Annual Report on Form 10-K listed below have been included only with the copy of this report filed with the SEC. The Company will furnish a copy of any exhibit to shareholders upon written request to the Company and payment of a reasonable fee not to exceed the Company's reasonable expense.

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

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Formation of Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1/A filed with the SEC on May 1, 2017).</u>
3.2	<u>Amended and Restated Bylaws of Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
4.1	<u>Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>  The other instruments defining the rights of the long-term debt securities of Guaranty Bancshares, Inc. and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. Guaranty Bancshares, Inc. hereby agrees to furnish copies of these instruments to the SEC upon request.
4.2	<u>Description of Securities Registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.2 to Guaranty Bancshares, Inc.'s Annual Report on Form 10-K filed with the SEC on March 13, 2020).</u>
10.1†	<u>Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.2†	<u>Form of Restricted Stock Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.3†	<u>Form of Restricted Stock Unit Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.4†	<u>Form of Stock Option Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.5†	<u>Form of Stock Appreciation Right Award Agreement under the Guaranty Bancshares, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.6†	<u>Guaranty Bancshares, Inc. Employee Stock Ownership Plan with 401(k) Provisions, effective January 1, 2016 (incorporated by reference to Exhibit 10.6 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1/A filed with the SEC on May 4, 2017).</u>
10.7†	<u>Description of Guaranty Bancshares, Inc. Supplemental Retirement Plan (incorporated by reference to Exhibit 10.7 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.8†	<u>Description of Guaranty Bancshares, Inc. Executive Incentive Retirement Plan (incorporated by reference to Exhibit 10.8 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.9†	<u>DCB Financial Corp. Stock Option Plan, dated December 1, 2003, as amended (incorporated by reference to Exhibit 10.10 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.10†	<u>Form of Stock Option Award Agreement under the DCB Financial Corp. Stock Option Plan (incorporated by reference to Exhibit 10.11 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.11†	<u>Guaranty Bancshares, Inc. Fair Market Value Stock Appreciation Rights Plan, effective January 1, 2008 (incorporated by reference to Exhibit 10.12 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>

10.12†	<u>Form of Award Agreement under the Guaranty Bancshares, Inc. Fair Market Value Stock Appreciation Rights Plan (incorporated by reference to Exhibit 10.13 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.13†	<u>Employment Agreement, dated as of March 15, 2019, by and between Ty Abston and Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 10.13 to Guaranty Bancshares Inc.'s Annual Report on Form 10-K filed with the SEC on March 15, 2019).</u>
10.14†	<u>Employment Agreement, dated as of March 15, 2019, by and between Clifton Payne and Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 10.14 to Guaranty Bancshares Inc.'s Annual Report on Form 10-K filed with the SEC on March 15, 2019).</u>
10.15†	<u>Employment Agreement, dated as of March 15, 2019, by and between Kirk Lee and Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 10.13 to Guaranty Bancshares Inc.'s Annual Report on Form 10-K filed with the SEC on March 15, 2019).</u>
10.16	<u>Renewal Revolving Promissory Note, dated March 31, 2022, by Guaranty Bancshares, Inc. payable to Frost Bank in the original principal amount of \$25,000,000 (incorporated by reference to Exhibit 10.2 to Guaranty Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on April 1, 2022).</u>
10.17	<u>Loan Agreement, dated March 31, 2017, by and between Guaranty Bancshares, Inc. and Frost Bank, as amended (incorporated by reference to Exhibit 10.1 to Guaranty Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on April 1, 2022).</u>
10.18	<u>Form of Debenture issued by Guaranty Bancshares, Inc. in July 2015 and December 2015 (incorporated by reference to Exhibit 10.16 to Guaranty Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on April 6, 2017).</u>
10.19	<u>Form of Debenture issued by Guaranty Bancshares, Inc. in May 2020 (incorporated by reference to Exhibit 4.1 to Guaranty Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on May 1, 2020).</u>
21.1	<u>List of Subsidiaries of Guaranty Bancshares, Inc.*</u>
23.1	<u>Consent of Whitley Penn LLP*</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</u>
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

\* Filed with this Annual Report on Form 10-K.

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

† Represents a management contract or a compensatory plan or arrangement.



**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

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

Date: March 10, 2023

**GUARANTY BANCSHARES, INC.**

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

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Tyson T. Abston</u> Tyson T. Abston	Chairman and Chief Executive Officer (Principal Executive Officer)	3/10/2023
<u>/s/ Clifton A. Payne</u> Clifton A. Payne	Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	3/10/2023
<u>/s/ Kirk L. Lee</u> Kirk L. Lee	President	3/10/2023
<u>/s/ Richard W. Baker</u> Richard W. Baker	Director	3/10/2023
<u>/s/ Jeffrey W. Brown</u> Jeffrey W. Brown	Director	3/10/2023
<u>/s/ James S. Bunch</u> James S. Bunch	Director	3/10/2023
<u>/s/ Sondra Cunningham</u> Sondra Cunningham	Director	3/10/2023
<u>/s/ Bradley K. Drake</u> Bradley K. Drake	Director	3/10/2023
<u>/s/ Christopher B. Elliott</u> Christopher B. Elliott	Director	3/10/2023
<u>/s/ Carl Johnson, Jr.</u> Carl Johnson, Jr.	Director	3/10/2023
<u>/s/ James M. Nolan, Jr.</u> James M. Nolan, Jr.	Director	3/10/2023

## INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements of Guaranty Bancshares, Inc. as of December 31, 2022 and 2021 and for each of the three years ending December 31, 2022, 2021 and 2020.

<u>Report of Independent Registered Public Accounting Firm (PCAOB ID 726)</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2022 and 2021</u>	F-4
<u>Consolidated Statements of Earnings for the Years Ended December 31, 2022, 2021 and 2020</u>	F-5
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022, 2021 and 2020</u>	F-6
<u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2022, 2021 and 2020</u>	F-7
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021 and 2020</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-10

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Guaranty Bancshares, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Guaranty Bancshares, Inc. (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *2013 Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2023 expressed an unqualified opinion.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Allowance for Credit Losses for Loans – Qualitative Factors***

#### *Description of the Matter*

As described in Notes 1 and 3 to the consolidated financial statements, the Company accounts for credit losses under ASC 326, Financial Instruments – Credit Losses. ASC 326 requires the measurement of expected lifetime credit losses for financial assets measured at amortized cost at the reporting date. As of December 31, 2022, the balance of the allowance for credit losses on loans was approximately \$32 million. The Company’s allowance for credit losses represents management’s best estimate of expected losses in the loan portfolio. Estimates of expected credit losses for loans are based on reasonable and supportable forecasts of future economic conditions, historical loss experience and qualitative factors.

Management estimates the allowance for credit losses balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Our determination that auditing the qualitative adjustments of the allowance for credit losses for loans is a critical audit matter is a result of the high degree of subjectivity involved in management's assessment of the risk of loss associated with the qualitative adjustments and the determination of the adjustment amounts to historical loss rates for current conditions, and reasonable and supportable forecasts.

*How We Addressed the Matter in Our Audit*

The primary procedures performed to address this critical audit matter included:

- Testing the design and operating effectiveness of internal controls over the Company's preparation and review of the allowance for credit loss calculation, including testing internal controls over the completeness and accuracy of data used as the basis for adjustments related to the qualitative factors, and testing management's review of the reasonableness of qualitative factors and forecasts.
- Substantively testing management's process for assessing and assigning the qualitative factors, including assessing the relevance and reliability of internally sourced and externally sourced data used to develop the factors and evaluating for reasonableness the judgments and assumptions used in the determination and adequacy of the adjustment amounts.
- Testing the completeness and accuracy of the data used in the calculation.
- Evaluation of the reasonableness of management's judgments related to qualitative factors including forecasts to test the qualitative factors' conformity with management's policies and consistency applied period over period.

/s/ Whitley Penn LLP

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

Plano, Texas  
March 10, 2023

GUARANTY BANCSHARES, INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2022 and 2021  
(Dollars in thousands, except per share amounts)

	2022	2021
<b>ASSETS</b>		
Cash and due from banks	\$ 52,390	\$ 42,979
Federal funds sold	47,275	431,975
Interest-bearing deposits	6,802	24,651
Total cash and cash equivalents	106,467	499,605
Securities available for sale	188,927	342,206
Securities held to maturity	509,008	184,263
Loans held for sale	3,156	4,129
Loans, net of allowance for credit losses of \$31,974 and \$30,433, respectively	2,344,245	1,876,076
Accrued interest receivable	11,555	8,901
Premises and equipment, net	54,291	53,470
Other real estate owned	38	—
Cash surrender value of life insurance	38,404	37,141
Core deposit intangible, net	1,859	2,313
Goodwill	32,160	32,160
Other assets	61,385	45,806
<b>Total assets</b>	<b>\$ 3,351,495</b>	<b>\$ 3,086,070</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 1,052,144	\$ 1,014,518
Interest-bearing	1,629,010	1,656,309
Total deposits	2,681,154	2,670,827
Securities sold under agreements to repurchase	7,221	14,151
Accrued interest and other liabilities	28,409	26,568
Line of credit	—	5,000
Federal Home Loan Bank advances	290,000	47,500
Subordinated debt, net	49,153	19,810
<b>Total liabilities</b>	<b>3,055,937</b>	<b>2,783,856</b>
Commitments and contingencies (see Note 15)		
<b>Equity</b>		
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, 14,208,558 and 14,138,978 shares issued, and 11,941,672 and 12,122,717 shares outstanding, respectively	14,209	14,139
Additional paid-in capital	227,727	225,544
Retained earnings	137,565	107,645
Treasury stock, 2,266,886 and 2,016,261 shares, respectively, at cost	(60,257)	(51,419)
Accumulated other comprehensive (loss) income	(24,260)	6,305
<b>Equity attributable to Guaranty Bancshares, Inc.</b>	<b>294,984</b>	<b>302,214</b>
Noncontrolling interest	574	—
<b>Total equity</b>	<b>295,558</b>	<b>302,214</b>
<b>Total liabilities and equity</b>	<b>\$ 3,351,495</b>	<b>\$ 3,086,070</b>

See accompanying notes to consolidated financial statements.



GUARANTY BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF EARNINGS  
For the Years Ended December 31, 2022, 2021 and 2020  
(Dollars in thousands, except per share data)

	2022	2021	2020
<b>Interest income</b>			
Loans, including fees	\$ 104,503	\$ 92,497	\$ 93,335
Securities			
Taxable	11,466	4,762	4,565
Nontaxable	5,131	4,218	4,189
Federal funds sold and interest-bearing deposits	2,109	1,073	953
<b>Total interest income</b>	<u>123,209</u>	<u>102,550</u>	<u>103,042</u>
<b>Interest expense</b>			
Deposits	9,753	5,651	11,624
FHLB advances and federal funds purchased	3,855	413	470
Subordinated debt	1,722	700	702
Other borrowed money	50	228	264
<b>Total interest expense</b>	<u>15,380</u>	<u>6,992</u>	<u>13,060</u>
<b>Net interest income</b>	107,829	95,558	89,982
Provision for (reversal of) credit losses	2,150	(1,700)	13,200
<b>Net interest income after provision for credit losses</b>	<u>105,679</u>	<u>97,258</u>	<u>76,782</u>
<b>Noninterest income</b>			
Service charges	4,288	3,772	3,064
Net realized gain on sales of securities available for sale	172	—	—
Net realized gain on sale of loans	2,435	5,528	6,834
Merchant and debit card fees	7,121	6,717	5,515
Other income	9,469	8,559	7,624
<b>Total noninterest income</b>	<u>23,485</u>	<u>24,576</u>	<u>23,037</u>
<b>Noninterest expense</b>			
Employee compensation and benefits	47,477	42,345	37,193
Occupancy expenses	11,129	10,944	10,220
Other expenses	21,301	19,989	19,109
<b>Total noninterest expense</b>	<u>79,907</u>	<u>73,278</u>	<u>66,522</u>
Income before income taxes	49,257	48,556	33,297
Income tax provision	8,834	8,750	5,895
<b>Net earnings</b>	\$ 40,423	\$ 39,806	\$ 27,402
Net loss attributable to noncontrolling interest	24	—	—
<b>Net earnings attributable to Guaranty Bancshares, Inc.</b>	<u>\$ 40,447</u>	<u>\$ 39,806</u>	<u>\$ 27,402</u>
<b>Basic earnings per share</b>	<u>\$ 3.38</u>	<u>\$ 3.30</u>	<u>\$ 2.25</u>
<b>Diluted earnings per share</b>	<u>\$ 3.34</u>	<u>\$ 3.26</u>	<u>\$ 2.24</u>

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the Years Ended December 31, 2022, 2021 and 2020  
(Dollars in thousands)

	2022	2021	2020
<b>Net earnings</b>	\$ 40,423	\$ 39,806	\$ 27,402
<b>Other comprehensive (loss) income:</b>			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during the period	(19,817)	(6,884)	9,474
Unrealized losses on held to maturity securities transferred to available for sale	(13,186)	—	—
Amortization of net unrealized losses on held to maturity securities	(1,535)	(1,374)	18
Tax effect of available for sale securities transferred to held to maturity	(2,770)	2,149	22
Tax effect of unrealized (gains) losses on securities	6,931	1,446	(2,012)
Unrealized (losses) gains on securities, net of tax	(30,377)	(4,663)	12,047
Unrealized (losses) gains on interest rate swaps:			
Unrealized holding gains (losses) arising during the period	497	873	(625)
Reclassification of realized (gains) losses on interest rate swap termination from accumulated other comprehensive income	(685)	466	—
Unrealized (losses) gains on interest rate swaps	(188)	1,339	(625)
Total other comprehensive (loss) income	(30,565)	(3,324)	11,422
<b>Comprehensive income</b>	9,858	36,482	38,824
Less comprehensive loss attributable to noncontrolling interest	24	—	—
<b>Comprehensive income attributable to Guaranty Bancshares, Inc.</b>	<u>\$ 9,882</u>	<u>\$ 36,482</u>	<u>\$ 38,824</u>

