Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3108(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

NOTE: The Annual Report of Holding Companies must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I. Clifton A. Payne
Name of the Holding Company Director and Official
Sr. EVP & CFO
Title of the Holding Company Director and Official

attest that the Annual Report of Holding Companies (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 281, that the Reporter and individual consent to public release of all details in this report concerning that individual.

Signature of Holding Company Director and Official

Date of Signature: 3-17-2017

For holding companies not registered with the SEC—indicate status of Annual Report to Shareholders:

☐ is included with the FR Y-6 report
☐ will be sent under separate cover
☐ is not prepared

For Federal Reserve Bank Use Only

RASS ID 186 2036

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

12/2016
Note: No entity has a LEI
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<th>EffectiveDate</th>
<th>BranchServiceType</th>
<th>BranchID</th>
<th>RegionName</th>
<th>StreetAddress</th>
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<th>State</th>
<th>ZipCode</th>
<th>County</th>
<th>Country</th>
<th>FirstUnlinked</th>
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<th>HeadOffice</th>
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<th>Comments</th>
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</table>

Note: To satisfy the FR 1-30 reporting requirements, you must also submit a FR 1-30: Domestic Branch Schedules for each branch with a State of Active of 'Changes', 'Open', ' Rifle', or 'N/A'. The FR 1-30 report must be submitted in a hardcopy format or via the FR 1-30 Online application - https://fr130.othregulations.gov.
Report Item 3: Securities Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

<table>
<thead>
<tr>
<th>Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2016</th>
<th>Securities Holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)(a)</td>
<td>(1)(b)</td>
</tr>
<tr>
<td>Name, City, State, Country</td>
<td>Country of Citizenship or Incorporation</td>
</tr>
<tr>
<td>Guaranty Bancshares, Inc. 401(k) *</td>
<td>USA</td>
</tr>
<tr>
<td>Mt. Pleasant, TX</td>
<td></td>
</tr>
<tr>
<td>Weidon Miller</td>
<td>USA</td>
</tr>
<tr>
<td>Mt. Pleasant, TX</td>
<td></td>
</tr>
</tbody>
</table>

* KSOP has no director. Its trustees are Carl Johnson, Chairman, Chris Elliott, Bill Priefert and Johnny Conroy.
## Report Item 4: Insiders

<table>
<thead>
<tr>
<th>Name, City, State, Country</th>
<th>Principal Occupation if other than with Holding Company</th>
<th>Title &amp; Position with Holding Company</th>
<th>Title &amp; Position with Subsidiaries (Include names of subsidiaries)</th>
<th>Title &amp; Position with Other Businesses (Include names of other businesses)</th>
<th>Percentage of Voting Shares in Holding Company</th>
<th>Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)</th>
<th>List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ty Abston Mt Pleasant, TX USA</td>
<td>Banker</td>
<td>Director/Chairman &amp; CEO</td>
<td>Director, Chairman, CEO, President, Guaranty Bank &amp; Trust Company</td>
<td>Managing Partner, Calindo 2017, LLC Member, Panama South Coast Venture, LLC</td>
<td>1.72%</td>
<td>N/A</td>
<td>Calindo 2017 LLC 100.00% Panama South Coast Venture, LLC 25.00%</td>
</tr>
<tr>
<td>Ricky Baker Mt Pleasant, TX USA</td>
<td>Private Investor</td>
<td>Director</td>
<td>Director, Guaranty Bank &amp; Trust Company, Inc.</td>
<td>Sole Member, AvTex Holdings, LLC Vice President &amp; Member, KRB Investments, LLC President, Permian Rig Components, LLC Limited Partner, RVB Properties, Ltd. Managing Member, Lofts Investment Group, LLC Managing Member, Marquez, LLC President, DBPPE of Texas, Inc.</td>
<td>3.54%</td>
<td>N/A</td>
<td>AvTex Holdings, LLC - 100% KRB Investments, LLC - 50% DBPPE of Texas, Inc. - 100%</td>
</tr>
<tr>
<td>James S. Bunch Texarkana, TX USA</td>
<td>Feed &amp; Fertilize Company</td>
<td>Owner</td>
<td>Director, Guaranty Bank &amp; Trust Company, Inc.</td>
<td>President/CEO, BWI Companies, Inc. General Partner, Bunch Partners IV Limited Partner, Bunch Families Limited Partnership Managing Member, Bunch Properties, LLC General Partner, Bunch Partners III Director, Prielft Mfg. General Partner, Bunch &amp; Cox Properties, LLC Director, Voluntary Purchasing Group Director, Prokoz Director/Chairman of the Board, Gro Group</td>
<td>0.69%</td>
<td>N/A</td>
<td>BWI Companies, Inc. 50% Bunch Partners IV 50% Bunch Properties, LLC 100%</td>
</tr>
<tr>
<td>Johnny O Conroy Mt Pleasant, TX USA</td>
<td>Retired - Tractor Dealer</td>
<td>Director</td>
<td>Director, Guaranty Bank &amp; Trust Company, Inc.</td>
<td>Manager, J O Roy, LLC</td>
<td>1.64%</td>
<td>N/A</td>
<td>J O Roy, LLC 100.00%</td>
</tr>
<tr>
<td>Name, City, State, Country</td>
<td>Principal Occupation if other than with Holding Company</td>
<td>Title &amp; Position with Subsidiaries (Include names of subsidiaries)</td>
<td>Title &amp; Position with Other Businesses (Include names of other businesses)</td>
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<td>Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)</td>
<td>List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)</td>
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<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Brad Drake, Paris, TX, USA</td>
<td>Construction Company Owner</td>
<td>Director, Guaranty Bank &amp; Trust</td>
<td>Manager/Member, Brad Drake Construction, LLC</td>
<td>2.05%</td>
<td>N/A</td>
<td>Brad Drake Construction, LLC 100.00% Lamar Industrial, LLC 100% Lamar Diversified Energy, LLC 100.00% Lamar Logistics, LLC 100% Lamar Companies, LLC 100%</td>
<td></td>
</tr>
<tr>
<td>Chris Elliott, Mt. Pleasant, TX, USA</td>
<td>Automobile Dealership Owner</td>
<td>Director, Guaranty Bank &amp; Trust</td>
<td>Secretary/Treasurer, Elliott Motors, Inc</td>
<td>1.19%</td>
<td>N/A</td>
<td>CFLM, Inc. 87.5% Hub Development, Inc. 100 00% Karlos GP, Inc. 100% I-30 Investment Properties, Inc. 68.70% Panama South Coast Venture, LLC -25% Karlos Holdings, LP 87.70% Mt. Pleasant Investments GP, Inc. 100% Jacksonville Holdings GP, Inc. 55%</td>
<td></td>
</tr>
</tbody>
</table>

**Report Item 4: Insiders**
<table>
<thead>
<tr>
<th>Name, City, State, Country</th>
<th>Principal Occupation if other than with Holding Company</th>
<th>Director/Position with Subsidiaries (include names of subsidiaries)</th>
<th>Title &amp; Position with Other Businesses (include names of other businesses)</th>
<th>Percentage of Voting Shares in Holding Company</th>
<th>Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)</th>
<th>List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carl Johnson, Jr.</td>
<td>Certified Public Accountant</td>
<td>Director, Guaranty Bank &amp; Trust</td>
<td>Secretary/Treasurer, Baker &amp; Johnson, PC</td>
<td>0.53%</td>
<td>N/A</td>
<td>Baker &amp; Johnson, P.C. 100.00%</td>
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<tr>
<td>Mt Pleasant, TX USA</td>
<td></td>
<td>Director, Guaranty Company, Inc</td>
<td>Secretaries/Treasurers, M.P. Pleasant Country Club, Titus County, Texas</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Director, GB Com, Inc.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Director, Pin Oak Realty Holdings, Inc.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Director, Guaranty Bank &amp; Trust PAC</td>
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</tr>
<tr>
<td>Kirk Lee Bryan, TX USA</td>
<td>Banker</td>
<td>Director/Vice Chairman of the Board</td>
<td>Member, Panama South Coast Venture, LLC</td>
<td>2.11%</td>
<td>N/A</td>
<td>Panama South Coast Venture, LLC 25.00%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Director, Vice Chairman of the Board</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Director, Guaranty Company, Inc</td>
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<tr>
<td></td>
<td></td>
<td>Director, President, Guaranty Company, Inc</td>
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<tr>
<td></td>
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<td>Director, President, G.B. Com, Inc</td>
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<tr>
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<td>Director, President, Pin Oak Realty Holdings, Inc.</td>
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<tr>
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<td></td>
<td>Director, Director, Guaranty Bank &amp; Trust PAC</td>
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<tr>
<td>Weldon Miller</td>
<td>Furniture Store Owner</td>
<td>Director, Guaranty Company, Inc</td>
<td>President, Everybody's Furniture Company</td>
<td>5.02%</td>
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<td>Everybody's Furniture Company 100%</td>
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<td>Director, Guaranty Company, Inc</td>
<td>Partner, Cherokee Point</td>
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<td>Cherokee Point 50.00%</td>
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<td>Partner, Scharlach &amp; Miller</td>
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<td>Scharlach &amp; Miller 50.00%</td>
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<tr>
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<tr>
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<td>Director, Director, Guaranty Bank &amp; Trust PAC</td>
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<tr>
<td>Clifton A Payne</td>
<td>Banker</td>
<td>Director/Executive VP &amp; CFO, Guaranty Bank &amp; Trust</td>
<td>Vice President, Aderhold Funeral Home Corp.</td>
<td>2.45%</td>
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<td>Aderhold Funeral Home Corp. 25.00%</td>
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<td>Mt Pleasant, TX USA</td>
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<td>Director/Executive VP &amp; CFO, Guaranty Bank &amp; Trust</td>
<td>Partner, Alcar Properties</td>
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<tr>
<td></td>
<td></td>
<td>Director, Executive VP &amp; CFO, GB Com, Inc</td>
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<tr>
<td></td>
<td></td>
<td>Director, Executive VP &amp; CFO, Pin Oak Realty Holdings, Inc.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Director, Director, Executive VP &amp; CFO, Guaranty Bank &amp; Trust PAC</td>
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<tr>
<td>Bill Priefert</td>
<td>Farm Equipment Mgt. Company owner</td>
<td>Director, Guaranty Bank &amp; Trust</td>
<td>CEO/Chairman, Priefert Manufacturing Co., Inc.</td>
<td>2.17%</td>
<td>N/A</td>
<td>Priefert Manufacturing Co. 100.00%</td>
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<tr>
<td>Mt Pleasant, TX USA</td>
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<td>Director, Guaranty Company, Inc</td>
<td>Member/Manager, South Central Logistics, LLC</td>
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<td>South Central Logistics, LLC 50.00%</td>
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<td>Director, GB Com, Inc.</td>
<td>Limited Partner, PMCI Properties, II, LC</td>
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<td>PMCI Properties, II, LC 99.48%</td>
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<td>Director, Pin Oak Realty Holdings, Inc.</td>
<td>Manager, PMCI Management, II, LC</td>
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<td>Priefert Complex Designs 100.00%</td>
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<td></td>
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<td>Director, Director, Guaranty Bank &amp; Trust PAC</td>
<td>Limited Partner, Priefert Logistics, L.P.</td>
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<td>Priefert Logistics, L.P. 90.00%</td>
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<td>Arthur B Scharlach, Jr.</td>
<td>Retired Banker</td>
<td>Director, Guaranty Company, Inc</td>
<td>Partner, Cherokee Point</td>
<td>1.36%</td>
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<td>Cherokee Point 50.00%</td>
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<td>Mt Pleasant, TX</td>
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<td>Director, Guaranty Company, Inc</td>
<td>Partner, Scharlach &amp; Miller</td>
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<td>Scharlach &amp; Miller 50.00%</td>
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<td>Director, Pin Oak Realty Holdings, Inc.</td>
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<td>Director, Director, Guaranty Bank &amp; Trust PAC</td>
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<td>Guaranty Bancshares, Inc.</td>
<td>N/A</td>
<td>N/A</td>
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<td>N/A</td>
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<tr>
<td>Mt Pleasant, TX USA</td>
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<td>N/A</td>
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</table>
FINANCIAL STATEMENTS 2016

Guaranty Bancshares, Inc.