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the Years Ended December 31, 2022, 2021 and 2020  
(Dollars in thousands, except per share amounts)

	Attributable to Guaranty Bancshares, Inc.						Accumulated	
	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
<b>Balance at December 31, 2019</b>	\$ —	\$ 12,905	\$ 186,692	\$ 98,239	\$ (34,492)	\$ (1,793)	\$ —	\$ 261,551
Impact of adoption of ASC 326, net of tax of \$955	—	—	—	(3,593)	—	—	—	(3,593)
Net earnings	—	—	—	27,402	—	—	—	27,402
Other comprehensive income	—	—	—	—	—	11,422	—	11,422
Exercise of stock options	—	27	611	—	—	—	—	638
Purchase of treasury stock	—	—	—	—	(16,927)	—	—	(16,927)
Restricted stock grants	—	20	(20)	—	—	—	—	—
Stock based compensation	—	—	749	—	—	—	—	749
Cash dividends:	—	—	—	—	—	—	—	—
Common - \$0.71 per share*	—	—	—	(8,599)	—	—	—	(8,599)
<b>Balance at December 31, 2020</b>	—	12,952	188,032	113,449	(51,419)	9,629	—	272,643
Net earnings	—	—	—	39,806	—	—	—	39,806
Other comprehensive loss	—	—	—	—	—	(3,324)	—	(3,324)
10% stock dividend	—	1,094	34,853	(35,947)	—	—	—	—
Exercise of stock options	—	90	1,929	—	—	—	—	2,019
Restricted stock grants	—	3	(3)	—	—	—	—	—
Stock based compensation	—	—	733	—	—	—	—	733
Cash dividends:	—	—	—	—	—	—	—	—
Common - \$0.80 per share*	—	—	—	(9,663)	—	—	—	(9,663)
<b>Balance at December 31, 2021</b>	—	14,139	225,544	107,645	(51,419)	6,305	—	302,214
Net earnings	—	—	—	40,447	—	—	(24)	40,423
Other comprehensive loss	—	—	—	—	—	(30,565)	—	(30,565)
Contributions from noncontrolling interest	—	—	—	—	—	—	598	598
Exercise of stock options	—	70	1,495	—	—	—	—	1,565
Purchase of treasury stock	—	—	—	—	(8,838)	—	—	(8,838)
Stock based compensation	—	—	688	—	—	—	—	688
Cash dividends:	—	—	—	—	—	—	—	—
Common - \$0.88 per share	—	—	—	(10,527)	—	—	—	(10,527)
<b>Balance at December 31, 2022</b>	\$ —	\$ 14,209	\$ 227,727	\$ 137,565	\$ (60,257)	\$ (24,260)	\$ 574	\$ 295,558

\* Periods prior to the stock dividend issued during the first quarter of 2021 have been adjusted to give effect to the 10% stock dividend.

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2022, 2021 and 2020  
(Dollars in thousands)

	2022	2021	2020
<b>Cash flows from operating activities</b>			
Net earnings	\$ 40,423	\$ 39,806	\$ 27,402
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	4,211	4,358	4,117
Amortization	724	1,154	1,349
Deferred taxes	(1,157)	(143)	(3,056)
Premium amortization, net of discount accretion	4,919	4,368	3,988
Net realized gain on sales of securities available for sale	(172)	—	—
Gain on sale of loans	(2,435)	(5,528)	(6,834)
Provision for (reversal of) credit losses	2,150	(1,700)	13,200
Origination of loans held for sale	(73,292)	(118,500)	(161,169)
Proceeds from loans held for sale	76,700	125,441	164,829
Write-down of other real estate and repossessed assets	19	6	358
Net (gain) loss on sale of premises, equipment, other real estate owned and other assets	(925)	(23)	37
Stock based compensation	688	733	749
Gain on BOLI death benefits	—	(277)	—
Net change in accrued interest receivable and other assets	(14,446)	(8,565)	(3,908)
Net change in accrued interest payable and other liabilities	1,439	2,414	1,459
<b>Net cash provided by operating activities</b>	<b>\$ 38,846</b>	<b>\$ 43,544</b>	<b>\$ 42,521</b>
<b>Cash flows from investing activities</b>			
Securities available for sale:			
Purchases	\$ (51,739)	\$ (1,223,595)	\$ (662,046)
Proceeds from sales	26,130	—	—
Proceeds from maturities and principal repayments	38,160	1,079,462	657,653
Securities held to maturity:			
Purchases	(1,047,452)	(15,057)	—
Proceeds from maturities and principal repayments	824,150	890	3,024
Net originations of loans	(470,389)	(43,148)	(159,357)
Purchases of premises and equipment	(5,684)	(2,896)	(5,902)
Proceeds from BOLI death benefit	—	464	—
Proceeds from sale of premises, equipment, other real estate owned and other assets	1,860	1,202	860
<b>Net cash used in investing activities</b>	<b>\$ (684,964)</b>	<b>\$ (202,678)</b>	<b>\$ (165,768)</b>

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2022, 2021 and 2020  
(Dollars in thousands)

	2022	2021	2020
<b>Cash flows from financing activities</b>			
Net change in deposits	\$ 10,664	\$ 384,437	\$ 329,586
Net change in securities sold under agreements to repurchase	(6,930)	(1,480)	4,531
Proceeds from FHLB advances	1,135,000	160,000	390,000
Repayment of FHLB advances	(892,500)	(221,601)	(336,017)
Proceeds from line of credit	1,000	10,000	30,000
Repayment of line of credit	(6,000)	(17,000)	(18,000)
Proceeds from issuance of subordinated debt	34,436	—	10,000
Repayments of debentures	(5,093)	—	(1,000)
Purchase of treasury stock	(8,838)	—	(16,927)
Exercise of stock options	1,565	2,019	638
Cash dividends paid	(10,324)	(9,427)	(8,487)
<b>Net cash provided by financing activities</b>	<b>\$ 252,980</b>	<b>\$ 306,948</b>	<b>\$ 384,324</b>
<b>Net change in cash and cash equivalents</b>	<b>(393,138)</b>	<b>147,814</b>	<b>261,077</b>
Cash and cash equivalents at beginning of period	499,605	351,791	90,714
<b>Cash and cash equivalents at end of period</b>	<b>\$ 106,467</b>	<b>\$ 499,605</b>	<b>\$ 351,791</b>
<b>Supplemental disclosures of cash flow information</b>			
Interest paid	\$ 13,513	\$ 7,315	\$ 13,898
Income taxes paid	9,940	9,650	8,245
<b>Supplemental schedule of noncash investing and financing activities</b>			
Cash dividends accrued	\$ 2,627	\$ 2,424	\$ 2,188
Lease right of use assets obtained in exchange for lease liabilities	337	1,085	1,737
Available for sale securities transferred to held to maturity, net of unrealized loss of \$5,861 and unrealized gain of \$8,860, respectively	106,157	172,292	—
Transfer of loans to other real estate owned and repossessed assets	70	509	666
Contributions from noncontrolling interest	574	—	—
Stock dividend	—	35,947	—

See accompanying notes to consolidated financial statements.



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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Principles of Consolidation: The consolidated financial statements in this Annual Report on Form 10-K (this "Report") include the accounts of Guaranty Bancshares, Inc. ("Guaranty"), Guaranty Bank & Trust N.A. (the "Bank") and indirect subsidiaries that are wholly-owned or controlled. Subsidiaries that are less than wholly owned are fully consolidated if they are controlled by Guaranty or one of its subsidiaries, and the portion of any subsidiary not owned by Guaranty is reported as noncontrolling interest. All significant intercompany balances and transactions have been eliminated in consolidation. The Bank has eight wholly-owned or controlled non-bank subsidiaries, Guaranty Company, Inc., G B COM, INC., 2800 South Texas Avenue LLC, Pin Oak Realty Holdings, Inc., Pin Oak Asset Management, LLC, Guaranty Bank & Trust Political Action Committee, White Oak Aviation, LLC and Caliber Guaranty Private Account, LLC, the entity which has a noncontrolling interest. 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.

Basis of Presentation: 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.

Nature of Operations: Guaranty Bancshares, Inc. is a bank holding company headquartered in Mount Pleasant, Texas that provides, through its wholly-owned subsidiary, Guaranty Bank & Trust, N.A., 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 or guaranteed 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.

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

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

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

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

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Management evaluates securities that are in an unrealized loss position for credit-related factors, in order to determine if an allowance for credit losses is required. This evaluation is performed on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, any previous allowance for credit loss is written off and the amortized cost basis of the securities is written down to fair value, through earnings. For debt securities that do not meet the aforementioned criteria, management will determine if the decline in fair value has resulted from a credit loss or other factors and apply the following: 1) recognize an allowance for credit loss by a charge to earnings for the credit-related component of the decline in fair value (subject to a floor of the excess of the amortized cost over fair value) and 2) recognize the noncredit-related component of the fair value decline, if any, in other comprehensive (loss) income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. To the extent that expected cash flows improve, the standard permits reversal of allowance amounts in the current period earnings.

Non-marketable Securities: Other securities, such as stock in The Independent Bankers Financial Corporation, the Federal Reserve Bank, and the Federal Home Loan Bank are accounted for on the cost basis and are carried in other assets. Stock in Valesco Commerce Street Capital, L.P., Valesco Fund II, L.P., Valesco Fund III, L.P., Independent Bankers Capital Fund III, L.P., Independent Bankers Capital Fund IV, L.P., Lightspring Capital I, L.P., Pharos Capital Partners IV-A, L.P., Bluehenge Capital SBIC II, L.P., JAM FINTOP Blockchain, L.P., JAM FINTOP Banktech, L.P., Castle Creek Launchpad Fund I, and Austin Housing Conservancy Fund are accounted for on the cost basis in other assets.

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

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

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

COVID-19: Government leaders and the Federal Reserve took several actions designed to mitigate the economic fallout resulting from the coronavirus ("COVID-19"). The Coronavirus Aid, Relief and Economic Security ("CARES") Act, signed into law on March 27, 2020, authorized more than \$2 trillion to battle COVID-19 and its economic effects, including immediate cash relief for individual citizens, loan programs for small businesses, support for hospitals and other medical providers, and various types of economic relief for impacted businesses and industries. The goal of CARES Act was to prevent severe economic downturn. The CARES Act also provided for temporary interest only or payment deferral modifications for loans without classifying them as troubled debt restructurings under current accounting rules. Additional government-backed hardship relief measures were signed into law in early 2021, as well as extension of many of the CARES Act provisions, throughout 2021 and 2022.

Due to the COVID-19 pandemic, market interest rates declined significantly, with the 10-year Treasury bond falling below 1.00% on March 3, 2020 for the first time. On March 16, 2020, the Federal Open Market Committee ("FOMC") reduced the target federal funds rate range to 0.00% to 0.25%, at which it remained until March 2022, when the FOMC began to rapidly increase market interest rates in response to high levels of inflation that arose in the U.S. economy. From March 2022 through December 31, 2022, the FOMC increased market rates from 0.00% to a target range of 4.25% to 4.5%. The FOMC

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

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increased market rates by 0.25% in February 2023, and additional increases are expected during 2023. These rapid increases in interest rates, the impact of future rate increases, high levels of inflation and other lingering effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations, as well as business and consumer confidence. Economic uncertainties remain which can negatively impact net interest income and noninterest income.

Allowance for Credit Losses:

*Held to Maturity Debt Securities*

The allowance for credit losses on held to maturity securities is a contra-asset valuation account that is deducted from the amortized cost basis of held to maturity securities to present management's best estimate of the net amount expected to be collected. Held to maturity securities are charged-off against the allowance when deemed uncollectible. Adjustments to the allowance are reported in our income statement as a component of provision for credit losses. Management measures expected credit losses on held to maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. As of December 31, 2022, our held to maturity securities consisted of U.S. government agencies, municipal bonds, treasury securities, collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government and its agencies. With regard to the treasuries, collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. For municipal securities, management reviewed key risk indicators, including ratings by credit agencies when available, and determined that there is no current expectation of credit loss. Management has made the accounting policy election to exclude accrued interest receivable on held to maturity securities from the estimate of credit losses.

*Available for Sale Debt Securities*

For available for sale debt securities in an unrealized loss position, the Company first assesses whether or not it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the securities amortized cost basis is written down to fair value through income. For available for sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of the cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected are less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive (loss) income.

Changes in the allowance for credit losses are recorded as provisions for or reversal of credit loss expense. Losses are charged against the allowance when management believes a security is uncollectible or when either of the criteria regarding intent to sell or required to sell is met. Accrued interest receivable on securities is excluded from the estimate of credit losses.

*Loans*

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected over the lifetime of the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Recoveries do not exceed the aggregate of

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amounts previously charged-off and expected to be charged-off. Subsequent recoveries, if any, are credited to the allowance.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. We use the weighted-average remaining maturity method (WARM method) as the basis for the estimation of expected credit losses. The WARM method uses a historical average annual charge-off rate. This average annual charge-off rate contains loss content over a historical lookback period and is used as a foundation for estimating the credit loss reserve for the remaining outstanding balances of loans in a segment at the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments, to determine the unadjusted historical charge-off rate. The calculation of the unadjusted historical charge-off rate is then adjusted for current conditions and for reasonable and supportable forecast periods. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historic loss factors.

The allowance for credit losses is measured on a collective (pool or segment) basis when similar risk characteristics exist. Our loan portfolio segments include both regulatory call report codes and by internally identified risk ratings for our commercial loan segments and by delinquency status for our consumer loan segments. We also have separately identified our mortgage warehouse loans, internally originated SBA loans, SBA loans acquired from Westbound Bank in 2018 and loans originated under the Paycheck Protection Program ("PPP") for inherent risk analysis. Accrued interest receivable on loans is excluded from the estimate of credit losses.

Below is a summary of the segments and certain of the inherent risks in the Company's loan portfolio:

- |                                      |  |
|--------------------------------------|--|
| <i>Commercial and industrial:</i>    | This portfolio segment includes general secured and unsecured commercial loans which are not secured by real estate or may be secured by real estate but made for the primary purpose of a short-term revolving line of credit. Credit risks inherent in this portfolio segment include fluctuations in the local and national economy.  |
| <i>Construction and development:</i> | This portfolio segment includes all loans for the purpose of construction, including both business and residential structures; and real estate development loans, including non-agricultural vacant land. Credit risks inherent in this portfolio include fluctuations in property values, unemployment, and changes in the local and national economy.  |
| <i>Commercial real estate:</i>       | The commercial real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the construction and development, farmland, multi-family, and 1-4 family residential segments. Risks inherent in this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale or lease of the finished structures.   |
| <i>Farmland:</i>                     | The farmland portfolio includes loans that are secured by real estate that is used or usable for agricultural purposes, including land used for crops, livestock production, grazing & pastureland and timberland. This segment includes land with a 1-4 family residential structure if the value of the land exceeds the value of the residence. Risks inherent in this portfolio segment include adverse changes in climate, fluctuations in feed and cattle prices and changes in property values. |

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<i>Consumer:</i>	This portfolio segment consists of non-real estate loans to consumers. This includes secured and unsecured loans such as auto and personal loans. The risks inherent in this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan. These include increases in the local unemployment rate and fluctuations in consumer and business sales.
<i>1-4 family residential:</i>	This portfolio segment includes loans to both commercial and consumer borrowers secured by real estate for housing units of up to four families. Risks inherent in this portfolio segment include increases in the local unemployment rate, changes in the local economy and factors that would impact the value of the underlying collateral, such as changes in property values.
<i>Multi-family residential:</i>	This portfolio segment includes loans secured by structures containing five or more residential housing units. Risks inherent in this portfolio segment include increases to the local unemployment rate, changes in the local economy, and factors that would impact property values.
<i>Agricultural:</i>	The agricultural portfolio segment includes loans to individuals and companies in the dairy and cattle industries and farmers. Loans in the segment are secured by collateral including cattle, crops and equipment. Risks inherent in this portfolio segment include adverse changes in climate and fluctuations in feed and cattle prices.

The following groups of loans are considered to carry specific similar inherent risk characteristics, which the Bank considers separately during its calculation of the allowance for credit losses. These groups of loans are reported within the segments identified in the previous table.

<i>Mortgage Warehouse:</i>	The mortgage warehouse portfolio includes loans in which we purchase mortgage loan ownership interests from unaffiliated mortgage originators that are generally held by us for a period of less than 30-days, typically 5-10 days before they are sold to an approved investor. These loans are consistently underwritten based on standards established by the approved investor. Risks inherent in this portfolio include borrower or mortgage originator fraud.
<i>SBA – Acquired Loans</i>	The SBA – acquired loans segment consists of partially SBA guaranteed loans that were acquired from Westbound Bank in June 2018. These loans are commercial real estate and commercial and industrial in nature and were underwritten with guidelines that are less conservative than our Company. Risks inherent in this portfolio include increases in interest rates, as most are variable rate loans, generally lower levels of borrower equity, less conservative underwriting guidelines, fluctuations in real estate values and changes in the local and national economy.
<i>SBA – Originated Loans</i>	The SBA – originated loans segment consists of loans that are partially guaranteed by the SBA and were originated and underwritten by Guaranty Bank & Trust loan officers. Risks inherent in this portfolio include increases in interest rates due to variable rate structures, generally lower levels of borrower equity or net worth, fluctuations in real estate values and changes in the local and national economy.
<i>SBA – Paycheck Protection Program Loans</i>	Loans originated under the PPP are 100% government guaranteed by the SBA. As a result, the loans are excluded from the segments above and a minimal reserve estimate was applied to this segment of loans for purposes of calculating the credit loss provision.



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In general, the loans in our portfolio have low historical credit losses. The credit quality of loans in our portfolio is impacted by delinquency status and debt service coverage generated by our borrowers' businesses and fluctuations in the value of real estate collateral. Management considers delinquency status to be the most meaningful indicator of the credit quality of one-to-four single family residential, home equity loans and lines of credit and other consumer loans. In general, these types of loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a portfolio of newer loans. We consider the majority of our consumer type loans to be "seasoned" and that the credit quality and current level of delinquencies and defaults represents the level of reserve needed in the allowance for credit losses. If delinquencies and defaults were to increase, we may be required to increase our provision for credit losses, which would adversely affect our results of operations and financial condition. Delinquency statistics are updated at least monthly.

Internal risk ratings are considered the most meaningful indicator of credit quality for new commercial and industrial, construction, and commercial real estate loans. Internal risk ratings are a key factor that impact management's estimates of loss factors used in determining the amount of the allowance for credit losses. Internal risk ratings are updated on a continuous basis.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

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

The following is a discussion of the primary credit quality indicators most closely monitored for the loan portfolio, by class:

- Commercial and industrial:* In assessing risk associated with commercial loans, management considers the business's cash flow and the value of the underlying collateral to be the primary credit quality indicators.
- Construction and development:* In assessing the credit quality of construction loans, management considers the ability of the borrower to make principal and interest payments in the event that they are unable to sell the completed structure to be a primary credit quality indicator. For real estate development loans, management also considers the likelihood of the successful sale of the constructed properties in the development.
- Commercial real estate:* Management considers the strength of the borrower's cash flows, changes in property values and occupancy status to be key credit quality indicators of commercial real estate loans.
- Farmland:* In assessing risk associated with farmland loans, management considers the borrower's cash flows and underlying property values to be key credit quality indicators.
- Consumer:* Management considers delinquency status to be the primary credit quality indicator of consumer loans. Others include the debt to income ratio of the borrower, the borrower's credit history, the availability of other credit to the borrower, the borrower's past-due history, and, if applicable, the value of the underlying collateral to be primary credit quality indicators.

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<i>1-4 family residential:</i>	Management considers delinquency status to be the primary credit quality indicator of 1-4 family residential loans. Others include changes in the local economy, changes in property values, and changes in local unemployment rates to be key credit quality indicators of the loans in the 1-4 family residential loan segment.
<i>Multi-family residential:</i>	Management considers changes in the local economy, changes in property values, vacancy rates and changes in local unemployment rates to be key credit quality indicators of the loans in the multifamily loan segment.
<i>Agricultural:</i>	In assessing risk associated with agricultural loans, management considers the borrower's cash flows, the value of the underlying collateral and sources of secondary repayment to be primary credit quality indicators.

From time to time, we modify our loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. We review each troubled debt restructured loan and determine on a case-by-case basis if the loan can be grouped with its like segment for allowance consideration or whether it should be individually evaluated for a specific allowance for credit loss allocation. If individually evaluated, an allowance for credit loss allocation is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral.

In response to the COVID-19 pandemic, during 2020 and 2021, the Bank provided financial relief to many of its customers through a 3-month principal and interest payment deferral program or an up to 6-month interest only program. Pursuant to the CARES Act and the April 7, 2020 Interagency guidance and GAAP, these loan modifications, and certain subsequent modifications, are not considered to be troubled debt restructurings.

#### *Reserve for Unfunded Commitments*

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelable by the Company. The allowance for credit losses on off balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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

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

Other Real Estate Owned: Assets acquired through, or in lieu of, foreclosure are initially recorded at fair value, less estimated carrying and selling costs, when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

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Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Impairment is tested for annually and exists when a reporting unit's carrying value of goodwill exceeds its fair value. At the measurement date, the Company had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

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

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

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

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

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

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

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

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

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other comprehensive (loss) income and subsequently reclassified to operations in the same period(s) that the hedged transaction impacts operations. For free-standing derivative instruments, changes in fair value are reported in current period operations.

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

Dividend Restriction: Banking regulations require the maintenance of certain capital levels that may limit the amount of dividends that may be paid. Regulatory capital requirements are more fully disclosed in Note 16.

Restrictions on Cash: The Company was not required to have cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements as of December 31, 2022 and 2021. Deposits held with the Federal Reserve Bank earn interest.

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

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

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

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

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

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

Revenue Recognition: ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans, letters of credit, loan processing fees and investment securities, as well as revenue related to mortgage banking activities, and BOLI, as these activities are subject to other accounting guidance. Descriptions of revenue-generating activities that are within the scope of Topic 606, and are presented in the accompanying

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consolidated statements of earnings 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 as incurred 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 include 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 recognized as incurred and 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. Investment management income 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. Administrative and advisory services income is recognized as incurred.
- *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 and recognized as revenue at the time the performance obligations are met.

Reclassification: Certain amounts in prior period financial statements have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on net income, total assets or stockholders' equity.

Effect of Stock Splits and Stock Dividends on Prior Period Presentation: Earnings and dividends per share and weighted average shares outstanding are presented as if all stock splits and stock dividends were effective from the earliest period presented through the date of issuance of the financial statements. Unless indicated otherwise, other share amounts have not been adjusted.

Recent Accounting Pronouncements:

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 previous 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 adopted CECL on January 1, 2020. The day one impact of adopting CECL resulted in an allowance increase of \$4,548, or 28.1%, from December 31, 2019. The day one increase was primarily due to recognizing expected lifetime losses in the portfolio and adding an economic forecast based upon our assumptions on January 1, 2020. The significant increase in the ACL provision during the year-end December 31, 2020 resulted primarily from changes in our CECL model assumptions as a result of COVID-19. The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet ("OBS") credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a decrease to retained earnings of \$3,593, net of tax effects of \$955, as of January 1, 2020 for the cumulative effect of adopting ASC 326. The adoption of ASU 2016-13 did not have a significant impact on our regulatory capital ratios.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the recognition and measurement guidance for troubled debt



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restructurings ("TDRs") by creditors in ASC 310-40. The update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specially, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Finally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures. The Company adopted this ASU effective on January 1, 2023, and used the prospective method, which did not have a significant impact on its consolidated financial statements.

**NOTE 2 - MARKETABLE SECURITIES**

The following tables summarize the amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2022 and 2021 and the corresponding amounts of gross unrealized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2022</b>				
Available for sale:				
Corporate bonds	\$ 29,964	\$ —	\$ 2,177	\$ 27,787
Municipal securities	10,324	326	8	10,642
Mortgage-backed securities	145,896	1	15,556	130,341
Collateralized mortgage obligations	21,981	3	1,827	20,157
Total available for sale	<u>\$ 208,165</u>	<u>\$ 330</u>	<u>\$ 19,568</u>	<u>\$ 188,927</u>
Held to maturity:				
U.S. government agencies	\$ 9,141	\$ —	\$ 1,259	\$ 7,882
Treasury securities	133,735	—	2,921	130,814
Municipal securities	191,680	658	8,285	184,053
Mortgage-backed securities	132,693	—	14,708	117,985
Collateralized mortgage obligations	41,759	—	7,425	34,334
Total held to maturity	<u>\$ 509,008</u>	<u>\$ 658</u>	<u>\$ 34,598</u>	<u>\$ 475,068</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2021</b>				
Available for sale:				
U.S. government agencies	\$ 10,013	\$ —	\$ 42	\$ 9,971
Corporate bonds	35,080	940	85	35,935
Mortgage-backed securities	221,610	1,477	1,779	221,308
Collateralized mortgage obligations	74,925	971	904	74,992
Total available for sale	<u>\$ 341,628</u>	<u>\$ 3,388</u>	<u>\$ 2,810</u>	<u>\$ 342,206</u>
Held to maturity:				
Municipal securities	\$ 181,310	\$ 8,364	\$ 118	\$ 189,556
Mortgage-backed securities	2,953	—	37	2,916
Total held to maturity	<u>\$ 184,263</u>	<u>\$ 8,364</u>	<u>\$ 155</u>	<u>\$ 192,472</u>

From time to time, we have reclassified certain securities from available for sale to held to maturity. Such transfers are made at fair value at the date of transfer. The unrealized holding gains and losses at the date of transfer are retained in other comprehensive (loss) income and in the carrying value of the held to maturity securities and are amortized or accreted over the remaining life of the security. During the second quarter of 2022, we transferred \$106,157 of securities from available for sale to held to maturity, which included a net unrealized loss on the date of transfer of \$13,186. During the third quarter of 2021, we transferred \$172,292 of securities from available for sale to held to maturity, which included a net unrealized gain on the date of transfer of \$10,235. These unamortized unrealized losses and unaccreted unrealized gains on our transferred securities are included in accumulated other comprehensive (loss) income on our balance sheet and they netted to an unrealized loss of \$5,861 at December 31, 2022 compared to an unrealized gain of \$8,860 at December 31, 2021. This amount will be amortized and accreted out of accumulated other comprehensive (loss) income over the remaining life of the underlying securities as an adjustment of the yield on those securities.

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There was no allowance for credit losses recorded for our available for sale or held to maturity debt securities as of December 31, 2022 or 2021.