STRENGTH & STABILITY
Table of Contents

Report of Independent Registered Public Accounting Firm................................. 1

Financial Statements:
  Consolidated Balance Sheets ........................................................................... 2
  Consolidated Statements of Earnings .................................................................. 3
  Consolidated Statements of Comprehensive Income ........................................ 4
  Consolidated Statements of Changes in Shareholders’ Equity ............................. 5
  Consolidated Statements of Cash Flows ............................................................... 6

Notes to Consolidated Financial Statements ......................................................... 8
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Guaranty Bancshares, Inc.

We have audited the accompanying consolidated balance sheets of Guaranty Bancshares, Inc. (the “Company”), as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2016. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company as of December 31, 2014, were audited by other auditors whose report dated March 18, 2015, expressed an unmodified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP
Dallas, Texas
March 1, 2017
### GUARANTY BANCSHARES, INC.
#### CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(Dollars in thousands, except share amounts)

#### (Unaudited) Pro Forma 2016

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<th>2016</th>
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<tr>
<td><strong>ASSETS</strong></td>
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<tr>
<td>Cash and due from banks</td>
<td>$39,605</td>
<td>$36,024</td>
<td>$39,605</td>
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<tr>
<td>Federal funds sold</td>
<td>60,600</td>
<td>49,900</td>
<td>60,600</td>
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<tr>
<td>Interest-bearing deposits</td>
<td>27,338</td>
<td>25,455</td>
<td>27,338</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>127,543</td>
<td>111,379</td>
<td>127,543</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>156,925</td>
<td>272,944</td>
<td>156,925</td>
</tr>
<tr>
<td>Securities held to maturity</td>
<td>189,371</td>
<td>125,031</td>
<td>189,371</td>
</tr>
<tr>
<td>Loans held for sale</td>
<td>2,563</td>
<td>3,867</td>
<td>2,563</td>
</tr>
<tr>
<td>Loans, net</td>
<td>1,233,651</td>
<td>1,059,404</td>
<td>1,233,651</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>7,419</td>
<td>5,931</td>
<td>7,419</td>
</tr>
<tr>
<td>Premises and equipment, net</td>
<td>44,810</td>
<td>44,333</td>
<td>44,810</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>1,692</td>
<td>1,693</td>
<td>1,692</td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>17,804</td>
<td>16,783</td>
<td>17,804</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>4,892</td>
<td>3,505</td>
<td>4,892</td>
</tr>
<tr>
<td>Core deposit intangible, net</td>
<td>3,308</td>
<td>3,846</td>
<td>3,308</td>
</tr>
<tr>
<td>Goodwill</td>
<td>18,742</td>
<td>18,601</td>
<td>18,742</td>
</tr>
<tr>
<td>Other assets</td>
<td>19,616</td>
<td>15,323</td>
<td>19,616</td>
</tr>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noninterest-bearing</td>
<td>$358,752</td>
<td>$325,556</td>
<td>$358,752</td>
</tr>
<tr>
<td>Interest-bearing</td>
<td>1,218,039</td>
<td>1,140,641</td>
<td>1,218,039</td>
</tr>
<tr>
<td>Total deposits</td>
<td>1,576,791</td>
<td>1,466,197</td>
<td>1,576,791</td>
</tr>
<tr>
<td>Securities sold under agreements to repurchase</td>
<td>10,859</td>
<td>12,963</td>
<td>10,859</td>
</tr>
<tr>
<td>Accrued interest and other liabilities</td>
<td>6,006</td>
<td>5,092</td>
<td>6,006</td>
</tr>
<tr>
<td>Other debt</td>
<td>18,286</td>
<td>18,000</td>
<td>18,286</td>
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<tr>
<td>Federal Home Loan Bank advances</td>
<td>55,170</td>
<td>21,342</td>
<td>55,170</td>
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<tr>
<td>Subordinated debentures</td>
<td>19,310</td>
<td>21,310</td>
<td>19,310</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,686,422</td>
<td>1,544,904</td>
<td>1,686,422</td>
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<tr>
<td>Commitments and contingent liabilities</td>
<td>31,661</td>
<td>35,384</td>
<td></td>
</tr>
<tr>
<td>KSOP-owned shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, $5.00 par value, 15,000,000 shares authorized, no shares issued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1.00 par value, 50,000,000 shares authorized, 9,616,275 issued, 8,751,923 and 8,901,443 shares outstanding, respectively</td>
<td>9,616</td>
<td>9,616</td>
<td>9,616</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>101,736</td>
<td>101,525</td>
<td>101,736</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>57,160</td>
<td>49,654</td>
<td>57,160</td>
</tr>
<tr>
<td>Treasury stock, 864,352 and 714,832 shares at cost</td>
<td>(20,111)</td>
<td>(16,486)</td>
<td>(20,111)</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(6,487)</td>
<td>(6,573)</td>
<td>(6,487)</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>141,914</td>
<td>137,736</td>
<td>141,914</td>
</tr>
<tr>
<td>Less KSOP-owned shares</td>
<td>31,661</td>
<td>35,384</td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>110,253</td>
<td>102,352</td>
<td>141,914</td>
</tr>
</tbody>
</table>