Information pertaining to securities with gross unrealized losses as of December 31, 2022 and 2021, for which no allowance for credit losses has been recorded, 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	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2022</b>						
Available for sale:						
Corporate bonds	\$ (1,518)	\$ 20,323	\$ (659)	\$ 7,464	\$ (2,177)	\$ 27,787
Municipal securities	(8)	1,659	—	—	(8)	1,659
Mortgage-backed securities	(6,150)	74,146	(9,406)	55,826	(15,556)	129,972
Collateralized mortgage obligations	(908)	16,575	(919)	3,411	(1,827)	19,986
Total available for sale	<u>\$ (8,584)</u>	<u>\$ 112,703</u>	<u>\$ (10,984)</u>	<u>\$ 66,701</u>	<u>\$ (19,568)</u>	<u>\$ 179,404</u>

Held to maturity:						
U.S. government agencies	\$ (1,259)	\$ 7,882	\$ —	\$ —	\$ (1,259)	\$ 7,882
Treasury securities	(2,921)	130,814	—	—	(2,921)	130,814
Municipal securities	(7,071)	118,117	(1,214)	3,701	(8,285)	121,818
Mortgage-backed securities	(8,355)	80,556	(6,353)	37,429	(14,708)	117,985
Collateralized mortgage obligations	(1,031)	10,750	(6,394)	23,584	(7,425)	34,334
Total held to maturity	<u>\$ (20,637)</u>	<u>\$ 348,119</u>	<u>\$ (13,961)</u>	<u>\$ 64,714</u>	<u>\$ (34,598)</u>	<u>\$ 412,833</u>

	Less Than 12 Months		12 Months or Longer		Total	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2021</b>						
Available for sale:						
U.S. government agencies	\$ (42)	\$ 9,971	\$ —	\$ —	\$ (42)	\$ 9,971
Corporate bonds	(85)	11,418	—	—	(85)	11,418
Mortgage-backed securities	(1,383)	144,367	(396)	11,317	(1,779)	155,684
Collateralized mortgage obligations	(904)	40,172	—	—	(904)	40,172
Total available for sale	<u>\$ (2,414)</u>	<u>\$ 205,928</u>	<u>\$ (396)</u>	<u>\$ 11,317</u>	<u>\$ (2,810)</u>	<u>\$ 217,245</u>

Held to maturity:						
Municipal securities	\$ (37)	\$ 7,772	\$ (81)	\$ 2,996	\$ (118)	\$ 10,768
Mortgage-backed securities	(37)	2,916	—	—	(37)	2,916
Total held to maturity	<u>\$ (74)</u>	<u>\$ 10,688</u>	<u>\$ (81)</u>	<u>\$ 2,996</u>	<u>\$ (155)</u>	<u>\$ 13,684</u>

There were 291 investments in an unrealized loss position at December 31, 2022, of which 85 were available for sale debt securities in an unrealized loss position with no recorded allowance for credit losses. The available for sale securities in a loss position were composed of U.S. government agencies, corporate bonds, collateralized mortgage obligations and mortgage-backed securities. Management evaluates available for sale debt securities in an unrealized loss position to determine whether the impairment is due to credit-related factors or noncredit-related factors. With respect to the collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government and its agencies, the Company has determined that a decline in fair value is not due to credit-related factors. The Company monitors the credit quality of other debt securities through the use of credit ratings and other factors specific to an individual security in assessing whether or not the decline in fair value of municipal or corporate securities, relative to their amortized cost, is due to credit-related factors. Triggers to prompt further investigation of securities when the fair value is less than the amortized cost are when a security has been downgraded and falls below an A credit rating, and the security's unrealized loss exceeds 20% of its book value. Consideration is given to (1) the extent to which fair value is 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 security for a period of time sufficient to allow for any anticipated recovery in fair value. Based on evaluation of available evidence, management believes the unrealized losses on the securities as of December 31, 2022 and 2021 are not credit-related. Management does not have the intent to sell any of these securities and believes that it is more likely than not the Company will not have to sell any such securities before recovery of cost. The fair values are expected to recover as the securities

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approach their maturity date or repricing date or if market yields for the investments decline. Accordingly, no allowance for credit losses has been recorded for these securities.

Management assesses held to maturity securities sharing similar risk characteristics on a collective basis for expected credit losses under CECL. As of December 31, 2022, our held to maturity securities consisted of U.S. government agencies, municipal bonds, treasury securities and mortgage-backed securities issued by the U.S. government and its agencies. With regard to the treasuries, collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. As of December 31, 2021, our held to maturity securities consisted of municipal bonds and mortgage-backed securities issued by the U.S. government and its agencies. 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. For municipal securities, management reviewed key risk indicators, including ratings by credit agencies when available, and determined that there is no current expectation of credit loss. Accordingly, no allowance for credit losses has been recorded for these securities.

As of December 31, 2022, there were no holdings of securities of any one issuer, other than the collateralized mortgage obligations, treasuries and mortgage-backed securities issued by the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity. As of December 31, 2021, there were no holdings of securities of any one issuer, other than the collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with fair values of approximately \$396,584 and \$310,958 at December 31, 2022 and 2021, respectively, were pledged to secure public fund deposits and for other purposes as required or permitted by law.

Proceeds from the sales of available for sale securities and the associated gains and losses for the year ended December 31, 2022, are listed below. There were no securities sold during the years ended December 31, 2021 or 2020.

	<b>2022</b>
Proceeds from sales	\$ 26,130
Gross gains	234
Gross losses	(62)

There were no held to maturity securities sold during the years ended December 31, 2022, 2021 or 2020.

The contractual maturities at December 31, 2022 of available for sale and held to maturity securities at carrying value and estimated fair value are shown below. The Company invests in securities that may 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. Securities not due at a single maturity date are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b>December 31, 2022</b>				
Due within one year	\$ —	\$ —	\$ 68,567	\$ 67,613
Due after one year through five years	11,236	10,841	100,545	97,850
Due after five years through ten years	21,799	20,043	91,726	88,045
Due after ten years	7,253	7,545	73,718	69,241
Mortgage-backed securities	145,896	130,341	132,693	117,985
Collateralized mortgage obligations	21,981	20,157	41,759	34,334
Total securities	\$ 208,165	\$ 188,927	\$ 509,008	\$ 475,068

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES**

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

	December 31,	
	2022	2021
Commercial and industrial	\$ 303,373	\$ 280,569
Real estate:		
Construction and development	377,135	307,797
Commercial real estate	887,587	622,842
Farmland	185,817	145,501
1-4 family residential	493,061	410,673
Multi-family residential	45,147	30,971
Consumer	61,394	50,965
Agricultural	13,686	14,639
Warehouse lending <sup>(1)</sup>	10,694	43,720
Overdrafts	282	363
Total loans <sup>(2)</sup>	<u>2,378,176</u>	<u>1,908,040</u>
Net of:		
Deferred loan fees, net	(1,957)	(1,531)
Allowance for credit losses	(31,974)	(30,433)
Total net loans <sup>(2)</sup>	<u>\$ 2,344,245</u>	<u>\$ 1,876,076</u>

(1) Warehouse lending is presented as a component of commercial and industrial loans in remaining tables.

(2) Excludes accrued interest receivable on loans of \$7.6 million and \$5.8 million as of December 31, 2022 and 2021, respectively, which is presented separately on the consolidated balance sheets.

The Company has entered into transactions, at prevailing market rates and terms, with certain directors, executive officers, significant shareholders and their affiliates. Loans to such related parties at December 31, 2022 and 2021, totaled \$72,539 and \$44,052, respectively. Unfunded commitments to such related parties at December 31, 2022 totaled \$40,244.

Loans to principal officers, directors, and their affiliates during the year ended December 31, 2022, was as follows:

	December 31, 2022
Beginning balance	\$ 44,052
New loans	102,734
Repayments	(74,247)
Ending balance	<u>\$ 72,539</u>

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Allowance for Credit Losses

The Company's estimate of the allowance for credit losses ("ACL") reflects losses expected over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected troubled debt restructuring. The following tables present the activity in the ACL by class of loans for the years ended December 31, 2022, 2021 and 2020:

	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
<b>For the Year Ended December 31, 2022</b>										
Allowance for credit losses:										
Beginning balance	\$ 3,600	\$ 4,221	\$ 13,765	\$ 1,698	\$ 5,818	\$ 396	\$ 762	\$ 169	\$ 4	\$ 30,433
Provision for (reversal of) for credit losses	902	668	(1,108)	310	769	94	283	(20)	252	2,150
Loans charged-off	(192)	—	—	—	—	—	(322)	—	(335)	(849)
Recoveries	72	—	1	—	30	—	55	—	82	240
Ending balance	\$ 4,382	\$ 4,889	\$ 12,658	\$ 2,008	\$ 6,617	\$ 490	\$ 778	\$ 149	\$ 3	\$ 31,974
<b>For the Year Ended December 31, 2021</b>										
Allowance for credit losses:										
Beginning balance	\$ 4,033	\$ 4,735	\$ 15,780	\$ 1,220	\$ 6,313	\$ 363	\$ 929	\$ 239	\$ 7	\$ 33,619
(Reversal of) provision for credit losses	(43)	(515)	(1,229)	478	(495)	33	(51)	(78)	200	(1,700)
Loans charged-off	(411)	—	(816)	—	—	—	(151)	—	(263)	(1,641)
Recoveries	21	1	30	—	—	—	35	8	60	155
Ending balance	\$ 3,600	\$ 4,221	\$ 13,765	\$ 1,698	\$ 5,818	\$ 396	\$ 762	\$ 169	\$ 4	\$ 30,433
<b>For the Year Ended December 31, 2020</b>										
Allowance for credit losses:										
Beginning balance, prior to adoption of ASC 326	\$ 2,056	\$ 2,378	\$ 6,853	\$ 570	\$ 3,125	\$ 409	\$ 602	\$ 197	\$ 12	\$ 16,202
Impact of adopting ASC 326	546	323	2,228	26	1,339	(50)	72	73	(9)	4,548
Provision for (reversal of) credit losses	1,398	2,034	6,698	624	1,915	4	373	(33)	187	13,200
Loans charged-off	(68)	—	—	—	(68)	—	(155)	(18)	(234)	(543)
Recoveries	101	—	1	—	2	—	37	20	51	212
Ending balance	\$ 4,033	\$ 4,735	\$ 15,780	\$ 1,220	\$ 6,313	\$ 363	\$ 929	\$ 239	\$ 7	\$ 33,619



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During the year ended December 31, 2020, a total allowance for credit losses provision of \$13,200 was recorded primarily to account for the estimated impact of COVID-19 on credit quality and resulted largely from changes to individual loan risk ratings, as well as COVID-specific qualitative factors primarily derived from changes in national GDP, Texas unemployment rates and national industry related CRE trends, all of which were impacted by the effects of COVID-19. During 2021, a reverse provision of \$1,700 was recorded, and the provision reversals captured improvements that occurred to macroeconomic factors evaluated at the onset of the pandemic as part of the aforementioned COVID-specific qualitative factors, as well as risk rating upgrades for specific loans, which impacted the reserve calculations within the model. In the first quarter of 2022, the remaining COVID-specific qualitative factors were removed and an additional reverse provision of \$1,250, to account for significant improvements in COVID-related health statistics and economic impacts through that time period were recorded. However, growth in the loan portfolio, as well as declines in economic outlooks during the year and an adjustment to qualitative factors for expected recession forecasts, resulted in a \$2,150 provision expense for the year ended December 31, 2022.

#### Credit Quality

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. Loans that are on nonaccrual status are generally classified as substandard.

In general, the loans in our portfolio have low historical credit losses. 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.

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The following table summarizes the credit exposure in the Company's loan portfolio, by year of origination, as of December 31, 2022:

December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Total
<b>Commercial and industrial:</b>								
Pass	\$ 99,750	\$ 57,854	\$ 19,577	\$ 11,797	\$ 4,172	\$ 12,907	\$ 105,628	\$ 311,685
Special mention	—	131	—	333	—	—	905	1,369
Substandard	14	—	246	423	192	23	—	898
Nonaccrual	72	33	10	—	—	—	—	115
<b>Total commercial and industrial loans</b>	<b>\$ 99,836</b>	<b>\$ 58,018</b>	<b>\$ 19,833</b>	<b>\$ 12,553</b>	<b>\$ 4,364</b>	<b>\$ 12,930</b>	<b>\$ 106,533</b>	<b>\$ 314,067</b>
Charge-offs	\$ —	\$ —	\$ (67)	\$ —	\$ —	\$ —	\$ (125)	\$ (192)
Recoveries	—	—	—	—	—	32	40	72
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (67)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 32</b>	<b>\$ (85)</b>	<b>\$ (120)</b>
<b>Construction and development:</b>								
Pass	\$ 179,501	\$ 138,388	\$ 17,361	\$ 8,697	\$ 3,443	\$ 10,535	\$ 16,870	\$ 374,795
Special mention	905	—	—	—	—	—	—	905
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	1,435	—	—	1,435
<b>Total construction and development loans</b>	<b>\$ 180,406</b>	<b>\$ 138,388</b>	<b>\$ 17,361</b>	<b>\$ 8,697</b>	<b>\$ 4,878</b>	<b>\$ 10,535</b>	<b>\$ 16,870</b>	<b>\$ 377,135</b>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Commercial real estate:</b>								
Pass	\$ 347,162	\$ 147,986	\$ 86,897	\$ 63,988	\$ 51,002	\$ 158,384	\$ 12,007	\$ 867,426
Special mention	—	—	1,300	—	2,594	3,427	—	7,321
Substandard	1,336	—	—	—	26	4,207	—	5,569
Nonaccrual	—	—	251	96	—	6,924	—	7,271
<b>Total commercial real estate loans</b>	<b>\$ 348,498</b>	<b>\$ 147,986</b>	<b>\$ 88,448</b>	<b>\$ 64,084</b>	<b>\$ 53,622</b>	<b>\$ 172,942</b>	<b>\$ 12,007</b>	<b>\$ 887,587</b>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	1	—	—	1
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>