**$1,828,336**  **$1,682,640**  **$1,828,336**

See accompanying notes to consolidated financial statements.
GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years ended December 31, 2016, 2015 and 2014
(Dollars in thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans, including fees</td>
<td>$ 55,565</td>
<td>$ 47,845</td>
<td>$ 35,961</td>
</tr>
<tr>
<td>Securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable</td>
<td>5,170</td>
<td>6,317</td>
<td>7,603</td>
</tr>
<tr>
<td>Nontaxable</td>
<td>3,231</td>
<td>1,529</td>
<td>1,509</td>
</tr>
<tr>
<td>Federal funds sold and interest-bearing deposits</td>
<td>742</td>
<td>391</td>
<td>161</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
<td>64,708</td>
<td>56,082</td>
<td>45,234</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>9,050</td>
<td>6,524</td>
<td>4,579</td>
</tr>
<tr>
<td>FHLB advances and federal funds purchased</td>
<td>350</td>
<td>699</td>
<td>744</td>
</tr>
<tr>
<td>Subordinated debentures</td>
<td>882</td>
<td>603</td>
<td>536</td>
</tr>
<tr>
<td>Other borrowed money</td>
<td>586</td>
<td>497</td>
<td>252</td>
</tr>
<tr>
<td><strong>Total interest expense</strong></td>
<td>10,868</td>
<td>8,323</td>
<td>6,111</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>53,840</td>
<td>47,759</td>
<td>39,123</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>3,640</td>
<td>2,175</td>
<td>1,322</td>
</tr>
<tr>
<td><strong>Net interest income after provision for loan losses</strong></td>
<td>50,200</td>
<td>45,584</td>
<td>37,801</td>
</tr>
<tr>
<td><strong>Noninterest income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service charges</td>
<td>3,530</td>
<td>3,493</td>
<td>3,618</td>
</tr>
<tr>
<td>Net realized gain (loss) on securities transactions</td>
<td>82</td>
<td>77</td>
<td>(212)</td>
</tr>
<tr>
<td>Net realized gain on sale of loans</td>
<td>1,718</td>
<td>1,053</td>
<td>991</td>
</tr>
<tr>
<td>Net realized loss on sale of other real estate owned and other assets</td>
<td>(223)</td>
<td>(219)</td>
<td>(100)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>7,686</td>
<td>6,860</td>
<td>6,395</td>
</tr>
<tr>
<td><strong>Total noninterest income</strong></td>
<td>12,793</td>
<td>11,264</td>
<td>10,692</td>
</tr>
<tr>
<td><strong>Noninterest expense</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee compensation and benefits</td>
<td>25,611</td>
<td>22,469</td>
<td>18,251</td>
</tr>
<tr>
<td>Occupancy expenses</td>
<td>6,870</td>
<td>6,468</td>
<td>5,360</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>13,676</td>
<td>13,438</td>
<td>11,143</td>
</tr>
<tr>
<td><strong>Total noninterest expense</strong></td>
<td>46,157</td>
<td>42,375</td>
<td>34,754</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>16,836</td>
<td>14,473</td>
<td>13,739</td>
</tr>
<tr>
<td>Income tax provision</td>
<td>4,715</td>
<td>4,362</td>
<td>4,023</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>$ 12,121</td>
<td>$ 10,111</td>
<td>$ 9,716</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>$ 1.35</td>
<td>$ 1.15</td>
<td>$ 1.25</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$ 1.35</td>
<td>$ 1.15</td>
<td>$ 1.25</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings</td>
<td>$12,121</td>
<td>$10,111</td>
<td>$9,716</td>
</tr>
<tr>
<td>Other comprehensive income (loss):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized (losses) gains on securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized holding (losses) gains arising during the period</td>
<td>(83)</td>
<td>(1,152)</td>
<td>7,070</td>
</tr>
<tr>
<td>Amortization of net unrealized gains on held to maturity securities</td>
<td>113</td>
<td>92</td>
<td>78</td>
</tr>
<tr>
<td>Reclassification adjustment for net (gains) losses included in net earnings</td>
<td>(82)</td>
<td>(77)</td>
<td>212</td>
</tr>
<tr>
<td>Tax effect</td>
<td>58</td>
<td>430</td>
<td>(2,549)</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>(707)</td>
<td>4,811</td>
</tr>
<tr>
<td>Unrealized holding gains (losses) arising during the period on interest rate swaps</td>
<td>80</td>
<td>(42)</td>
<td>(383)</td>
</tr>
<tr>
<td>Total other comprehensive income (loss)</td>
<td>86</td>
<td>(749)</td>
<td>4,428</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$12,207</td>
<td>$9,362</td>
<td>$14,144</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY
For the Years ended December 31, 2016, 2015 and 2014
(Dollars in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Preferred Stock</th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Retained Earnings</th>
<th>Treasury Stock</th>
<th>Accumulated Other Comprehensive Loss</th>
<th>Less: KSOP-Owned Shares</th>
<th>Total Shareholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at January 1, 2014</strong></td>
<td>$ -</td>
<td>$ 7,392</td>
<td>$ 65,991</td>
<td>$34,353</td>
<td>$ (389)</td>
<td>$ (10,252)</td>
<td>$ (30,938)</td>
<td>$ 66,157</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exercise of stock options</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase of treasury stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sale of common stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net change in fair value of KSOP shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividends:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common - $1.50 per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 2014</strong></td>
<td>$ 8,097</td>
<td>$ 67,865</td>
<td>$44,069</td>
<td>$1,918</td>
<td>$ (5,824)</td>
<td>$36,300</td>
<td></td>
<td>$ 75,989</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase of treasury stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Issuance of common stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stock based compensation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net change in fair value of KSOP shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividends:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common - $0.50 per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 2015</strong></td>
<td>$ 9,616</td>
<td>$101,525</td>
<td>$49,654</td>
<td>$16,486</td>
<td>$6,573</td>
<td>$35,384</td>
<td></td>
<td>$102,352</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exercise of stock options</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase of treasury stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sale of treasury stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stock based compensation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net change in fair value of KSOP shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividends:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common - $0.52 per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 2016</strong></td>
<td>$ 9,616</td>
<td>$101,736</td>
<td>$57,160</td>
<td>$(20,111)</td>
<td>$(6,487)</td>
<td>$(31,661)</td>
<td></td>
<td>$110,253</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings</td>
<td>$12,121</td>
<td>$10,111</td>
<td>$9,716</td>
</tr>
<tr>
<td>Adjustments to reconcile net earnings to net cash provided from operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,183</td>
<td>2,958</td>
<td>2,519</td>
</tr>
<tr>
<td>Amortization</td>
<td>980</td>
<td>951</td>
<td>904</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>(1,330)</td>
<td>9</td>
<td>(861)</td>
</tr>
<tr>
<td>Premium amortization, net of discount accretion</td>
<td>4,974</td>
<td>4,196</td>
<td>3,873</td>
</tr>
<tr>
<td>Net realized (gain) loss on securities transactions</td>
<td>(82)</td>
<td>(77)</td>
<td>212</td>
</tr>
<tr>
<td>Gain on loans held for sale</td>
<td>(1,718)</td>
<td>(1,053)</td>
<td>(991)</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>3,640</td>
<td>2,175</td>
<td>1,322</td>
</tr>
<tr>
<td>Origination of loans held for sale</td>
<td>(62,620)</td>
<td>(59,217)</td>
<td>(44,215)</td>
</tr>
<tr>
<td>Proceeds from loans held for sale</td>
<td>65,642</td>
<td>60,318</td>
<td>48,409</td>
</tr>
<tr>
<td>Write-down of other real estate and repossessed assets</td>
<td>122</td>
<td>172</td>
<td>151</td>
</tr>
<tr>
<td>Net loss on sale of premises, equipment, other real estate owned and other assets</td>
<td>108</td>
<td>132</td>
<td>273</td>
</tr>
<tr>
<td>Gain on sale of Oak Tree Title, LLC</td>
<td>-</td>
<td>-</td>
<td>(225)</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>211</td>
<td>237</td>
<td>-</td>
</tr>
<tr>
<td>Net change in accrued interest receivable and other assets</td>
<td>(3,786)</td>
<td>(3,781)</td>
<td>(3,165)</td>
</tr>
<tr>
<td>Net change in accrued interest payable and other liabilities</td>
<td>964</td>
<td>(8,917)</td>
<td>303</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>22,409</td>
<td>8,214</td>
<td>18,225</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities available for sale:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>(250,485)</td>
<td>(414,191)</td>
<td>(551,151)</td>
</tr>
<tr>
<td>Proceeds from sales</td>
<td>103,942</td>
<td>140,668</td>
<td>87,804</td>
</tr>
<tr>
<td>Proceeds from maturities and principal repayments</td>
<td>259,719</td>
<td>246,113</td>
<td>487,536</td>
</tr>
<tr>
<td>Securities held to maturity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>(86,642)</td>
<td>(9,088)</td>
<td>(8,595)</td>
</tr>
<tr>
<td>Proceeds from sales</td>
<td>1,866</td>
<td>-</td>
<td>1,001</td>
</tr>
<tr>
<td>Proceeds from maturities and principal repayments</td>
<td>18,336</td>
<td>13,835</td>
<td>15,556</td>
</tr>
<tr>
<td>Acquisition of Denton branch, net of cash paid</td>
<td>2,399</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of DCB Financial Corporation, net of cash paid</td>
<td>-</td>
<td>(2,308)</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of Texas Leadership Bank of Royce City, net of cash paid</td>
<td>-</td>
<td>354</td>
<td>-</td>
</tr>
<tr>
<td>Sale of Oak Tree Title, LLC</td>
<td>-</td>
<td>-</td>
<td>1,200</td>
</tr>
<tr>
<td>Net purchases of premises and equipment</td>
<td>(1,599)</td>
<td>(4,013)</td>
<td>(10,662)</td>
</tr>
<tr>
<td>Net proceeds from sale of premises, equipment, other real estate owned and other assets</td>
<td>2,609</td>
<td>1,290</td>
<td>1,269</td>
</tr>
<tr>
<td>Net increase in loans</td>
<td>(184,126)</td>
<td>(120,155)</td>
<td>(90,770)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(133,981)</td>
<td>(147,495)</td>
<td>(66,812)</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net change in deposits</td>
<td>105,966</td>
<td>229,458</td>
<td>74,979</td>
</tr>
<tr>
<td>Net change in securities sold under agreements to repurchase</td>
<td>(2,104)</td>
<td>3,565</td>
<td>1,947</td>
</tr>
<tr>
<td>Proceeds from FHLB advances</td>
<td>120,178</td>
<td>-</td>
<td>20,000</td>
</tr>
<tr>
<td>Repayment of FHLB advances</td>
<td>(86,350)</td>
<td>(90,197)</td>
<td>(20,189)</td>
</tr>
<tr>
<td>Proceeds from other debt</td>
<td>19,000</td>
<td>18,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Repayment of other debt</td>
<td>(18,714)</td>
<td>(11,000)</td>
<td>(14,000)</td>
</tr>
<tr>
<td>Issuance of debentures</td>
<td>-</td>
<td>9,000</td>
<td>-</td>
</tr>
<tr>
<td>Repayments of debentures</td>
<td>(2,000)</td>
<td>(2,000)</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(12,218)</td>
<td>(14,568)</td>
<td>(1,533)</td>
</tr>
<tr>
<td>Sale of treasury stock</td>
<td>8,557</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>36</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Sale of common stock</td>
<td>-</td>
<td>7,266</td>
<td>14,442</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>(4,615)</td>
<td>(4,526)</td>
<td>(11,863)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>127,736</td>
<td>144,998</td>
<td>72,787</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>16,164</td>
<td>5,717</td>
<td>24,200</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>111,379</td>
<td>105,662</td>
<td>81,462</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$127,543</td>
<td>$111,379</td>
<td>$105,662</td>
</tr>
</tbody>
</table>

Supplemental disclosures of cash flow information

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$10,966</td>
<td>$7,929</td>
<td>$6,157</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>5,810</td>
<td>3,350</td>
<td>4,895</td>
</tr>
</tbody>
</table>

Supplemental schedule of noncash investing and financing activities

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer loans to other real estate owned and repossessed assets</td>
<td>$6,241</td>
<td>$808</td>
<td>$1,014</td>
</tr>
<tr>
<td>Common stock issued in acquisitions</td>
<td>-</td>
<td>27,676</td>
<td>-</td>
</tr>
<tr>
<td>Transfer of KSOP shares</td>
<td>(8,261)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net change in fair value of KSOP shares</td>
<td>1,538</td>
<td>(1,513)</td>
<td>2,543</td>
</tr>
</tbody>
</table>

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

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

Unaudited Pro Forma Financial Information: The accompanying pro forma consolidated balance sheet reflects the assumed termination of the put right associated with shares of common stock distributed from the Company's employee stock ownership plan, which would occur if the Company decides to file an initial public offering and list its common stock on a national securities exchange. The unaudited pro forma balance sheet does not give effect to the Company's issuance and sale of common stock if the Company were to decide to complete an initial public offering.

Nature of Operations: The Company operates several banking locations in Texas. The Company's main sources of income are derived from granting loans, primarily in East Texas, Bryan/College Station and the Dallas/Fort Worth metroplex and investing in securities issued by the U.S. Treasury, U.S. government agencies and state and political subdivisions. A variety of financial products and services are provided to individual and corporate customers. The primary deposit products are checking accounts, money market accounts and certificates of deposit. The primary lending products are real estate, commercial and consumer loans. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' abilities to honor contracts is dependent on the economy of East Texas, Bryan/College Station and the Dallas/Fort Worth metroplex.

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

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

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

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an

(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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., Independent Bankers Capital Fund II, L.P. and Independent Bankers Capital Fund III, L.P., are accounted for on the cost basis in other assets.

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

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

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

Certain Acquired Loans: During 2015, the Company acquired a group of loans through the acquisition of DCB Financial Corporation ("DCB"), the holding company for Preston State Bank, Dallas, and Texas Leadership Bank ("TLB") as described in Note 2. During 2016, the Company acquired overdrafts and recorded as loans through the acquisition of Denton as described in Note 2. Acquired loans are recorded at their estimated fair value at the acquisition date, and are initially classified as either purchased credit impaired ("PCI") loans (i.e. loans that reflect credit deterioration since origination and it is probable at acquisition that the Company will be unable to collect all contractually required payments) or purchased non-impaired loans ("acquired performing loans").

Acquired performing loans are accounted for under Financial Accounting Standards Board’s Accounting Standards Codification (ASC) 310-20, “Nonrefundable Fees and Other Costs”. Performance of certain loans may be monitored and based on management’s assessment of the cash flows and other facts available, portions of the accretible difference may be delayed or suspended if management deems appropriate. The
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company’s policy for determining when to discontinue accruing interest on acquired performing loans and the subsequent accounting for such loans is essentially the same as the policy for originated loans described above.

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

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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

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

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

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

(Continued)
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Below is a summary of the segments of the Company's loan portfolio:

**Commercial and industrial:** This portfolio segment includes general secured and unsecured commercial loans which are not secured by real estate. Risks inherent in this portfolio segment include fluctuations in the local and national economy.

**Construction and development:** This portfolio segment includes all loans for the purpose of construction, including both business and residential structures; and real estate development loans, including non agricultural vacant land. Risks inherent in this portfolio include fluctuations in property values and changes in the local and national economy.

**Commercial real estate:** The commercial real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the construction and development, farmland, multi-family, and 1-4 family residential segments. Risks inherent in this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale of the finished structures.

**Farmland:** The farmland portfolio includes loans that are secured by real estate that is used or usable for agricultural purposes, including land used for crops, livestock production, grazing & pasture land and timberland. This segment includes land with a 1-4 family residential structure if the value of the land exceeds the value of the residence. Risks inherent in this portfolio segment include adverse changes in climate, fluctuations in feed and cattle prices and changes in property values.

**Consumer:** This portfolio segment consists of non-real estate loans to consumers. This includes secured and unsecured loans such as auto and personal loans. The risks inherent in this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan. These include increases in the local unemployment rate and fluctuations in consumer and business sales.

**1-4 family residential:** This portfolio segment includes loans to both commercial and consumer borrowers secured by real estate for housing units of up to four families. Risks inherent in this portfolio segment include increases in the local unemployment rate, changes in the local economy and factors that would impact the value of the underlying collateral, such as changes in property values.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Multi-family residential: This portfolio segment includes loans secured by structures containing five or more residential housing units. Risks inherent in this portfolio segment include increases to the local unemployment rate, changes in the local economy, and factors that would impact property values.

Agricultural: The agricultural portfolio segment includes loans to individuals and companies in the dairy and cattle industries and farmers. Loans in the segment are secured by collateral including cattle, crops, and equipment. Risks inherent in this portfolio segment include adverse changes in climate and fluctuations in feed and cattle prices.

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

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

Commercial and industrial: In assessing risk associated with commercial loans, management considers the business's cash flow and the value of the underlying collateral to be the primary credit quality indicators.

Construction and development: In assessing the credit quality of construction loans, management considers the ability of the borrower to finance principal and interest payments in the event that he is unable to sell the completed structure to be a primary credit quality indicator. For real estate development loans, management also considers the likelihood of the successful sale of the constructed properties in the development.

Commercial real estate: Management considers the strength of the borrower's cash flows, changes in property values and occupancy status to be key credit quality indicators of commercial real estate loans.

Farmland: In assessing risk associated with farmland loans, management considers the borrower's cash flows and underlying property values to be key credit quality indicators.

Consumer: Management considers the debt to income ratio of the borrower, the borrower's credit history, the availability of other credit to the borrower, the borrower's past-due history, and, if applicable, the value of the underlying collateral to be primary credit quality indicators.

1-4 family residential: Management considers changes in the local economy, changes in property values, and changes in local unemployment rates to be key credit quality indicators of the loans in the 1-4 family residential loan segment.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Multi-family residential: Management considers changes in the local economy, changes in property values, vacancy rates and changes in local unemployment rates to be key credit quality indicators of the loans in the multifamily loan segment.

Agricultural: In assessing risk associated with agricultural loans, management considers the borrower’s cash flows, the value of the underlying collateral and sources of secondary repayment to be primary credit quality indicators.

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

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Buildings</td>
<td>Up to 40 years</td>
</tr>
<tr>
<td>Equipment</td>
<td>to 10 years</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>to 7 years</td>
</tr>
<tr>
<td>Software</td>
<td>to 5 years</td>
</tr>
<tr>
<td>Automobiles</td>
<td>to 4 years</td>
</tr>
</tbody>
</table>

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

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

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances 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 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.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company 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: Effective January 1, 2008, the Company and its shareholders elected to be treated as an "S Corporation" for federal income tax purposes under the provisions of the Internal Revenue Code. Under such provisions, the income of the Company flows through to the shareholders to be taxed at the individual level rather than at the corporate level. The Company revoked its status as an S-Corporation as of the close of business December 31, 2013 and is taxed as a C-Corporation effective January 1, 2014.

Income tax expense, starting in 2014, is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. 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 income and/or current earnings, as appropriate. On the date the Company enters into a derivative contract, the Company designates the derivative instrument as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period operations. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to operations in the same period(s) that the hedged transaction impacts operations. For free-standing derivative instruments, changes in fair value are reported in current period operations.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Restrictions on Cash: The Company was not required to have cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements as of December 31, 2016 and 2015. Deposits held with the Federal Reserve Bank earn interest.

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

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

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

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

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

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

Reclassification: Certain amounts in prior period financial statements may 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.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: The Company has evaluated all subsequent events for potential recognition and disclosure through March 1, 2017, the date of which the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements: In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following nine specific cash flow issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned; 6) life insurance policies; 7) distributions received from equity method investees; 8) beneficial interests in securitization transactions; and 9) separately identifiable cash flows and application of the predominance principle. The amendments are effective for public companies for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which sets forth a "current expected credit loss" ("CECL") model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. For public business entities that are not U.S. Securities and Exchange Commission filers, the amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently in the process of assembling a transition team to assess the adoption of this ASU, which will come up with a project plan regarding implementation.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Recognition and Measurement of Financial Assets and Liabilities, which is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This ASU permits early adoption of the instrument-specific credit risk provision. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU became effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The adoption of this pronouncement did not have a material effect on the consolidated financial statements.

NOTE 2 - ACQUISITIONS

On close of business March 27, 2015, the Company acquired 100% of the outstanding common shares of DCB, the holding company for Preston State Bank, Dallas, in exchange for a combination of cash and stock amounting to total consideration of $29,681. Under the terms of the acquisition, 68 common shareholders received 923,133 shares of the Company's common stock in exchange for 1,378,345 shares of DCB. With the acquisition, the Company has expanded its market to the Dallas/Fort Worth metroplex. Results of operations of the acquired company were included in the Company's results beginning March 28, 2015. Acquisition-related costs of $403 are included in other operating expenses in the Company's consolidated statement of earnings for the year ended December 31, 2015. The fair value of the common shares issued as part of the consideration paid for DCB was determined based upon the closing price of the Company's common shares on the acquisition date.

On close of business April 10, 2015, the Company acquired 100% of the outstanding common shares of TLB in exchange for combination of cash and stock amounting to total consideration of $14,215. Under the terms
NOTE 2 – ACQUISITIONS (Continued)

of the acquisition, 124 common shareholders received 280,160 shares of the Company's common stock in exchange for 594,779 shares of TLB. With the acquisition, the Company has expanded its market in the Dallas/Fort Worth metroplex. Results of operations were included in the Company's results beginning April 11, 2015. Acquisition-related costs of $239 are included in other operating expenses in the Company's consolidated statement of earnings for the year ended December 31, 2015. The fair value of the common shares issued as part of the consideration paid for TLB was determined based upon the closing price of the Company's common shares on the acquisition date.

On close of business August 6, 2016, the Company acquired certain assets and liabilities comprised of a branch location in Denton, Texas (Denton), which resulted in the addition of approximately $4,659 in assets and liabilities. The Company acquired the bank premises at 4101 Wind River Lane in Denton, Texas and recorded it at fair market value of $2,075. Other assets acquired, at fair value, included cash of $2,399, core deposit intangible of $42, goodwill of $141 and loans of $2. Liabilities assumed included non-interest bearing deposits of $581, interest bearing deposits of $4,047 and other liabilities of $30. Consideration paid by the Company for the acquired assets and assumed liabilities of $66 was netted against the cash received. Acquisition-related costs of $41 are included in other operating expenses in the Company's consolidated statement of earnings for the year ended December 31, 2016.

Goodwill of $8,670 for DCB, $3,815 for TLB, and $140 for Denton arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. Goodwill of $141 is expected to be deductible for income taxes purposes. The following table summarizes the consideration paid for DCB and TLB and the fair value of the assets acquired and liabilities assumed recognized at the acquisition date:

<table>
<thead>
<tr>
<th>Consideration:</th>
<th>DCB</th>
<th>TLB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$8,449</td>
<td>$7,771</td>
</tr>
<tr>
<td>Equity instruments</td>
<td>21,232</td>
<td>6,444</td>
</tr>
<tr>
<td>Fair value of total consideration transferred</td>
<td>$29,681</td>
<td>$14,215</td>
</tr>
</tbody>
</table>
NOTE 2 – ACQUISITIONS (Continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisitions, March 27, 2015 and April 10, 2015 and respectively.

<table>
<thead>
<tr>
<th></th>
<th>DCB</th>
<th>TLB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$5,794</td>
<td>$8,124</td>
</tr>
<tr>
<td>Investment securities available for sale</td>
<td>2,862</td>
<td>19,794</td>
</tr>
<tr>
<td>Loans, net of discount of $1,389 and $468, respectively</td>
<td>118,154</td>
<td>43,568</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>299</td>
<td>173</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>199</td>
<td>2,664</td>
</tr>
<tr>
<td>Nonmarketable equity securities</td>
<td>168</td>
<td>-</td>
</tr>
<tr>
<td>Core deposit intangible</td>
<td>968</td>
<td>534</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,726</td>
<td>1,558</td>
</tr>
<tr>
<td><strong>Total assets acquired</strong></td>
<td><strong>130,170</strong></td>
<td><strong>76,415</strong></td>
</tr>
<tr>
<td>Noninterest-bearing deposits</td>
<td>25,607</td>
<td>16,702</td>
</tr>
<tr>
<td>Interest-bearing deposits</td>
<td>68,844</td>
<td>48,794</td>
</tr>
<tr>
<td>Subordinated debentures</td>
<td>5,155</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>9,553</td>
<td>519</td>
</tr>
<tr>
<td><strong>Total liabilities assumed</strong></td>
<td><strong>109,159</strong></td>
<td><strong>66,015</strong></td>
</tr>
<tr>
<td><strong>Net assets acquired (liabilities assumed)</strong></td>
<td><strong>21,011</strong></td>
<td><strong>10,400</strong></td>
</tr>
<tr>
<td><strong>Total consideration paid</strong></td>
<td><strong>29,681</strong></td>
<td><strong>14,215</strong></td>
</tr>
<tr>
<td>Goodwill</td>
<td>$8,670</td>
<td>$3,815</td>
</tr>
</tbody>
</table>

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date ("acquired performing loans"). The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Acquired performing loans had fair value and gross contractual amounts receivable of $118,154 and $119,543, respectively for DCB, $43,568 and $44,036, respectively for TLB, and $2 and $2, respectively for Denton on the date of acquisition.
NOTE 3 - MARKETABLE SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2016 and 2015 and the corresponding amounts of gross unrealized gains and losses:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$25,254</td>
<td>$6</td>
<td>$377</td>
<td>$24,883</td>
</tr>
<tr>
<td>Municipal securities</td>
<td>7,841</td>
<td></td>
<td>622</td>
<td>7,219</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>61,298</td>
<td></td>
<td>1,608</td>
<td>59,690</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>65,789</td>
<td>10</td>
<td>666</td>
<td>65,133</td>
</tr>
<tr>
<td>Total available for sale</td>
<td>$160,182</td>
<td>$16</td>
<td>$3,273</td>
<td>$156,925</td>
</tr>
<tr>
<td>Held to maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal securities</td>
<td>149,420</td>
<td>901</td>
<td>3,889</td>
<td>146,432</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>28,450</td>
<td>318</td>
<td>290</td>
<td>28,478</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>11,501</td>
<td>265</td>
<td>521</td>
<td>11,245</td>
</tr>
<tr>
<td>Total held to maturity</td>
<td>$189,371</td>
<td>$1,484</td>
<td>$4,700</td>
<td>$186,155</td>
</tr>
<tr>
<td>December 31, 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$28,399</td>
<td></td>
<td>$412</td>
<td>$27,987</td>
</tr>
<tr>
<td>U.S. treasury securities</td>
<td>29,985</td>
<td></td>
<td></td>
<td>29,985</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>109,462</td>
<td>1,812</td>
<td></td>
<td>107,651</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>108,191</td>
<td>60</td>
<td>930</td>
<td>107,321</td>
</tr>
<tr>
<td>Total available for sale</td>
<td>$276,037</td>
<td>$61</td>
<td>$3,154</td>
<td>$272,944</td>
</tr>
<tr>
<td>Held to maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td>$5,158</td>
<td>$121</td>
<td></td>
<td>$5,279</td>
</tr>
<tr>
<td>Municipal securities</td>
<td>67,350</td>
<td>2,384</td>
<td>18</td>
<td>69,716</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>36,224</td>
<td>483</td>
<td>157</td>
<td>36,550</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>16,299</td>
<td>504</td>
<td>536</td>
<td>16,267</td>
</tr>
<tr>
<td>Total held to maturity</td>
<td>$125,031</td>
<td>$3,492</td>
<td>$711</td>
<td>$127,812</td>
</tr>
</tbody>
</table>

The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a market value of $1,636 which had unrealized losses of $521 at December 31, 2016. These non-agency mortgage-backed securities were rated AAA at purchase. The Company monitors to ensure it has adequate credit support and the Company records OTTI as appropriate. The Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to
NOTE 3 - MARKETABLE SECURITIES (Continued)

which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. There were no other than temporary impairment losses on debt securities related to credit losses recognized during the years ended December 31, 2016 and 2015.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and December 31, 2015 aggregated by investment category and length of time that individual securities have been in a continuous loss position is detailed in the following tables. At December 31, 2016, the Company held seven securities which had been in continuous loss positions over twelve months and 170 securities which had been in continuous loss position less than twelve months. Of the securities in a loss position over twelve months, five were classified as available for sale and two were classified as held to maturity. Of the securities in a loss position less than twelve months, 28 were classified as available for sale and 142 were classified as held to maturity. The securities in a loss position were composed of tax exempt municipal bonds, corporate bonds, collateralized mortgage obligations and mortgage backed securities.