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December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Total
Farmland:								
Pass	\$ 93,128	\$ 51,912	\$ 10,284	\$ 6,646	\$ 5,956	\$ 11,741	\$ 5,948	\$ 185,615
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	31	—	62	—	93
Nonaccrual	—	—	—	—	—	109	—	109
Total farmland loans	<u>\$ 93,128</u>	<u>\$ 51,912</u>	<u>\$ 10,284</u>	<u>\$ 6,677</u>	<u>\$ 5,956</u>	<u>\$ 11,912</u>	<u>\$ 5,948</u>	<u>\$ 185,817</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
1-4 family residential:								
Pass	\$ 143,268	\$ 128,957	\$ 50,140	\$ 30,068	\$ 27,104	\$ 89,678	\$ 21,956	\$ 491,171
Special mention	—	—	43	—	—	156	—	199
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	148	—	116	118	1,309	—	1,691
Total 1-4 family residential loans	<u>\$ 143,268</u>	<u>\$ 129,105</u>	<u>\$ 50,183</u>	<u>\$ 30,184</u>	<u>\$ 27,222</u>	<u>\$ 91,143</u>	<u>\$ 21,956</u>	<u>\$ 493,061</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	30	—	30
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 30</u>
Multi-family residential:								
Pass	\$ 18,183	\$ 18,331	\$ 2,463	\$ 4,216	\$ 878	\$ 985	\$ 91	\$ 45,147
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total multi-family residential loans	<u>\$ 18,183</u>	<u>\$ 18,331</u>	<u>\$ 2,463</u>	<u>\$ 4,216</u>	<u>\$ 878</u>	<u>\$ 985</u>	<u>\$ 91</u>	<u>\$ 45,147</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Total
Consumer and overdrafts:								
Pass	\$ 32,817	\$ 11,789	\$ 5,455	\$ 1,835	\$ 3,079	\$ 473	\$ 6,008	\$ 61,456
Special mention	14	4	—	28	4	—	—	50
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	17	93	21	12	23	4	—	170
Total consumer loans and overdrafts	<u>\$ 32,848</u>	<u>\$ 11,886</u>	<u>\$ 5,476</u>	<u>\$ 1,875</u>	<u>\$ 3,106</u>	<u>\$ 477</u>	<u>\$ 6,008</u>	<u>\$ 61,676</u>
Charge-offs	\$ (335)	\$ (26)	\$ (25)	\$ (21)	\$ —	\$ —	\$ (250)	\$ (657)
Recoveries	83	3	6	11	1	33	—	137
Current period net	<u>\$ (252)</u>	<u>\$ (23)</u>	<u>\$ (19)</u>	<u>\$ (10)</u>	<u>\$ 1</u>	<u>\$ 33</u>	<u>\$ (250)</u>	<u>\$ (520)</u>
Agricultural:								
Pass	\$ 3,148	\$ 1,914	\$ 984	\$ 491	\$ 392	\$ 422	\$ 6,243	\$ 13,594
Special mention	—	—	—	—	—	3	—	3
Substandard	—	—	—	—	—	32	—	32
Nonaccrual	—	—	—	—	4	53	—	57
Total agricultural loans	<u>\$ 3,148</u>	<u>\$ 1,914</u>	<u>\$ 984</u>	<u>\$ 491</u>	<u>\$ 396</u>	<u>\$ 510</u>	<u>\$ 6,243</u>	<u>\$ 13,686</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Total loans:								
Pass	\$ 916,957	\$ 557,131	\$ 193,161	\$ 127,738	\$ 96,026	\$ 285,125	\$ 174,751	\$ 2,350,889
Special mention	919	135	1,343	361	2,598	3,586	905	9,847
Substandard	1,350	—	246	454	218	4,324	—	6,592
Nonaccrual	89	274	282	224	1,580	8,399	—	10,848
Total loans	<u>\$ 919,315</u>	<u>\$ 557,540</u>	<u>\$ 195,032</u>	<u>\$ 128,777</u>	<u>\$ 100,422</u>	<u>\$ 301,434</u>	<u>\$ 175,656</u>	<u>\$ 2,378,176</u>
Charge-offs	\$ (335)	\$ (26)	\$ (92)	\$ (21)	\$ —	\$ —	\$ (375)	\$ (849)
Recoveries	83	3	6	11	2	95	40	240
Total current period net (charge-offs) recoveries	<u>\$ (252)</u>	<u>\$ (23)</u>	<u>\$ (86)</u>	<u>\$ (10)</u>	<u>\$ 2</u>	<u>\$ 95</u>	<u>\$ (335)</u>	<u>\$ (609)</u>

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The following table summarizes the credit exposure in the Company's loan portfolio, by year of origination, as of December 31, 2021:

<b>December 31, 2021</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Prior</b>	<b>Revolving Loans Amortized Cost</b>	<b>Total</b>
<b>Commercial and industrial:</b>								
Pass	\$ 176,972	\$ 31,337	\$ 16,207	\$ 6,449	\$ 3,493	\$ 14,657	\$ 74,364	\$ 323,479
Special mention	—	88	—	—	14	—	—	102
Substandard	—	272	55	192	40	1	—	560
Nonaccrual	14	101	—	22	—	11	—	148
<b>Total commercial and industrial loans</b>	<b>\$ 176,986</b>	<b>\$ 31,798</b>	<b>\$ 16,262</b>	<b>\$ 6,663</b>	<b>\$ 3,547</b>	<b>\$ 14,669</b>	<b>\$ 74,364</b>	<b>\$ 324,289</b>
Charge-offs	\$ —	\$ —	\$ (168)	\$ (67)	\$ (115)	\$ —	\$ (61)	\$ (411)
Recoveries	—	—	—	—	—	—	21	21
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (168)</b>	<b>\$ (67)</b>	<b>\$ (115)</b>	<b>\$ —</b>	<b>\$ (40)</b>	<b>\$ (390)</b>
<b>Construction and development:</b>								
Pass	\$ 180,056	\$ 68,765	\$ 20,499	\$ 6,507	\$ 8,235	\$ 13,565	\$ 8,615	\$ 306,242
Special mention	—	—	—	—	944	—	—	944
Substandard	—	—	609	2	—	—	—	611
Nonaccrual	—	—	—	—	—	—	—	—
<b>Total construction and development loans</b>	<b>\$ 180,056</b>	<b>\$ 68,765</b>	<b>\$ 21,108</b>	<b>\$ 6,509</b>	<b>\$ 9,179</b>	<b>\$ 13,565</b>	<b>\$ 8,615</b>	<b>\$ 307,797</b>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	1	—	1
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ 1</b>
<b>Commercial real estate:</b>								
Pass	\$ 134,617	\$ 93,806	\$ 80,733	\$ 59,380	\$ 43,457	\$ 145,477	\$ 16,065	\$ 573,535
Special mention	—	765	—	—	4,550	788	—	6,103
Substandard	—	6,987	—	10,041	12,981	12,553	—	42,562
Nonaccrual	—	—	124	69	32	337	80	642
<b>Total commercial real estate loans</b>	<b>\$ 134,617</b>	<b>\$ 101,558</b>	<b>\$ 80,857</b>	<b>\$ 69,490</b>	<b>\$ 61,020</b>	<b>\$ 159,155</b>	<b>\$ 16,145</b>	<b>\$ 622,842</b>
Charge-offs	\$ —	\$ —	\$ (17)	\$ (56)	\$ (472)	\$ (271)	\$ —	\$ (816)
Recoveries	—	—	19	—	11	—	—	30
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ (56)</b>	<b>\$ (461)</b>	<b>\$ (271)</b>	<b>\$ —</b>	<b>\$ (786)</b>



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December 31, 2021	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost	Total
Farmland:								
Pass	\$ 94,491	\$ 11,868	\$ 8,664	\$ 7,456	\$ 5,191	\$ 11,145	\$ 6,290	\$ 145,105
Special mention	—	—	—	—	—	26	—	26
Substandard	—	—	—	—	—	72	—	72
Nonaccrual	—	195	—	—	—	103	—	298
Total farmland loans	<u>\$ 94,491</u>	<u>\$ 12,063</u>	<u>\$ 8,664</u>	<u>\$ 7,456</u>	<u>\$ 5,191</u>	<u>\$ 11,346</u>	<u>\$ 6,290</u>	<u>\$ 145,501</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
1-4 family residential:								
Pass	\$ 132,448	\$ 64,590	\$ 43,016	\$ 36,501	\$ 26,987	\$ 91,864	\$ 13,714	\$ 409,120
Special mention	—	—	—	—	—	18	—	18
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	170	—	—	180	58	1,127	—	1,535
Total 1-4 family residential loans	<u>\$ 132,618</u>	<u>\$ 64,590</u>	<u>\$ 43,016</u>	<u>\$ 36,681</u>	<u>\$ 27,045</u>	<u>\$ 93,009</u>	<u>\$ 13,714</u>	<u>\$ 410,673</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Multi-family residential:								
Pass	\$ 16,663	\$ 4,286	\$ 6,436	\$ 908	\$ 474	\$ 2,113	\$ 91	\$ 30,971
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total multi-family residential loans	<u>\$ 16,663</u>	<u>\$ 4,286</u>	<u>\$ 6,436</u>	<u>\$ 908</u>	<u>\$ 474</u>	<u>\$ 2,113</u>	<u>\$ 91</u>	<u>\$ 30,971</u>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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December 31, 2021	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost	Total
<b>Consumer and overdrafts:</b>								
Pass	\$ 24,715	\$ 11,589	\$ 4,557	\$ 4,647	\$ 558	\$ 543	\$ 4,478	\$ 51,087
Special mention	76	—	5	—	—	—	—	81
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	56	27	10	62	5	—	—	160
<b>Total consumer loans and overdrafts</b>	<b>\$ 24,847</b>	<b>\$ 11,616</b>	<b>\$ 4,572</b>	<b>\$ 4,709</b>	<b>\$ 563</b>	<b>\$ 543</b>	<b>\$ 4,478</b>	<b>\$ 51,328</b>
Charge-offs	\$ (285)	\$ (36)	\$ (57)	\$ (32)	\$ (2)	\$ (2)	\$ —	\$ (414)
Recoveries	61	3	—	8	2	21	—	95
<b>Current period net</b>	<b>\$ (224)</b>	<b>\$ (33)</b>	<b>\$ (57)</b>	<b>\$ (24)</b>	<b>\$ —</b>	<b>\$ 19</b>	<b>\$ —</b>	<b>\$ (319)</b>
<b>Agricultural:</b>								
Pass	\$ 3,557	\$ 1,866	\$ 927	\$ 917	\$ 221	\$ 526	\$ 6,492	\$ 14,506
Special mention	—	—	—	—	13	—	—	13
Substandard	—	14	4	15	39	—	—	72
Nonaccrual	—	—	—	8	—	40	—	48
<b>Total agricultural loans</b>	<b>\$ 3,557</b>	<b>\$ 1,880</b>	<b>\$ 931</b>	<b>\$ 940</b>	<b>\$ 273</b>	<b>\$ 566</b>	<b>\$ 6,492</b>	<b>\$ 14,639</b>
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Recoveries	—	—	—	—	—	8	—	8
<b>Current period net</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ 8</b>
<b>Total loans:</b>								
Pass	\$ 763,519	\$ 288,107	\$ 181,039	\$ 122,765	\$ 88,616	\$ 279,890	\$ 130,109	\$ 1,854,045
Special mention	76	853	5	—	5,521	832	—	7,287
Substandard	—	7,273	668	10,250	13,060	12,626	—	43,877
Nonaccrual	240	323	134	341	95	1,618	80	2,831
<b>Total loans</b>	<b>\$ 763,835</b>	<b>\$ 296,556</b>	<b>\$ 181,846</b>	<b>\$ 133,356</b>	<b>\$ 107,292</b>	<b>\$ 294,966</b>	<b>\$ 130,189</b>	<b>\$ 1,908,040</b>
Charge-offs	\$ (285)	\$ (36)	\$ (242)	\$ (155)	\$ (589)	\$ (273)	\$ (61)	\$ (1,641)
Recoveries	61	3	19	8	13	30	21	155
<b>Total current period net charge-offs</b>	<b>\$ (224)</b>	<b>\$ (33)</b>	<b>\$ (223)</b>	<b>\$ (147)</b>	<b>\$ (576)</b>	<b>\$ (243)</b>	<b>\$ (40)</b>	<b>\$ (1,486)</b>

There were no loans classified in the “doubtful” or “loss” risk rating categories as of December 31, 2022 and 2021.

There were no individually evaluated collateral-dependent loans within the ACL model as of December 31, 2022.