Management believes the unrealized loss on the remaining securities is a function of the movement of interest rates since the time of purchase. Based on evaluation of available evidence, including recent changes in interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment would be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. The Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recover. The Company does not consider these securities to be other-than-temporarily impaired at December 31, 2016.
NOTE 3 - MARKETABLE SECURITIES (Continued)

The following table summarizes securities with unrealized losses at December 31, 2016 and 2015, aggregated by major security type and length of time in a continuous unrealized loss position:

<table>
<thead>
<tr>
<th></th>
<th>Less Than 12 Months</th>
<th>12 Months or Longer</th>
<th>Total</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Unrealized</td>
<td>Estimated Fair Losses</td>
<td></td>
<td>Gross Unrealized</td>
<td>Estimated Fair Losses</td>
</tr>
<tr>
<td></td>
<td>Losses</td>
<td>Value</td>
<td></td>
<td>Losses</td>
<td>Value</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>(377)</td>
<td>22,529</td>
<td></td>
<td>(377)</td>
<td>22,529</td>
</tr>
<tr>
<td>Municipal securities</td>
<td>(622)</td>
<td>7,219</td>
<td></td>
<td>(622)</td>
<td>7,219</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>(1,047)</td>
<td>44,420</td>
<td>(561)</td>
<td>15,270</td>
<td>(1,608)</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>(437)</td>
<td>55,435</td>
<td>(229)</td>
<td>9,049</td>
<td>(666)</td>
</tr>
<tr>
<td>Total available for sale</td>
<td>(2,483)</td>
<td>129,603</td>
<td>(790)</td>
<td>24,319</td>
<td>(3,273)</td>
</tr>
<tr>
<td>Held to maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal securities</td>
<td>(3,889)</td>
<td>98,943</td>
<td></td>
<td>(3,889)</td>
<td>98,943</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>(290)</td>
<td>19,983</td>
<td></td>
<td>(290)</td>
<td>19,983</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td></td>
<td></td>
<td>(521)</td>
<td>2,350</td>
<td>(521)</td>
</tr>
<tr>
<td>Total held to maturity</td>
<td>(4,179)</td>
<td>118,926</td>
<td>(521)</td>
<td>2,350</td>
<td>(4,700)</td>
</tr>
</tbody>
</table>

| December 31, 2015            |                      |                     |       |                   |         |
| Available for sale:          |                      |                     |       |                   |         |
| Corporate bonds              | (412)                | 27,987              |       | (412)             | 27,987              |
| U.S. treasury securities     |                      |                     |       | -                 | -               |
| Mortgage-backed securities   | (640)                | 50,322              | (1,172)| 57,016           | (1,812)            |
| Collateralized mortgage obligations | (913)       | 89,239              | (17)  | 1,305             | (930)              |
| Total available for sale     | (1,965)              | 167,548             | (1,189)| 58,321           | (3,154)            |
| Held to maturity:            |                      |                     |       |                   |         |
| U.S. government agencies     |                      |                     |       | -                 | -               |
| Municipal securities         | (11)                 | 2,026               | (7)   | 854               | (18)               |
| Mortgage-backed securities   | (157)                | 16,545              |       | (157)             | 16,545              |
| Collateralized mortgage obligations |           |                     | (536) | 1,753             | (536)              |
| Total held to maturity       | (168)                | 18,571              | (543) | 2,607             | (711)              |

(Continued)
NOTE 3 - MARKETABLE SECURITIES (Continued)

Mortgage-backed securities and collateralized mortgage obligations are backed by pools of mortgages that are insured or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA) or the Government National Mortgage Association (GNMA).

As of December 31, 2016, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with fair values of approximately $259,499 and $282,896 at December 31, 2016 and December 31, 2015, respectively, were pledged to secure public fund deposits and for other purposes as required or permitted by law.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds</td>
<td>$105,808</td>
<td>$140,668</td>
<td>$88,805</td>
</tr>
<tr>
<td>Gross gains</td>
<td>243</td>
<td>222</td>
<td>507</td>
</tr>
<tr>
<td>Gross losses</td>
<td>(161)</td>
<td>(145)</td>
<td>(719)</td>
</tr>
</tbody>
</table>

During the year ended December 31, 2014, the Company sold two held to maturity securities. The Company sold the held to maturity securities due to the current par value being less than 15% of the original purchased amount. During the year ended December 31, 2016, the Company sold three held to maturity securities. The Company sold these municipalities securities based upon internal credit analysis, that they had experienced significant deterioration in creditworthiness. The risk exposure presented by these municipalities had increased beyond acceptable levels and we determined that it was reasonably possible that all amounts due would not be collected. The credit analysis determined that the municipalities had been significantly impacted by the significant decline in market oil prices due to the fact that their tax bases are heavily reliant on the energy industry relative to other sectors of the economy. Specifically, the revenues of these municipalities had been adversely impacted by the sustained low-level of oil prices. The Company believes the sale of these securities were merited and permissible under the applicable accounting guidelines because of the significant deterioration in the creditworthiness of the issuers.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales</td>
<td>$1,866</td>
<td>$ -</td>
<td>$ 1,001</td>
</tr>
<tr>
<td>Amortized cost</td>
<td>1,842</td>
<td>-</td>
<td>985</td>
</tr>
<tr>
<td>Gross realized gains</td>
<td>24</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Tax expense related to securities gains/losses</td>
<td>(7)</td>
<td>-</td>
<td>(4)</td>
</tr>
</tbody>
</table>
NOTE 3 - MARKETABLE SECURITIES (Continued)

The contractual maturities at December 31, 2016 of available for sale and held to maturity securities at carrying value and estimated fair value are shown below. The Company invests in mortgage-backed securities and collateralized mortgage obligations that have expected maturities that differ from their contractual maturities. These differences arise because borrowers and/or issuers may have the right to call or prepay their obligation with or without call or prepayment penalties.

<table>
<thead>
<tr>
<th>Available for Sale</th>
<th>Held to Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortized Cost</td>
<td>Estimated Fair Value</td>
</tr>
<tr>
<td>Due within one year</td>
<td>$732</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>6,103</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>38,634</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>103,951</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>28,450</td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>11,501</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$160,182</strong></td>
</tr>
</tbody>
</table>

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and industrial</td>
<td>$223,997</td>
<td>$181,890</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>129,366</td>
<td>122,739</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>367,656</td>
<td>301,686</td>
</tr>
<tr>
<td>Farmland</td>
<td>62,362</td>
<td>47,663</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>362,952</td>
<td>313,440</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>26,079</td>
<td>30,356</td>
</tr>
<tr>
<td>Consumer</td>
<td>53,505</td>
<td>51,056</td>
</tr>
<tr>
<td>Agricultural</td>
<td>18,901</td>
<td>19,524</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>317</td>
<td>313</td>
</tr>
<tr>
<td><strong>Total loans</strong></td>
<td><strong>1,245,135</strong></td>
<td><strong>1,068,667</strong></td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>$11,484</td>
<td>$9,263</td>
</tr>
<tr>
<td><strong>Total net loans</strong></td>
<td><strong>$1,233,651</strong></td>
<td><strong>$1,059,404</strong></td>
</tr>
</tbody>
</table>

As of December 31, 2016 and 2015, included in total loans above were $1,210 and $1,290 in unamortized loan costs, net of loan fees, respectively.

In 2015, the Company acquired loans with a fair value of $118,154 and $43,568 and gross contractual balances of $119,543 and $44,036 as part of the acquisition of DCB Financial Corporation, the holding company for Preston State Bank, Dallas, Texas and Texas Leadership Bank, respectively. In 2016, the Company acquired overdrafts and recorded as loans with a fair value and gross contractual fair value of $2 as
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

part of the acquisition of Denton. All loans acquired in 2016 and 2015 were classified as acquired performing loans.

The Company has entered into transactions with certain directors, executive officers, significant shareholders and their affiliates. Loans to such related parties at December 31, 2016 and December 31, 2015, totaled $29,436 and $36,135, respectively. Unfunded commitments to such related parties at December 31, 2016 totaled $14,061.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$ 36,135</td>
</tr>
<tr>
<td>New loans</td>
<td>7,693</td>
</tr>
<tr>
<td>Repayments</td>
<td>(14,392)</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$ 29,436</td>
</tr>
</tbody>
</table>

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31:

<table>
<thead>
<tr>
<th>Portfolio Segment</th>
<th>Commercial Construction</th>
<th>Commercial and real estate</th>
<th>1-4 family residential</th>
<th>Multi-family residential</th>
<th>Consumer Overdrafts</th>
<th>Agricultural Overdrafts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>$1,876</td>
<td>$1,004</td>
<td>$2,106</td>
<td>$400</td>
<td>$2,839</td>
<td>$325</td>
<td>$562</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>510</td>
<td>162</td>
<td>1,158</td>
<td>82</td>
<td>1,117</td>
<td>(44)</td>
<td>171</td>
</tr>
<tr>
<td>Loans charged-off</td>
<td>(1,213)</td>
<td>(9)</td>
<td>-</td>
<td>-</td>
<td>(71)</td>
<td>-</td>
<td>(269)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>17</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>75</td>
<td>-</td>
<td>121</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$1,592</td>
<td>$1,161</td>
<td>$3,264</td>
<td>$482</td>
<td>$3,960</td>
<td>$281</td>
<td>$585</td>
</tr>
</tbody>
</table>

| Portfolio Segment | Commercial Construction | Commercial and real estate | 1-4 family residential | Multi-family residential | Consumer Overdrafts | Agricultural Overdrafts | Total |
|-------------------|-------------------------|---------------------------|                        |                          |                     |                         |       |
| December 31, 2015|                         |                           |                        |                          |                     |                         |       |
| Allowance for loan losses | $1,473 | $615 | $1,870 | $387 | $2,395 | $232 | $593 | $137 | $19 | $7,721 |
| Provision for loan losses | 577 | 395 | 289 | (83) | 651 | 93 | 138 | 1 | 114 | 2,175 |
| Loans charged-off | (192) | (6) | (53) | - | (215) | - | (219) | - | (1) | (227) | (913) |
| Recoveries | 20 | - | 96 | 8 | - | - | 50 | 1 | 105 | 280 |
| Ending balance | $1,878 | $1,004 | $2,106 | $400 | $2,839 | $325 | $562 | $138 | $11 | $9,263 |

| Portfolio Segment | Commercial Construction | Commercial and real estate | 1-4 family residential | Multi-family residential | Consumer Overdrafts | Agricultural Overdrafts | Total |
|-------------------|-------------------------|---------------------------|                        |                          |                     |                         |       |
| December 31, 2014|                         |                           |                        |                          |                     |                         |       |
| Allowance for loan losses | $1,503 | $460 | $1,502 | $380 | $2,236 | $153 | $706 | $134 | $19 | $7,093 |
| Provision for loan losses | 173 | 165 | 394 | 103 | 321 | 79 | (25) | (17) | 129 | 1,322 |
| Loans charged-off | (241) | (14) | (27) | (96) | (163) | - | (178) | - | (233) | (952) |
| Recoveries | 38 | 4 | 1 | - | 1 | - | 90 | 20 | 104 | 256 |
| Ending balance | $1,473 | $615 | $1,870 | $387 | $2,395 | $232 | $593 | $137 | $19 | $7,721 |