The following table presents the amortized cost basis of individually evaluated collateral-dependent loans by class of loans, and their impact on the ACL, as of December 31, 2021:

December 31, 2021	Real Estate	Non-RE	Total	Allowance for Credit Losses Allocation
Commercial and industrial	\$ 116	\$ —	\$ 116	\$ 40
<b>Real estate:</b>				
Construction and development	609	—	609	207
Commercial real estate	4,319	—	4,319	553
<b>Total</b>	<b>\$ 5,044</b>	<b>\$ —</b>	<b>\$ 5,044</b>	<b>\$ 800</b>

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

<b>December 31, 2022</b>	<b>30 to 59 Days Past Due</b>	<b>60 to 89 Days Past Due</b>	<b>90 Days or Greater Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>	<b>Recorded Investment &gt; 90 Days and Accruing</b>
Commercial and industrial	\$ 440	\$ 44	\$ 105	\$ 589	\$ 313,478	\$ 314,067	\$ —
Real estate:							
Construction and development	258	73	1,435	1,766	375,369	377,135	—
Commercial real estate	882	354	6,708	7,944	879,643	887,587	—
Farmland	129	79	—	208	185,609	185,817	—
1-4 family residential	2,101	547	572	3,220	489,841	493,061	—
Multi-family residential	—	—	—	—	45,147	45,147	—
Consumer	164	118	70	352	61,042	61,394	—
Agricultural	37	10	—	47	13,639	13,686	—
Overdrafts	—	—	—	—	282	282	—
<b>Total</b>	<b>\$ 4,011</b>	<b>\$ 1,225</b>	<b>\$ 8,890</b>	<b>\$ 14,126</b>	<b>\$2,364,050</b>	<b>\$2,378,176</b>	<b>\$ —</b>

<b>December 31, 2021</b>	<b>30 to 59 Days Past Due</b>	<b>60 to 89 Days Past Due</b>	<b>90 Days or Greater Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>	<b>Recorded Investment &gt; 90 Days and Accruing</b>
Commercial and industrial	\$ 969	\$ 38	\$ 134	\$ 1,141	\$ 323,148	\$ 324,289	\$ —
Real estate:							
Construction and development	885	132	—	1,017	306,780	307,797	—
Commercial real estate	—	360	350	710	622,132	622,842	—
Farmland	114	87	195	396	145,105	145,501	—
1-4 family residential	1,650	123	410	2,183	408,490	410,673	—
Multi-family residential	—	—	—	—	30,971	30,971	—
Consumer	189	113	68	370	50,595	50,965	—
Agricultural	41	8	—	49	14,590	14,639	—
Overdrafts	—	—	—	—	363	363	—
<b>Total</b>	<b>\$ 3,848</b>	<b>\$ 861</b>	<b>\$ 1,157</b>	<b>\$ 5,866</b>	<b>\$1,902,174</b>	<b>\$1,908,040</b>	<b>\$ —</b>

The following table presents information regarding nonaccrual loans as of:

	<b>2022</b>	<b>2021</b>
Commercial and industrial	\$ 115	\$ 148
Real estate:		
Construction and development	1,435	—
Commercial real estate	7,271	642
Farmland	109	298
1-4 family residential	1,691	1,535
Consumer and overdrafts	170	160
Agricultural	57	48
<b>Total</b>	<b>\$ 10,848</b>	<b>\$ 2,831</b>

If interest on nonaccrual loans had been accrued, such income would have been approximately \$434 and \$141 for the years ended December 31, 2022 and 2021, respectively. There were no commitments to lend additional funds to borrowers whose loans were classified as nonaccrual.

#### 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.

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There were no loans modified as TDRs during the year ended December 31, 2022. No TDRs subsequently defaulted during 2022 or 2021, and the TDRs did not increase the allowance for credit losses and did not result in any charge-offs during years ended December 31, 2022 and 2021.

The following tables present loans, by class, modified as a TDR during the year ended December 31, 2021 and 2020:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>December 31, 2021</b>			
Troubled Debt Restructurings:			
Commercial and industrial	1	17	14
<b>Total</b>	<b>1</b>	<b>\$ 17</b>	<b>\$ 14</b>

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>December 31, 2020</b>			
Troubled Debt Restructurings:			
Construction and development	2	\$ 1,289	\$ 1,081
Commercial and industrial	1	129	85
Commercial real estate	1	\$ 1,017	\$ 670
<b>Total</b>	<b>4</b>	<b>\$ 2,435</b>	<b>\$ 1,836</b>

#### NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment balances, by type, were as follows:

	December 31, 2022	December 31, 2021
Land	\$ 11,135	\$ 10,760
Building and improvements	63,601	59,613
Furniture, fixtures and equipment	19,708	20,221
Automobiles	370	434
	94,814	91,028
Less: accumulated depreciation	40,523	37,558
	<b>\$ 54,291</b>	<b>\$ 53,470</b>

#### NOTE 5 - GOODWILL

There were no changes in the carrying amount of goodwill as presented in the accompanying consolidated balance sheets as of December 31, 2022 or 2021.

#### NOTE 6 - CORE DEPOSIT INTANGIBLES

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

	2022	2021
Beginning of year	\$ 2,313	\$ 2,999
Amortization	(454)	(686)
End of year	<b>\$ 1,859</b>	<b>\$ 2,313</b>

Accumulated amortization was \$6,672 and \$6,218 at December 31, 2022 and 2021, respectively. Amortization expense related to core deposit intangibles was \$454, \$686 and \$854 during the years ended December 31, 2022, 2021 and 2020,

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respectively. The estimated aggregate future amortization expense for core deposit intangibles remaining as of December 31, 2022 was as follows:

Year Ended December 31,	Amount
2023	\$ 441
2024	424
2025	316
2026	272
2027	270
Thereafter	136
	<u>\$ 1,859</u>

**NOTE 7 - INTEREST-BEARING DEPOSITS**

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

	December 31, 2022	December 31, 2021
NOW accounts	\$ 225,859	\$ 293,948
Savings and money market accounts	1,048,612	1,032,698
Time deposits \$250,000 or less	224,550	218,389
Time deposits greater than \$250,000	129,989	111,274
	<u>\$ 1,629,010</u>	<u>\$ 1,656,309</u>

Year-end maturities of time deposits, as of December 31, 2022, were as follows:

Year Ended December 31,	Amount
2023	\$ 283,934
2024	55,292
2025	4,369
2026	6,186
2027	4,758
Thereafter	—
	<u>\$ 354,539</u>

Deposits of executive officers, directors and significant shareholders at December 31, 2022 and 2021 totaled \$56,291 and \$47,318, respectively.

**NOTE 8 - BORROWED MONEY**

Federal Home Loan Bank (FHLB) advances bear interest based on a fixed rate, payable monthly, with all principal due at maturity. The following table presents the scheduled maturities of FHLB advances and their weighted average rates, each as of December 31, 2022:

Year	Current Weighted Average Rate	Principal Due
2023	4.74%	\$ 290,000
		<u>\$ 290,000</u>

The outstanding FHLB advances above will be repaid with cash flows from operations or renewed into new advances.

The Company has an unsecured \$25,000 revolving line of credit with a correspondent bank that bears interest at the greater of (i) the prime rate, which was 7.50% at December 31, 2022, or (ii) the rate floor of 3.50%, with interest payable quarterly, and matures in March 2023. Under the terms of the line of credit, the Company agreed not to pledge or grant a lien or security interest in the stock of the Bank or in any other assets without prior consent of the lender. As of December 31, 2022, there was no outstanding balance on the line of credit. To be in compliance with the loan covenants, the Bank is required to maintain no less than a 10% total risk-based capital ratio, must maintain no less than \$85,000 in tangible net



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worth, the ratio of non-performing assets to equity plus allowance for credit losses must not exceed 15%, the cash flow coverage must be greater than 1.25 times, the ratio of other additional debt to total assets must not exceed 15%, and the Company is limited to acquiring additional debt of no more than \$500 without prior approval. The Company is in compliance with all loan covenants.

**NOTE 9 - SUBORDINATED DEBT**

Subordinated debt was made up of the following as of:

	December 31, 2022	December 31, 2021
Trust II Debentures	\$ —	\$ 3,093
Trust III Debentures	2,062	2,062
DCB Trust I Debentures	5,155	5,155
Subordinated note	34,436	—
Other debentures	7,500	9,500
	<u>\$ 49,153</u>	<u>\$ 19,810</u>

As of December 31, 2022, the Company has two active trusts, Guaranty (TX) Capital Trust III (“Trust III”) and DCB Financial Trust I (“DCB Trust I”). The subordinated debentures of a third trust, Guaranty (TX) Capital Trust II, were redeemed in May 2022, for \$3,093. 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 (comprised of Trust III and DCB Trust I) 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 III	DCB Trust I
Formation date	July 25, 2006	March 29, 2007
Capital trust pass-through securities		
Number of shares	2,000	5,000
Original liquidation value	\$ 2,000	\$ 5,000
Common securities liquidation value	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 December 31, 2022. 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 amounts 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 III Debentures	DCB Trust I Debentures
Original amount	\$ 2,062	\$ 5,155
Maturity date	October 1, 2036	June 15, 2037
Interest due	Quarterly	Quarterly

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

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Trust II Debentures

These debentures were paid off in May, 2022. Prior to repayment, interest was payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 3.35%.

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 May 2020, the Company issued \$10,000 in debentures to directors and other related parties. The debentures were issued at a par value of \$500 each with fixed annual rates between 1.00% and 4.00% and maturity dates between November 1, 2020 and November 1, 2024. Various of these debentures have matured since issuance and \$7,500 remains as of December 31, 2022. 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 March 2022, the Company completed the issuance and sale of \$35,000,000 in principal amount fixed-to-floating rate subordinated notes. The notes have a stated maturity date of April 1, 2032, and bear interest at a fixed annual rate of 3.625%, due semi-annually in arrears on April 1 and October 1, until April 1, 2027, at which point it converts to a floating rate instrument, payable quarterly starting on July 1, 2027, equal to the three-month term Secured Overnight Financing Rate ("SOFR"), reset quarterly, plus a spread of 192 basis points. The Company used the net proceeds of the offering for general corporate purposes, including repayment of debt and purchases of shares of capital stock.

The scheduled principal payments and weighted average rates of subordinated debt are as follows:

Year	Current Weighted Average Rate	Principal Due
2023	2.85%	3,500
2024	3.74%	4,000
Thereafter	3.63%	35,000
Total scheduled principal payments		\$ 42,500
Unamortized debt issuance costs		(564)
		\$ 41,936

**NOTE 10 – EQUITY AWARDS**

The Company's 2015 Equity Incentive Plan (the "Plan") was adopted by the Company and approved by its shareholders in April 2015. The maximum number of shares of common stock that may be issued pursuant to stock-based awards under the Plan equals 1,100,000 shares, all of which may be subject to incentive stock option treatment. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods ranging from 5 to 10 years and have 10-year contractual terms. Restricted stock

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awards vest under the period of restriction specified within their respective award agreements as determined by the Company. Forfeitures are recognized as they occur, subject to a 90-day grace period for vested options.

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 dividend yield is the total dividends per share paid during the period divided by the average of the Company's stock price on each date a grant was issued. The risk-free interest rate for the expected term of the option is based on U.S. Treasury yield curve in effect at the time of the grant.

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

	2022	2021	2020
Risk-free interest rate	2.90%	0.98%	0.79%
Expected term (in years)	6.50	6.50	6.50
Expected stock price volatility	21.70%	23.98%	22.26%
Dividend yield	2.47%	2.35%	2.56%

A summary of stock option activity in the Plan during the years ended December 31, 2022 and 2021 follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
<b>2022</b>				
Outstanding at beginning of year	502,780	\$ 25.77	5.59	\$ 5,936
Granted	102,500	35.58		
Exercised	(69,580)	22.49		
Forfeited	(37,880)	28.16		
Balance, December 31, 2022	<u>497,820</u>	\$ 28.07	5.87	\$ 3,402
Exercisable at end of period	<u>281,340</u>	\$ 25.25	4.32	\$ 2,648
<b>2021</b>				
Outstanding at beginning of year	506,200	\$ 26.81	5.82	\$ 1,805
Effect of 10% stock dividend	50,770			
Granted	58,000	34.30		
Exercised	(89,870)	22.47		
Forfeited	(22,320)	26.16		
Balance, December 31, 2021	<u>502,780</u>	\$ 25.77	5.59	\$ 5,936
Exercisable at end of period	<u>295,696</u>	\$ 24.09	4.40	\$ 3,989

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A summary of nonvested stock option activity in the Plan during the years ended December 31, 2022 and 2021 follows:

<b>2022</b>	<b>Number of Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Outstanding at beginning of year	207,084	\$ 5.23
Granted	102,500	6.98
Vested	(71,944)	(5.50)
Forfeited	(21,160)	(8.86)
Balance, December 31, 2022	<u>216,480</u>	\$ 5.95

<b>2021</b>	<b>Number of Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Outstanding at beginning of year	214,680	\$ 4.46
Effect of 10% stock dividend	23,218	
Granted	58,000	5.92
Vested	(76,494)	(5.39)
Forfeited	(12,320)	(6.99)
Balance, December 31, 2021	<u>207,084</u>	\$ 5.23

Information related to stock options in the Plan is as follows for the years ended:

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Intrinsic value of options exercised	\$ 846	\$ 1,273	\$ 158
Cash received from options exercised	1,565	2,019	638
Weighted average fair value of options granted	6.98	5.92	4.46

**Restricted Stock Awards and Units**

A summary of restricted stock activity in the Plan during the years ended December 31, 2022 and 2021 follows:

<b>2022</b>	<b>Number of Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Outstanding at beginning of year	30,190	\$ 27.52
Vested	(11,260)	(27.52)
Balance, December 31, 2022	<u>18,930</u>	\$ 27.51

<b>2021</b>	<b>Number of Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Outstanding at beginning of year	35,300	\$ 29.72
Effect of 10% stock dividend	3,530	
Granted	3,500	33.09
Vested	(12,140)	(27.05)
Balance, December 31, 2021	<u>30,190</u>	\$ 27.52

Restricted stock granted to employees typically vests over five years, but vesting periods may vary. Compensation expense for these grants is recognized over the vesting period of the awards based on the fair value of the stock at the issue date.

As of December 31, 2022, there was \$1,659 of total unrecognized compensation expense related to unvested stock options and restricted stock granted under the Plan. The expense is expected to be recognized over a weighted-average period of 3.29 years.

The Company granted options and restricted stock under the Plan during both 2022 and 2021. Expense of \$688, \$733 and \$749 was recorded during the years ended December 31, 2022, 2021 and 2020, respectively, which represents the fair value of shares vested during those periods.