(Continued)
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>December 31, 2016</th>
<th>Commercial Construction and development</th>
<th>Commercial real estate</th>
<th>1-4 family residential</th>
<th>Multi-family residential</th>
<th>Consumer</th>
<th>Agricultural Overdrafts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for loan losses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending allowance balance attributable to loans:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individually evaluated for impairment</td>
<td>$64</td>
<td>$ -</td>
<td>$ -</td>
<td>$47</td>
<td>$108</td>
<td>$ -</td>
<td>$34</td>
</tr>
<tr>
<td>Collectively evaluated for impairment</td>
<td>1,528</td>
<td>1,161</td>
<td>3,264</td>
<td>435</td>
<td>3,852</td>
<td>281</td>
<td>551</td>
</tr>
<tr>
<td>Total ending allowance balance</td>
<td>$1,592</td>
<td>1,161</td>
<td>3,264</td>
<td>482</td>
<td>3,960</td>
<td>281</td>
<td>585</td>
</tr>
</tbody>
</table>

| Loans: |                                       |                        |                        |                         |         |                         |       |
|------------------|-----------------------------------------|------------------------|------------------------|                         |         |                         |       |
| Individually evaluated for impairment | $231 | $1,625 | $1,196 | $258 | $2,588 | $ - | $5 | $200 | $15 | $ - | $6,318 |
| Collectively evaluated for impairment | 223,766 | 127,541 | 366,460 | 62,104 | 360,364 | 26,074 | 53,305 | 18,886 | 317 | 1,239,817 |
| Total ending loans balance | $223,997 | 129,366 | 367,656 | $62,362 | 362,952 | 26,079 | $53,505 | 18,901 | 317 | $1,246,135 |

<table>
<thead>
<tr>
<th>December 31, 2015</th>
<th>Commercial Construction and development</th>
<th>Commercial real estate</th>
<th>1-4 family residential</th>
<th>Multi-family residential</th>
<th>Consumer</th>
<th>Agricultural Overdrafts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for loan losses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending allowance balance attributable to loans:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individually evaluated for impairment</td>
<td>$316</td>
<td>$ -</td>
<td>$ -</td>
<td>$47</td>
<td>$63</td>
<td>$ -</td>
<td>$101</td>
</tr>
<tr>
<td>Collectively evaluated for impairment</td>
<td>1,562</td>
<td>1,004</td>
<td>2,106</td>
<td>353</td>
<td>2,776</td>
<td>325</td>
<td>461</td>
</tr>
<tr>
<td>Total ending allowance balance</td>
<td>$1,878</td>
<td>1,004</td>
<td>2,106</td>
<td>400</td>
<td>2,839</td>
<td>325</td>
<td>562</td>
</tr>
</tbody>
</table>

| Loans: |                                       |                        |                        |                         |         |                         |       |
|------------------|-----------------------------------------|------------------------|------------------------|                         |         |                         |       |
| Individually evaluated for impairment | $3,592 | $ - | $77 | $251 | $2,064 | $ - | $98 | $ - | $ - | $6,082 |
| Collectively evaluated for impairment | 178,298 | 122,739 | 301,609 | 47,412 | 311,376 | 30,356 | 50,958 | 19,524 | 313 | 1,062,585 |
| Total ending allowance balance | $181,890 | 122,739 | 301,686 | $47,663 | $313,440 | $30,356 | $51,056 | 19,524 | 313 | $1,068,667 |

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

Assets are graded “pass” when the relationship exhibits acceptable credit risk and indicates repayment ability, tolerable collateral coverage and reasonable performance history. Lending relationships exhibiting potentially significant credit risk and marginal repayment ability and/or asset protection are graded “special mention.” Assets classified as “substandard” are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. Substandard graded loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets graded “doubtful” are
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

substandard graded loans that have added characteristics that make collection or liquidation in full improbable. The Company typically measures impairment based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, or based on the loan’s observable market price or the fair value of the collateral if the loan is collateral-dependent.

The following tables summarize the credit exposure in the consumer and commercial loan portfolios as of December 31, 2016 and 2015.

<table>
<thead>
<tr>
<th>Grade</th>
<th>December 31, 2015</th>
<th>Commercial Construction and industrial</th>
<th>Commercial real estate</th>
<th>Farmland</th>
<th>1-4 family residential</th>
<th>Multi-family residential</th>
<th>Consumer and Overdrafts</th>
<th>Agricultural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass</td>
<td>$218,975</td>
<td>$127,537</td>
<td>$360,264</td>
<td>$61,713</td>
<td>$353,483</td>
<td>$25,871</td>
<td>$17,965</td>
<td></td>
<td>$1,218,456</td>
</tr>
<tr>
<td>Special mention</td>
<td>4,299</td>
<td>4</td>
<td>1,927</td>
<td>248</td>
<td>4,311</td>
<td>-</td>
<td>524</td>
<td>478</td>
<td>11,791</td>
</tr>
<tr>
<td>Substandard</td>
<td>706</td>
<td>1,825</td>
<td>5,465</td>
<td>401</td>
<td>5,121</td>
<td>208</td>
<td>568</td>
<td>458</td>
<td>14,752</td>
</tr>
<tr>
<td>Doubtful</td>
<td>17</td>
<td>-</td>
<td>-</td>
<td>37</td>
<td>-</td>
<td>82</td>
<td>-</td>
<td>136</td>
<td></td>
</tr>
<tr>
<td>Loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$223,997</td>
<td>$129,366</td>
<td>$367,656</td>
<td>$62,362</td>
<td>$362,952</td>
<td>$26,079</td>
<td>$18,901</td>
<td></td>
<td>$1,245,135</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grade</th>
<th>December 31, 2015</th>
<th>Commercial Construction and industrial</th>
<th>Commercial real estate</th>
<th>Farmland</th>
<th>1-4 family residential</th>
<th>Multi-family residential</th>
<th>Consumer and Overdrafts</th>
<th>Agricultural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass</td>
<td>$169,751</td>
<td>$121,420</td>
<td>$294,485</td>
<td>$46,601</td>
<td>$301,824</td>
<td>$28,893</td>
<td>$50,194</td>
<td>$18,703</td>
<td>$1,031,871</td>
</tr>
<tr>
<td>Special mention</td>
<td>6,760</td>
<td>848</td>
<td>4,390</td>
<td>730</td>
<td>5,448</td>
<td>1,192</td>
<td>710</td>
<td>713</td>
<td>21,871</td>
</tr>
<tr>
<td>Substandard</td>
<td>4,356</td>
<td>337</td>
<td>2,841</td>
<td>332</td>
<td>6,188</td>
<td>271</td>
<td>438</td>
<td>108</td>
<td>14,851</td>
</tr>
<tr>
<td>Doubtful</td>
<td>113</td>
<td>134</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>27</td>
<td>-</td>
<td>274</td>
</tr>
<tr>
<td>Loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$181,890</td>
<td>$122,739</td>
<td>$301,686</td>
<td>$47,663</td>
<td>$313,440</td>
<td>$30,356</td>
<td>$51,369</td>
<td>$19,524</td>
<td>$1,068,667</td>
</tr>
</tbody>
</table>

The following table summarizes the payment status of loans in the Company's total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming as of December 31, 2016:

<table>
<thead>
<tr>
<th>30 - 59 Days Past Due</th>
<th>60 - 89 Days Past Due</th>
<th>90 Days and Greater Past Due</th>
<th>Total Past Due</th>
<th>Current Total</th>
<th>Total Loans over 90 Days and Accruing Recorded Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>73</td>
<td>-</td>
<td>1,825</td>
<td>1,898</td>
<td>127,468</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>1,629</td>
<td>32</td>
<td>134</td>
<td>1,795</td>
<td>365,861</td>
</tr>
<tr>
<td>Farmland</td>
<td>100</td>
<td>26</td>
<td>7</td>
<td>133</td>
<td>62,229</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>3,724</td>
<td>803</td>
<td>1,041</td>
<td>5,568</td>
<td>357,384</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>207</td>
<td>49</td>
<td>-</td>
<td>256</td>
<td>25,823</td>
</tr>
<tr>
<td>Consumer</td>
<td>613</td>
<td>205</td>
<td>87</td>
<td>905</td>
<td>52,600</td>
</tr>
<tr>
<td>Agricultural</td>
<td>59</td>
<td>-</td>
<td>15</td>
<td>74</td>
<td>18,827</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>317</td>
</tr>
<tr>
<td>Total</td>
<td>$7,346</td>
<td>$1,220</td>
<td>$3,134</td>
<td>$11,700</td>
<td>$1,233,435</td>
</tr>
</tbody>
</table>

(Continued)
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table summarizes the payment status of the loan portfolio as of December 31, 2015:

<table>
<thead>
<tr>
<th></th>
<th>30 - 59 Days Past Due</th>
<th>60 - 89 Days Past Due</th>
<th>90 Days and Greater Past Due</th>
<th>Total Past Due</th>
<th>Current</th>
<th>Total Loans and Accruing</th>
<th>Recorded Investment &gt; 90 Days and Accruing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and industrial</td>
<td>$1,234</td>
<td>$60</td>
<td>$17</td>
<td>$1,311</td>
<td>$180,579</td>
<td>$181,890</td>
<td>-</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>25</td>
<td>39</td>
<td>-</td>
<td>64</td>
<td>122,675</td>
<td>122,739</td>
<td>-</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>1,174</td>
<td>258</td>
<td>77</td>
<td>1,509</td>
<td>300,177</td>
<td>301,686</td>
<td>-</td>
</tr>
<tr>
<td>Farmland</td>
<td>-</td>
<td>83</td>
<td>-</td>
<td>83</td>
<td>47,580</td>
<td>47,663</td>
<td>-</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>3,287</td>
<td>1,117</td>
<td>776</td>
<td>5,180</td>
<td>308,260</td>
<td>313,440</td>
<td>-</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>177</td>
<td>-</td>
<td>-</td>
<td>177</td>
<td>30,179</td>
<td>30,356</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>619</td>
<td>217</td>
<td>92</td>
<td>928</td>
<td>50,128</td>
<td>51,056</td>
<td>-</td>
</tr>
<tr>
<td>Agricultural</td>
<td>472</td>
<td>-</td>
<td>-</td>
<td>472</td>
<td>19,052</td>
<td>19,524</td>
<td>-</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>313</td>
<td>313</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,988</strong></td>
<td><strong>$1,774</strong></td>
<td><strong>$962</strong></td>
<td><strong>$9,724</strong></td>
<td><strong>$1,058,943</strong></td>
<td><strong>$1,068,667</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

The following table presents information regarding nonperforming (nonaccrual) assets at December 31:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and industrial</td>
<td>$82</td>
<td>$118</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>1,825</td>
<td>-</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>415</td>
<td>77</td>
</tr>
<tr>
<td>Farmland</td>
<td>176</td>
<td>169</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>1,699</td>
<td>1,829</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>192</td>
<td>238</td>
</tr>
<tr>
<td>Agricultural</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,409</strong></td>
<td><strong>$2,431</strong></td>
</tr>
</tbody>
</table>

If interest on nonaccrual loans had been accrued, such income would have been approximately $24 and $34 for the years ended December 31, 2016 and 2015, respectively. There were no commitments to lend additional funds to borrowers whose loans were classified as impaired.