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## NOTE 11 - EMPLOYEE BENEFITS

### KSOP

The Company maintains an Employee Stock Ownership Plan containing Section 401(k) provisions covering substantially all employees ("KSOP"). The plan provides for a matching contribution of up to 5% of a participant's qualified compensation starting January 1, 2016. Guaranty's total contributions accrued or paid during the years ended December 31, 2022, 2021 and 2020 totaled \$1,576, \$1,455 and \$1,330, 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 Guaranty 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.

As of December 31, 2022, the number of shares held by the KSOP was 1,091,957. There were no unallocated shares to plan participants as of December 31, 2022, and all shares held by the KSOP were treated as outstanding.

### 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 \$38,404 and \$37,141 as of December 31, 2022 and 2021, respectively. For the year ended December 31, 2021, a gain of \$277 was included in other income in the Company's consolidated statement of earnings, from \$464 in proceeds received from these life insurance policies resulting from the death of a former bank officer. No such gains were recorded during the years ended December 31, 2022 and 2020.

Expense related to these plans totaled \$796, \$738 and \$592 for the years ended December 31, 2022, 2021 and 2020, respectively. This expense is included in employee compensation and benefits on the Company's consolidated statements of earnings. The recorded liability totaled approximately \$5,388 and \$4,969 as of December 31, 2022 and 2021, 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 years ended December 31, 2022, 2021 and 2020 totaled \$5,177, \$4,867 and \$3,164, respectively, which included accrued bonus expense at December 31, 2022, 2021 and 2020 of \$2,332, \$2,190 and \$1,778, respectively. The expense is included in employee compensation and benefits on the consolidated statements of earnings and the accrual is included in accrued interest and other liabilities on the consolidated balance sheets.

## NOTE 12 – LEASES

The Company has operating leases for bank locations, ATMs, corporate offices, and certain other arrangements, which have remaining lease terms of 1 year to 13 years. Some of the Company's operating leases include options to extend the leases for up to 10 years.

Operating leases in which we are the lessee must be recorded as right-of-use assets with corresponding lease liabilities. The right-of-use asset represents our right to utilize the underlying asset during the lease term, while the lease liability represents the present value of the obligation of the Company to make periodic lease payments over the life of the lease.



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The associated operating lease costs are comprised of the amortization of the right-of-use asset and the implicit interest accreted on the lease liability, which is recognized on a straight-line basis over the life of the lease. As of December 31, 2022, operating lease right-of-use assets were \$12,896 and liabilities were \$13,520, and as of December 31, 2021, lease assets and liabilities were \$14,376 and \$14,882 respectively, and were included within the accompanying consolidated balance sheets as components of other assets and accrued interest and other liabilities, respectively.

Operating lease expense for operating leases accounted for under ASC 842 for the years ended December 31, 2022, 2021 and 2020 was approximately \$2,236, \$2,278 and \$1,954, respectively, and is included as a component of occupancy expenses within the accompanying consolidated statements of earnings.

The table below summarizes other information related to our operating leases as of:

	December 31, 2022	December 31, 2021
Operating leases		
Operating lease right-of-use assets	\$ 12,896	\$ 14,376
Operating lease liabilities	13,520	14,882
Weighted average remaining lease term		
Operating leases	8 years	8 years
Weighted average discount rate		
Operating leases	2.00%	1.95%

Minimum future lease payments under these non-cancelable operating leases as of December 31, 2022, are as follows:

Year Ended December 31,	Amount
2023	\$ 2,208
2024	2,134
2025	1,962
2026	1,727
2027	1,536
Thereafter	4,370
Total lease payments	13,937
Less: interest	(417)
Present value of lease liabilities	\$ 13,520

### NOTE 13 - INCOME TAXES

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

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

	2022	2021	2020
Current federal tax expense	\$ 9,991	\$ 8,893	\$ 10,542
Deferred federal tax benefit	(1,157)	(143)	(4,647)
Total	\$ 8,834	\$ 8,750	\$ 5,895

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

	2022	2021	2020
Federal statutory income tax at 21%	\$ 10,344	\$ 10,197	\$ 6,992
Tax exempt interest income	(1,076)	(1,043)	(1,065)
Earnings of bank owned life insurance	(177)	(235)	(182)
Nondeductible expenses	277	180	356
Other	(534)	(349)	(206)
Total	<u>\$ 8,834</u>	<u>\$ 8,750</u>	<u>\$ 5,895</u>

The following table summarizes the components of our deferred tax assets and liabilities as of December 31, 2022 and 2021. Our net deferred tax assets are included in other assets in the accompanying consolidated balance sheets.

	2022	2021
Deferred tax assets:		
Allowance for credit losses	\$ 6,714	\$ 6,391
Deferred compensation	1,132	1,043
Unrealized loss on available for sale securities	4,040	—
Bonus accrual	526	499
Deferred loan fees, net	330	253
Accretion of acquisition allowance	54	72
Other	360	397
Total deferred tax assets	<u>13,156</u>	<u>8,655</u>
Deferred tax liabilities:		
Unrealized gain on available for sale securities	—	(122)
Premises and equipment	(1,494)	(2,138)
Prepaid expenses	(281)	(306)
Intangibles	(230)	(266)
Other	(55)	(46)
Total deferred tax liabilities	<u>(2,060)</u>	<u>(2,878)</u>
Net deferred tax asset	<u>\$ 11,096</u>	<u>\$ 5,777</u>

The Company is no longer subject to U.S. federal income tax examinations for years before 2019.

#### NOTE 14 - 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 sheets in other liabilities, if applicable.

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 9. Management believed 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 was the Company's objective to hedge the change in fair value of floating rate debentures at coverage levels that were appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in the liability to other liabilities of the Company. During the quarter ended September 30, 2021, Guaranty terminated these interest rate swaps with notional amounts totaling \$5,000 at the time of termination, as the risk exposure declined to acceptable levels. The swaps were canceled at an expense of \$466, which is included in non-interest expense in the 2021 consolidated statement of earnings.

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In the first quarter of 2022, the Company also terminated interest rate swaps that were originally designed to receive payments at a floating rate in exchange for paying a fixed rate, the objective of which was to reduce the overall cost of short-term 3-month FHLB advances that were renewed consistent with the reset terms on the interest rate swaps. The swaps were canceled at a net gain of \$685, which is included in other non-interest income in the consolidated statements of earnings. The interest rate swaps, with notional amounts totaling \$40,000 as of December 31, 2021 were designated as cash flow hedges of the FHLB Advances.

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 (loss) income.

There were no outstanding interest rate swap agreements as of December 31, 2022.

As of December 31, 2021, the information pertaining to outstanding interest rate swap agreements used to hedge floating rate debentures and FHLB advances was as follows:

**December 31, 2021**

	Notional Amount	Pay Rate	Receive Rate	Effective Date	Maturity in Years	Unrealized (Gains) Losses
\$	15,000	0.668%	3 month LIBOR	3/18/2020	1.22	8
	15,000	0.790%	3 month LIBOR	3/18/2020	3.22	(184)
	10,000	0.530%	3 month LIBOR	3/23/2020	1.23	(12)

Interest expense recorded on these swap transactions totaled \$282, \$607 and \$747 during the years ended December 31, 2022, 2021 and 2020, respectively. This expense is reported as a component of interest expense within subordinated debt and the FHLB advances and federal funds purchased on the consolidated statements of earnings.

**NOTE 15 - 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 considers the likelihood of commitments and letters of credit to be funded, along with credit related conditions present in the loan agreements when estimating an ACL for off-balance sheet commitments. Loan agreements executed in connection with construction loans and commercial lines of credit have standard conditions which must be met prior to the Company being required to provide additional funding, including conditions precedent that typically include: (i) no event of default or potential default has occurred; (ii) that no material adverse events have taken place that would materially affect the borrower or the value of the collateral, (iii) that the borrower remains in compliance with all loan obligations and covenants and has made no misrepresentations; (iv) that the collateral has not been damaged or impaired; (v) that the project remains on budget and in compliance with all laws and regulations; and (vi) that all management agreements, lease agreements and franchise agreements that affect the value of the collateral remain in force. If the conditions precedent have not been met, the Company retains the option to cease current draws and/or future funding. As a result of these conditions within our loan agreements, management has determined that credit risk is minimal and there is no recorded ACL as of December 31, 2022 and 2021.

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

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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. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers. As of December 31, 2022 and 2021, no amounts have been recorded as an ACL for the Bank's potential obligations under these guarantees.

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

	Contract or Notional Amount	
	2022	2021
Commitments to extend credit	\$ 474,745	\$ 405,269
Letters of credit	8,289	8,357

Litigation

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

FHLB Letters of Credit

At December 31, 2022, the Company had letters of credit of \$15,000 pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

**NOTE 16 - 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 that were fully phased in on January 1, 2019. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and or Tier 1 capital to adjusted quarterly average assets (as defined). Management believes, as of December 31, 2022 and 2021, that the Bank met all capital adequacy requirements to which it was subject.

The Basel III Capital Rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specified that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, (iv) expanded the scope of the deductions/adjustments as compared to existing regulations, and (v) imposed a "capital conservation buffer" of 2.5% above minimum risk-based capital requirements, below which an institution would be subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers.

As of December 31, 2022 and 2021, 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 capital ratios as set forth in the table. There are no conditions or events since December 31, 2022 that management believes have changed the Company's category.

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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 1 capital, net of goodwill, the rules permit the inclusion of \$7,217 and \$10,310 of trust preferred securities in Tier 1 capital as of December 31, 2022 and 2021, respectively. Additionally, the rules 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 subordinated debentures.

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:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Basel III (Including Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2022</b>								
Total capital to risk-weighted assets:								
Consolidated	\$ 358,702	14.37%	\$ 199,687	8.00%	\$ 262,089	10.50%	\$ 249,608	10.00%
Bank	361,125	14.48%	199,570	8.00%	261,936	10.50%	249,463	10.00%
Tier 1 capital to risk-weighted assets:								
Consolidated	292,966	11.74%	149,765	6.00%	212,167	8.50%	149,765	6.00%
Bank	329,933	13.23%	149,678	6.00%	212,044	8.50%	199,570	8.00%
Tier 1 capital to average assets: <sup>(1)</sup>								
Consolidated	292,966	8.77%	133,614	4.00%	133,614	4.00%	n/a	
Bank	329,933	9.89%	133,375	4.00%	133,375	4.00%	166,718	5.00%
Common equity tier 1 capital to risk-weighted assets:								
Consolidated	285,749	11.45%	112,324	4.50%	174,726	7.00%	n/a	
Bank	329,933	13.23%	112,258	4.50%	174,624	7.00%	162,151	6.50%

(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve and the FDIC may require the Consolidated Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Basel III (Including Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2021</b>								
Total capital to risk-weighted assets:								
Consolidated	\$ 297,370	14.51%	\$ 163,986	8.00%	\$ 215,232	10.50%	\$ 204,983	10.00%
Bank	311,335	15.19%	163,936	8.00%	215,166	10.50%	204,920	10.00%
Tier 1 capital to risk-weighted assets:								
Consolidated	271,696	13.25%	122,990	6.00%	174,235	8.50%	122,990	6.00%
Bank	285,661	13.94%	122,952	6.00%	174,182	8.50%	163,936	8.00%
Tier 1 capital to average assets: <sup>(1)</sup>								
Consolidated	271,696	9.18%	118,369	4.00%	118,369	4.00%	n/a	
Bank	285,661	9.66%	118,345	4.00%	118,345	4.00%	147,931	5.00%
Common equity tier 1 capital to risk-weighted assets:								
Consolidated	261,386	12.75%	92,242	4.50%	143,488	7.00%	n/a	
Bank	285,661	13.94%	92,214	4.50%	143,444	7.00%	133,198	6.50%

(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve and the FDIC may require the Consolidated Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.



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Dividends paid by Guaranty are mainly provided by dividends from its subsidiaries. However, certain regulatory restrictions exist regarding the ability of its bank subsidiary to transfer funds to Guaranty in the form of cash dividends, loans or advances. The amount of dividends that a subsidiary bank organized as a national banking association, such as the Bank, may declare in a calendar year is the subsidiary bank's net profits for that year combined with its retained net profits for the preceding two years. Retained net profits, as defined by the OCC, consist of net income less dividends declared during the period. As of December 31, 2022, the Bank had \$67,760 available for payment of dividends. Dividends are paid quarterly, and \$10,527 in dividends were paid during the year ended December 31, 2022.

**NOTE 17 - CONCENTRATIONS OF CREDIT RISK**

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

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

**NOTE 18 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Securities sold under agreements to repurchase were \$7,221 and \$14,151 as of December 31, 2022 and 2021, respectively, and are secured by mortgage-backed securities and collateralized mortgage obligations.

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

	2022	2021
Average balance during the year	\$ 8,596	\$ 14,812
Average interest rate during the year	0.42%	0.11%
Maximum month-end balance during the year	\$ 12,118	\$ 36,322
Weighted average interest rate at year-end	0.44%	0.76%

**NOTE 19 - RELATED PARTIES**

As more fully described in Note 3, Note 7 and Note 9, the Company has entered into loans, deposits and debenture transactions with related parties. Management believes the transactions entered into with related parties are in the ordinary course of business and are on terms similar to transactions with unaffiliated parties.

**NOTE 20 - FAIR VALUE**

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

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

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

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

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

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

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

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

**Other Real Estate Owned:** Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly (Level 3).

**Individually Evaluated Collateral Dependent Loans:** The fair value of individually evaluated collateral dependent loans is generally based on the fair value of collateral, less costs to sell. The fair value of real estate collateral is determined using recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant (Level 3). Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business (Level 3).