Impaired Loans and Troubled Debt Restructurings

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

(Continued)
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The modification of the terms of such loans performed during the years ended December 31, 2016 included no deduction of the recorded investment in the loans. The modification of the terms of such loans performed during the year ended December 31, 2015 included a deduction of the recorded investment in the loans due to an increase in the recorded allowance. The modification of commercial and industrial and 1-4 family residential loans performed during the year ended December 31, 2016 included an extension of the maturity date at stated rate of interest lower than the current market rate. The extensions were for periods ranging from 0 months to 3 years. The modification of commercial and industrial, consumer and 1-4 family residential loans performed during the year ended December 31, 2015 included an extension of the maturity date at stated rate of interest lower than the current market rate. The extensions were for periods ranging from 0 months to 3 years.

As of December 31, 2016 and 2015, the Company has a recorded investment in TDRs of $505 and $3,701, respectively. The Company has allocated $4 and $317 of specific allowance for these loans at December 31, 2016 and 2015, respectively. Consumer and commercial TDR loans classified as performing totaled $462 and $3,541 as of December 31, 2016 and 2015, respectively. All other TDR loans are classified as nonperforming. The following tables present loans by class modified as TDRs that occurred during the years ended December 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>December 31, 2016</th>
<th>Number of Contracts</th>
<th>Pre-Modification Outstanding Investmen</th>
<th>Post-Modification Outstanding Investme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Troubled Debt Restructurings:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>1</td>
<td>$90</td>
<td>$90</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>3</td>
<td>248</td>
<td>244</td>
</tr>
<tr>
<td>Farmland</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agricultural</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>$338</td>
<td>$334</td>
</tr>
</tbody>
</table>

There were no TDRs that subsequently defaulted in 2016. The TDRs described above increased the allowance for loan losses by $0 and resulted in no charge-offs during the year ended December 31, 2016.
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

<table>
<thead>
<tr>
<th>Date</th>
<th>Number of Contracts</th>
<th>Pre-Modification Outstanding Recorded Investment</th>
<th>Post-Modification Outstanding Recorded Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Troubled Debt Restructurings:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>1</td>
<td>$3,138</td>
<td>$2,929</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>3</td>
<td>79</td>
<td>26</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>1</td>
<td>59</td>
<td>55</td>
</tr>
<tr>
<td>Farmland</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agricultural</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>$3,276</td>
<td>$3,010</td>
</tr>
</tbody>
</table>

There were no TDRs that subsequently defaulted in 2015. The TDRs described above increased the allowance for loan losses by $266 and resulted in no charge-offs during the year ended December 31, 2015.
NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information about the Company's impaired loans at December 31, 2016.

<table>
<thead>
<tr>
<th></th>
<th>Recorded Investment</th>
<th>Unpaid Principal Balance</th>
<th>Related Allowance</th>
<th>Average Recorded Investment</th>
<th>Interest Income Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td>With no related allowance recorded:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>$ 28</td>
<td>$ 28</td>
<td>$ -</td>
<td>$ 809</td>
<td>$ 3</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>1,825</td>
<td>1,825</td>
<td>-</td>
<td>172</td>
<td>84</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>1,196</td>
<td>1,196</td>
<td>-</td>
<td>871</td>
<td>47</td>
</tr>
<tr>
<td>Farmland</td>
<td>89</td>
<td>89</td>
<td>-</td>
<td>109</td>
<td>5</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>1,799</td>
<td>1,799</td>
<td>-</td>
<td>1,575</td>
<td>106</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>5</td>
<td>5</td>
<td>-</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Consumer</td>
<td>105</td>
<td>105</td>
<td>-</td>
<td>89</td>
<td>12</td>
</tr>
<tr>
<td>Agricultural</td>
<td>15</td>
<td>15</td>
<td>-</td>
<td>68</td>
<td>2</td>
</tr>
<tr>
<td>Subtotal</td>
<td>5,062</td>
<td>5,062</td>
<td>-</td>
<td>3,695</td>
<td>260</td>
</tr>
<tr>
<td>With allowance recorded:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>203</td>
<td>203</td>
<td>64</td>
<td>3,153</td>
<td>4</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Farmland</td>
<td>169</td>
<td>169</td>
<td>47</td>
<td>169</td>
<td>1</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>789</td>
<td>789</td>
<td>108</td>
<td>639</td>
<td>44</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>95</td>
<td>95</td>
<td>34</td>
<td>155</td>
<td>8</td>
</tr>
<tr>
<td>Agricultural</td>
<td>12</td>
<td>12</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,256</td>
<td>1,256</td>
<td>253</td>
<td>4,118</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>$ 6,318</td>
<td>$ 6,318</td>
<td>$ 253</td>
<td>$ 7,813</td>
<td>$ 317</td>
</tr>
</tbody>
</table>

(Continued)
### NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information about the Company's impaired loans at December 31, 2015.

<table>
<thead>
<tr>
<th></th>
<th>Recorded Investment</th>
<th>Unpaid Principal Balance</th>
<th>Related Allowance</th>
<th>Average Recorded Investment</th>
<th>Interest Income Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>With no related allowance recorded:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>$142</td>
<td>$142</td>
<td>$0</td>
<td>$104</td>
<td>$5</td>
</tr>
<tr>
<td><strong>Real estate:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>131</td>
<td>-</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>77</td>
<td>77</td>
<td>-</td>
<td>513</td>
<td>5</td>
</tr>
<tr>
<td>Farmland</td>
<td>84</td>
<td>84</td>
<td>-</td>
<td>226</td>
<td>4</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>1,687</td>
<td>1,687</td>
<td>-</td>
<td>2,238</td>
<td>108</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>63</td>
<td>63</td>
<td>-</td>
<td>109</td>
<td>16</td>
</tr>
<tr>
<td>Agricultural</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>-</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>2,053</td>
<td>2,053</td>
<td>-</td>
<td>3,335</td>
<td>138</td>
</tr>
<tr>
<td><strong>With allowance recorded:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>3,450</td>
<td>3,450</td>
<td>316</td>
<td>554</td>
<td>198</td>
</tr>
<tr>
<td><strong>Real estate:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction and development</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,064</td>
<td>-</td>
</tr>
<tr>
<td>Farmland</td>
<td>167</td>
<td>167</td>
<td>47</td>
<td>168</td>
<td>6</td>
</tr>
<tr>
<td>1-4 family residential</td>
<td>377</td>
<td>377</td>
<td>63</td>
<td>694</td>
<td>24</td>
</tr>
<tr>
<td>Multi-family residential</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>35</td>
<td>35</td>
<td>101</td>
<td>230</td>
<td>10</td>
</tr>
<tr>
<td>Agricultural</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>138</td>
<td>-</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>4,029</td>
<td>4,029</td>
<td>527</td>
<td>2,849</td>
<td>238</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,082</td>
<td>$6,082</td>
<td>$527</td>
<td>$6,184</td>
<td>$376</td>
</tr>
</tbody>
</table>

### NOTE 5 - PREMISES AND EQUIPMENT

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$9,959</td>
<td>$9,360</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>44,240</td>
<td>42,259</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>14,188</td>
<td>13,479</td>
</tr>
<tr>
<td>Automobiles</td>
<td>368</td>
<td>392</td>
</tr>
<tr>
<td><strong>Less: accumulated depreciation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>68,755</td>
<td>65,490</td>
</tr>
<tr>
<td></td>
<td>23,945</td>
<td>21,157</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$44,810</td>
<td>$44,333</td>
</tr>
</tbody>
</table>

Depreciation expense on premises and equipment totaled $3,183, $2,958 and $2,519 for the years ended December 31, 2016, 2015 and 2014, respectively and is included in occupancy expenses on the consolidated statements of earnings.
NOTE 6 - GOODWILL

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$ 18,601</td>
<td>$ 6,116</td>
</tr>
<tr>
<td>Effect of acquisitions</td>
<td>141</td>
<td>12,485</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 18,742</td>
<td>$ 18,601</td>
</tr>
</tbody>
</table>

NOTE 7 - CORE DEPOSIT INTANGIBLES

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$ 3,846</td>
<td>$ 2,879</td>
</tr>
<tr>
<td>Effect of acquisitions</td>
<td>42</td>
<td>1,502</td>
</tr>
<tr>
<td>Amortization</td>
<td>(580)</td>
<td>(535)</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 3,308</td>
<td>$ 3,846</td>
</tr>
</tbody>
</table>

Accumulated amortization was $2,523 and $1,943 at December 31, 2016 and 2015, respectively. Amortization expense was $580, $535 and $429 during the years ended December 31, 2016, 2015 and 2014, respectively. The estimated aggregate future amortization expense for core deposit intangibles remaining as of December 31, 2016 was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 583</td>
</tr>
<tr>
<td>2018</td>
<td>583</td>
</tr>
<tr>
<td>2019</td>
<td>583</td>
</tr>
<tr>
<td>2020</td>
<td>583</td>
</tr>
<tr>
<td>2021</td>
<td>417</td>
</tr>
<tr>
<td>Thereafter</td>
<td>559</td>
</tr>
<tr>
<td></td>
<td>$ 3,308</td>
</tr>
</tbody>
</table>

(Continued)
NOTE 8 - INTEREST-BEARING DEPOSITS

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOW accounts</td>
<td>$ 269,712</td>
<td>$ 351,515</td>
</tr>
<tr>
<td>Savings and money market accounts</td>
<td>606,706</td>
<td>434,973</td>
</tr>
<tr>
<td>Time deposits less than $250,000</td>
<td>239,569</td>
<td>264,414</td>
</tr>
<tr>
<td>Time deposits $250,000 and over</td>
<td>102,052</td>
<td>89,739</td>
</tr>
<tr>
<td></td>
<td>$ 1,218,039</td>
<td>$ 1,140,641</td>
</tr>
</tbody>
</table>

Year-end maturities of time deposits were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payments due</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 252,015</td>
</tr>
<tr>
<td>2018</td>
<td>55,788</td>
</tr>
<tr>
<td>2019</td>
<td>15,978</td>
</tr>
<tr>
<td>2020</td>
<td>8,539</td>
</tr>
<tr>
<td>2021</td>
<td>9,301</td>
</tr>
<tr>
<td>Thereafter</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 341,621</td>
</tr>
</tbody>
</table>

Deposits of executive officers, directors and significant shareholders at December 31, 2016 and December 31, 2015 totaled $72,443 and $115,512, respectively.