The following tables summarize quantitative disclosures about the fair value measurements for each category of financial assets (liabilities) carried at fair value:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>December 31, 2022</b>				
Assets at fair value on a recurring basis:				
Available for sale securities:				
Mortgage-backed securities	\$ 130,341	\$ —	\$ 130,341	\$ —
Collateralized mortgage obligations	20,157	—	20,157	—
Municipal securities	10,642	—	10,642	—
Corporate bonds	27,787	—	27,787	—
Loans held for sale	3,156	—	—	3,156
Cash surrender value of life insurance	38,404	—	38,404	—
SBA servicing assets	874	—	—	874
Assets at fair value on a nonrecurring basis:				
Individually evaluated collateral dependent loans	—	—	—	—

GUARANTY BANCSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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December 31, 2021	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets at fair value on a recurring basis:				
Available for sale securities:				
Mortgage-backed securities	\$ 221,308	\$ —	\$ 221,308	\$ —
Collateralized mortgage obligations	74,992	—	74,992	—
Corporate bonds	35,935	—	35,935	—
U.S. government agencies	9,971	—	9,971	—
Loans held for sale	4,129	—	—	4,129
Cash surrender value of life insurance	37,141	—	37,141	—
SBA servicing assets	877	—	—	877
Derivative instrument assets	(196)	—	(196)	—
Derivative instrument liabilities	8	—	8	—
Assets at fair value on a nonrecurring basis:				
Individually evaluated collateral dependent loans	4,244	—	—	4,244

There were no transfers between Level 2 and Level 3 during the years December 31, 2022 or 2021.

Nonfinancial Assets and Nonfinancial Liabilities

Nonfinancial assets measured at fair value on a nonrecurring basis during the years ended December 31, 2022 and 2021 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for credit losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

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

	2022	2021	2020
Other real estate owned remeasured at initial recognition:			
Carrying value of other real estate owned prior to remeasurement	\$ —	\$ —	\$ 42
Charge-offs recognized in the allowance for credit losses	—	—	(9)
Fair value of other real estate owned remeasured at initial recognition	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33</u>
Other real estate owned remeasured subsequent to initial recognition:			
Carrying value of other real estate owned prior to remeasurement	\$ —	\$ —	\$ 62
Write-downs included in collection and other real estate owned expense	—	—	(1)
Fair value of other real estate owned remeasured subsequent to initial recognition	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 61</u>

The following table presents quantitative information about nonrecurring Level 3 fair value measurements as of December 31, 2022. There were no nonrecurring Level 3 fair value measurements as of December 31, 2021:

December 31, 2022	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Other real estate owned	\$ 38	Appraisal value of collateral	Selling costs or other normal adjustments	49%

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There were no individually evaluated collateral depended loans as of December 31, 2022. The following table presents information on individually evaluated collateral dependent loans as of December 31, 2021:

December 31, 2021	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
Commercial and industrial	\$ —	\$ —	\$ 76	\$ 76
Real estate:				
Construction and development	—	—	402	402
Commercial real estate	—	—	3,766	3,766
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,244</b>	<b>\$ 4,244</b>

The carrying amounts and estimated fair values of financial instruments not previously discussed in this note, as of December 31, 2022 and 2021, are as follows:

	Fair value measurements as of December 31, 2022 using:				
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Financial assets:</b>					
Cash, due from banks, federal funds sold and interest-bearing deposits	\$ 106,467	\$ 106,467	\$ —	\$ —	\$ 106,467
Marketable securities held to maturity	509,008	—	475,068	—	475,068
Loans, net	2,344,245	—	—	2,217,606	2,217,606
Accrued interest receivable	11,555	—	11,555	—	11,555
Nonmarketable equity securities	25,585	—	25,585	—	25,585
<b>Financial liabilities:</b>					
Deposits	\$ 2,681,154	\$ 2,326,615	\$ 351,981	\$ —	\$ 2,678,596
Securities sold under repurchase agreements	7,221	—	7,221	—	7,221
Accrued interest payable	2,348	—	2,348	—	2,348
Federal Home Loan Bank advances	290,000	—	289,926	—	289,926
Subordinated debt	49,153	—	50,025	—	50,025

	Fair value measurements as of December 31, 2021 using:				
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Financial assets:</b>					
Cash, due from banks, federal funds sold and interest-bearing deposits	\$ 499,605	\$ 499,605	\$ —	\$ —	\$ 499,605
Marketable securities held to maturity	184,263	—	192,472	—	192,472
Loans, net	1,876,076	—	—	1,883,756	1,883,756
Accrued interest receivable	8,901	—	8,901	—	8,901
Nonmarketable equity securities	15,344	—	15,344	—	15,344
<b>Financial liabilities:</b>					
Deposits	\$ 2,670,827	\$ 2,341,048	\$ 330,356	\$ —	\$ 2,671,404
Securities sold under repurchase agreements	14,151	—	14,151	—	14,151
Accrued interest payable	481	—	481	—	481
Federal Home Loan Bank advances	47,500	—	47,501	—	47,501
Subordinated debt	19,810	—	17,833	—	17,833

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

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

**Marketable Securities Held to Maturity:** The fair values for marketable securities held to maturity are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

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

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

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

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

**Accrued Interest Receivable/Payable:** The carrying amounts of accrued interest approximate their fair values (Level 2).

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

**NOTE 21 - ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The following are changes in accumulated other comprehensive loss by component, net of tax, for the year ending December 31, 2022:

	Gains (Losses) on Cash Flow Hedges	Unrealized (Losses) Gains on Available for Sale Securities	Unrealized Gains (Losses) on Held to Maturity Securities	Total
Beginning balance	\$ 188	\$ 5,342	\$ 775	\$ 6,305
Other comprehensive income (loss) before reclassification and tax effect	497	(33,175)	(1,535)	(34,213)
Tax effect	—	6,967	(2,770)	4,197
Amounts reclassified from accumulated other comprehensive loss	(685)	136	—	(549)
Net current period other comprehensive loss	(188)	(26,072)	(4,305)	(30,565)
Ending balance	\$ —	\$ (20,730)	\$ (3,530)	\$ (24,260)

The following are amounts reclassified out of each component of accumulated other comprehensive loss for the year ended December 31, 2022:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified From Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Earnings is Presented
Unrealized gain on available for sale securities	\$ (172)	Net realized gain on sale of securities available for sale
Tax effect	36	Tax expense
Net of tax	\$ (136)	



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The following are changes in accumulated other comprehensive income by component, net of tax, for the year ended December 31, 2021:

	(Losses) Gains on Cash Flow Hedges	Unrealized Gains (Losses) on Available for Sale Securities	Unrealized (Losses) Gains on Held to Maturity Securities	Total
Beginning balance	\$ (1,151)	\$ 10,780	\$ —	\$ 9,629
Other comprehensive income (loss) before reclassification and tax effect	873	(6,884)	(1,374)	(7,385)
Tax effect	—	1,446	2,149	3,595
Amounts reclassified from accumulated other comprehensive loss	466	—	—	466
Net current period other comprehensive income (loss)	1,339	(5,438)	775	(3,324)
Ending balance	<u>\$ 188</u>	<u>\$ 5,342</u>	<u>\$ 775</u>	<u>\$ 6,305</u>

The following are changes in accumulated other comprehensive (loss) income by component, net of tax, for the year ended December 31, 2020:

	Losses on Cash Flow Hedges	Unrealized (Losses) Gains on Available for Sale Securities	Unrealized (Losses) Gains on Held to Maturity Securities	Total
Beginning balance	\$ (526)	\$ (1,221)	\$ (46)	\$ (1,793)
Other comprehensive income (loss) before tax effect	(625)	15,194	46	14,615
Tax effect	—	(3,193)	—	(3,193)
Net current period other comprehensive income (loss)	(625)	12,001	46	11,422
Ending balance	<u>\$ (1,151)</u>	<u>\$ 10,780</u>	<u>\$ —</u>	<u>\$ 9,629</u>

There were no amounts reclassified out of accumulated other comprehensive (loss) income for the year ended December 31, 2020.

## NOTE 22 - EARNINGS PER SHARE

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

Stock options granted by the Company are treated as potential shares in computing earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money awards which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax impact that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

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

	2022	2021	2020
<b>Numerator:</b>			
Net earnings attributable to Guaranty Bancshares, Inc.	\$ 40,447	\$ 39,806	\$ 27,402
<b>Denominator:</b>			
Weighted-average shares outstanding (basic)	11,980,209	12,065,182	12,219,420
Effect of dilutive securities:			
Common stock equivalent shares from stock options	112,638	146,576	36,059
Weighted-average shares outstanding (diluted)	12,092,847	12,211,758	12,255,480
<b>Net earnings attributable to Guaranty Bancshares, Inc. per share</b>			
Basic	\$ 3.38	\$ 3.30	\$ 2.25
Diluted	\$ 3.34	\$ 3.26	\$ 2.24

**NOTE 23 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

Condensed financial information of Guaranty Bancshares, Inc. follows:

	December 31,	
	2022	2021
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,848	\$ 2,709
Investment in banking subsidiary	339,168	326,489
Other assets	1,351	627
Total assets	\$ 347,367	\$ 329,825

<b>LIABILITIES AND EQUITY</b>		
Line of credit	\$ —	\$ 5,000
Subordinated debt, net	49,153	19,810
Accrued expenses and other liabilities	3,230	2,801
Shareholders' equity	294,984	302,214
Total liabilities and shareholders' equity	\$ 347,367	\$ 329,825

	For the Years Ended December 31,		
	2022	2021	2020
Interest income	\$ 8	\$ 7	\$ 10
Dividends from Guaranty Bank & Trust	—	18,000	—
	8	18,007	10
<b>Expenses</b>			
Interest expense	1,755	916	939
Other expenses	1,974	2,520	2,000
	3,729	3,436	2,939
(Loss) income before income tax and equity in undistributed income of subsidiary	(3,721)	14,571	(2,929)
Income tax benefit	924	718	574
(Loss) income before equity in undistributed earnings of subsidiary	(2,797)	15,289	(2,355)
Equity in undistributed earnings of subsidiary	43,244	24,517	29,757
Net earnings	\$ 40,447	\$ 39,806	\$ 27,402
Comprehensive income	\$ 9,882	\$ 36,482	\$ 38,824

GUARANTY BANCSHARES, INC.  
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	For the Years Ended December 31,		
	2022	2021	2020
<b>Cash flows from operating activities</b>			
Net earnings	\$ 40,447	\$ 39,806	\$ 27,402
Adjustments:			
Equity in undistributed subsidiary earnings	(43,244)	(24,517)	(29,757)
Stock based compensation	688	733	749
Change in other assets	(724)	(176)	18
Change in other liabilities	226	44	(673)
Net cash (used in) provided by operating activities	(2,607)	15,890	(2,261)
<b>Cash flows from investing activities</b>			
Net cash provided by investing activities	—	—	—
<b>Cash flows from financing activities</b>			
Proceeds of borrowings	35,436	10,000	40,000
Repayments of borrowings	(11,093)	(17,000)	(19,000)
Purchase of treasury stock	(8,838)	—	(16,927)
Exercise of stock options	1,565	2,019	638
Cash dividends paid	(10,324)	(9,427)	(8,487)
Net cash used in financing activities	6,746	(14,408)	(3,776)
Net change in cash and cash equivalents	4,139	1,482	(6,037)
Beginning cash and cash equivalents	2,709	1,227	7,264
Ending cash and cash equivalents	\$ 6,848	\$ 2,709	\$ 1,227

**Subsidiaries of Guaranty Bancshares, Inc.**

<u>Name</u>	<u>Jurisdiction of Organization</u>
Guaranty Bank & Trust, N.A.	United States
Guaranty (TX) Capital Trust III	Delaware
DCB Financial Trust I	Delaware

**Subsidiaries of Guaranty Bank & Trust, N.A.**

<u>Name</u>	<u>Jurisdiction of Organization</u>
Guaranty Company, Inc.	Texas
GB Com, Inc.	Texas
2800 South Texas Avenue, LLC	Texas
Pin Oak Realty Holdings, Inc.	Texas
Guaranty Bank & Trust Political Action Committee	Texas
White Oak Aviation, LLC	Texas
Caliber Guaranty Private Account, LLC	Texas

**Subsidiaries of Pin Oak Realty Holdings, Inc.**

<u>Name</u>	<u>Jurisdiction of Organization</u>
Pin Oak Asset Management, LLC	Texas

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-261266) and Form S-8 (File No. 333-217801) of Guaranty Bancshares, Inc. of our report dated March 10, 2023, relating to the consolidated financial statements and our report dated March 10, 2023, relating to the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K of Guaranty Bancshares, Inc. for the year ended December 31, 2022.

/s/ Whitley Penn LLP

Plano, Texas  
March 10, 2023



## CERTIFICATION

I, Tyson T. Abston, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guaranty Bancshares, Inc. for the year ended December 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2023

/s/ Tyson T. Abston

Tyson T. Abston

Chairman of the Board & Chief Executive Officer

## CERTIFICATION

I, Clifton A. Payne, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guaranty Bancshares, Inc. for the year ended December 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2023

/s/ Clifton A. Payne  
Chief Financial Officer & Director  
Clifton A. Payne

**CERTIFICATION**

In connection with the Annual Report on Form 10-K of Guaranty Bancshares, Inc. (the "Company") for the year ended December 31, 2022 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Tyson T. Abston, Chairman of the Board & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tyson T. Abston

Tyson T. Abston

Chairman of the Board & Chief Executive Officer

Date: March 10, 2023

**CERTIFICATION**

In connection with the Annual Report on Form 10-K of Guaranty Bancshares, Inc. (the "Company") for the year ended December 31, 2022 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Clifton A. Payne, Chief Financial Officer & Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Clifton A. Payne

Clifton A. Payne

Chief Financial Officer & Director

Date: March 10, 2023

***Guaranty***  
Bancshares, Inc.



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