NOTE 9 - BORROWED MONEY

Federal Home Loan Bank (FHLB) advances were as follows:

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Weighted Average Rate</th>
<th>Payments due by period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>0.68%</td>
<td>$ 30,000</td>
</tr>
<tr>
<td>2018</td>
<td>0.59%</td>
<td>$ 25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 55,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Weighted Average Rate</th>
<th>Payments due by period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>1.38%</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 55,170</td>
</tr>
</tbody>
</table>

(Continued)
NOTE 9 - BORROWED MONEY (Continued)

Average balances of borrowings outstanding during 2016 and 2015 were $62,789 and $104,118, respectively. As a member of the FHLB system, the Bank has the ability to obtain borrowings up to a maximum total of $400,406 subject to the level of qualified, pledgeable 1-4 family loans, multi-family loans, small business loans, small farm loans and FHLB stock owned. The advances are collateralized by a blanket pledge of the Bank’s 1-4 family loans, multi-family loans, small business loans, small farm loans and FHLB stock owned. The weighted-average interest rates on these borrowings were 0.47% and 1.23% at December 31, 2016 and December 31, 2015, respectively.

The Company had a $25,000 revolving line of credit mature in July 2016. $15,000 was renewed as a revolving line of credit to be used for the repurchase of stock and other Company needs. The borrowings bear interest at the prime rate plus 0.75 percent, floating daily and mature May 1, 2017. The outstanding balance totaled $9,000 and $18,000 at December 31, 2016 and 2015, respectively, and interest is payable quarterly through the maturity date. An additional $10,000 of the revolving line of credit that matured July 2016 was renewed as an amortizing note to be used for the repurchase of stock and other Company needs. The borrowings bear interest at the lesser of 3.15 percent or LIBOR plus 3.00 percent, and matures May 1, 2023. The outstanding balance totaled $9,286 and $0 at December 31, 2016 and, 2015, respectively, and the principle and interest are payable quarterly through the maturity date. The notes are secured by 100% of the Bank’s common stock, which is owned by the Company. To be in compliance with the loan covenants, the Bank is required to maintain no less than a 10% total risk-based capital ratio, must maintain no less than $85,000 in tangible net worth, the ratio of non-performing assets to equity plus allowance for loan losses must not exceed 15%, the cash flow coverage must be greater than 1.25 times and the Company is limited to acquiring additional debt of no more than $500 without prior approval. The Company is in compliance with all loan covenants.

Maturities of other debt based on scheduled repayments at December 31, 2016 are as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 10,429</td>
</tr>
<tr>
<td>2018</td>
<td>1,429</td>
</tr>
<tr>
<td>2019</td>
<td>1,429</td>
</tr>
<tr>
<td>2020</td>
<td>1,429</td>
</tr>
<tr>
<td>2021</td>
<td>1,429</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,141</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 18,286</strong></td>
</tr>
</tbody>
</table>

NOTE 10 - SUBORDINATED DEBENTURES

Subordinated debentures are made up of the following as of December 31:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debentures II</td>
<td>$3,093</td>
<td>$3,093</td>
</tr>
<tr>
<td>Debentures III</td>
<td>2,062</td>
<td>2,062</td>
</tr>
<tr>
<td>DCB Debentures I</td>
<td>5,155</td>
<td>5,155</td>
</tr>
<tr>
<td>Other Debentures</td>
<td>9,000</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 19,310</strong></td>
<td><strong>$ 21,310</strong></td>
</tr>
</tbody>
</table>
NOTE 10 - SUBORDINATED DEBENTURES (Continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Trust II</th>
<th>Trust III</th>
<th>DCB Trust I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital trust pass-through securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of shares</td>
<td>3,000</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Original liquidation value</td>
<td>$3,000</td>
<td>$2,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Common securities liquidation value</td>
<td>93</td>
<td>62</td>
<td>155</td>
</tr>
</tbody>
</table>

The securities held by the Trusts can qualify as Tier I capital for the Company under Federal Reserve Board guidelines. The Federal Reserve's guidelines restrict core capital elements (including trust preferred securities and qualifying perpetual preferred stock) to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Because the Company's aggregate amount of trust preferred securities is less than the limit of 25% of Tier I capital, net of goodwill, the full amount is includable in Tier I capital at December 31, 2016 and 2015. Additionally, the terms provide that trust preferred securities would no longer qualify for Tier I capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the junior subordinated debentures.

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

<table>
<thead>
<tr>
<th></th>
<th>Debentures II</th>
<th>Debentures III</th>
<th>DCB Debentures I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original amount</td>
<td>$3,093</td>
<td>$2,062</td>
<td>$5,155</td>
</tr>
<tr>
<td>Maturity date</td>
<td>Oct 30, 2032</td>
<td>Oct 1, 2036</td>
<td>Jun 15, 2037</td>
</tr>
<tr>
<td>Interest due</td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>

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.

(Continued)
NOTE 10 - SUBORDINATED DEBENTURES (Continued)

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

On any interest payment date on or after October 30, 2012 and prior to maturity date, the Debentures II 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.

Debentures III
Interest was payable at a fixed rate per annum equal to 7.43% until October 1, 2016 and is a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 1.67%, thereafter.

The Debentures III are redeemable for cash at the option of the Company, on at least 30 days notice, in whole or in part, at the set redemption prices, varying based on redemption date, plus accrued interest. The redemption price is equal to 100.00% of the principal amount if redeemed during the 12 months beginning October 1, 2016 or after.

DCB Debentures I
Interest is payable at a variable rate per annum, reset quarterly, equal to 3 month LIBOR plus 1.80%.

On any interest payment date on or after June 15, 2012 and prior to maturity date, the DCB Debentures I 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 April 2013, the Company issued $4,000 in debentures, of which $1,000 were issued to directors and other related parties. During the years ended December 31, 2015 and 2016, $2,000 of the debentures matured each year. The debentures were issued at par value of $500 each with rates ranging from 2.00% to 3.50% and maturity dates from April 1, 2015 to October 1, 2016.

In July 2015, the Company issued $4,000 in debentures, of which $3,000 were issued to directors and other related parties, which will mature in 2017, 2018, and 2019. At the Company’s option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest. The debentures were issued at par value of $500 each with rates ranging from 2.50% to 4.00% and maturity dates from July 1, 2017 to January 1, 2019.

In December 2015, the Company issued $5,000 in debentures, of which $2,500 were issued to directors and other related parties, which will mature in 2018, 2019, and 2020. At the Company’s option, and with 30 days advanced notice to the holder, the entire principal amount and all accrued interest may be paid to the holder on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest. The debentures were issued at par value of $500 each with rates ranging from 3.00% to 5.00% and maturity dates from July 1, 2018 to July 1, 2020.
NOTE 10 - SUBORDINATED DEBENTURES (Continued)

Maturities of subordinated debentures based on scheduled repayments at December 31, 2016 are as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$1,000</td>
</tr>
<tr>
<td>2018</td>
<td>4,000</td>
</tr>
<tr>
<td>2019</td>
<td>3,000</td>
</tr>
<tr>
<td>2020</td>
<td>1,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10,310</td>
</tr>
<tr>
<td></td>
<td>$19,310</td>
</tr>
</tbody>
</table>

NOTE 11 - STOCK OPTIONS

The Company's 2015 Equity Incentive Plan ("Stock Option Plan" or the "Plan") executed April 15, 2015, which is shareholder-approved, amended the 2014 Stock Share Option Plan ("Original Plan"). The Plan permits the grant of share options to its employees for up to 1,000,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods ranging from 5 to 10 years and have 10-year contractual terms.

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

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>1.57%</td>
<td>1.60%</td>
</tr>
<tr>
<td>Expected term (in years)</td>
<td>6.50</td>
<td>6.50</td>
</tr>
<tr>
<td>Expected stock price volatility</td>
<td>20.92%</td>
<td>21.89%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>2.13%</td>
<td>2.17%</td>
</tr>
</tbody>
</table>
NOTE 11 - STOCK OPTIONS (Continued)

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Shares</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Contractual Life in Years</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at beginning of year</td>
<td>314,391</td>
<td>$23.28</td>
<td>8.00</td>
<td>$137</td>
</tr>
<tr>
<td>Granted</td>
<td>49,500</td>
<td>23.58</td>
<td>9.38</td>
<td>21</td>
</tr>
<tr>
<td>Exercised</td>
<td>(3,014)</td>
<td>11.94</td>
<td>2.51</td>
<td>36</td>
</tr>
<tr>
<td>forfeited</td>
<td>(20,500)</td>
<td>23.22</td>
<td>7.74</td>
<td>16</td>
</tr>
<tr>
<td>Balance, December 31, 2016</td>
<td>340,377</td>
<td>23.43</td>
<td>7.34</td>
<td>194</td>
</tr>
<tr>
<td>Exercisable at end of year</td>
<td>89,677</td>
<td>22.61</td>
<td>6.45</td>
<td>125</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Shares</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Contractual Life in Years</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at beginning of year</td>
<td>229,000</td>
<td>$24.00</td>
<td>8.71</td>
<td>-</td>
</tr>
<tr>
<td>Granted</td>
<td>93,891</td>
<td>21.54</td>
<td>8.77</td>
<td>137</td>
</tr>
<tr>
<td>forfeited</td>
<td>(8,500)</td>
<td>23.29</td>
<td>8.56</td>
<td>-</td>
</tr>
<tr>
<td>Balance, December 31, 2015</td>
<td>314,391</td>
<td>23.28</td>
<td>8.00</td>
<td>137</td>
</tr>
<tr>
<td>Exercisable at end of year</td>
<td>47,191</td>
<td>20.83</td>
<td>6.76</td>
<td>137</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Shares</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Contractual Life in Years</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at beginning of year</td>
<td>267,200</td>
<td>$23.72</td>
<td>8.22</td>
<td>-</td>
</tr>
<tr>
<td>Granted</td>
<td>49,500</td>
<td>23.58</td>
<td>9.38</td>
<td>21</td>
</tr>
<tr>
<td>Vested</td>
<td>(47,700)</td>
<td>23.72</td>
<td>6.95</td>
<td>14</td>
</tr>
<tr>
<td>forfeited</td>
<td>(18,300)</td>
<td>23.22</td>
<td>7.74</td>
<td>16</td>
</tr>
<tr>
<td>Balance, December 31, 2016</td>
<td>250,700</td>
<td>23.73</td>
<td>7.65</td>
<td>69</td>
</tr>
</tbody>
</table>
NOTE 11 - STOCK OPTIONS (Continued)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Shares</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Remaining Contractual Life in Years</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at beginning of year</td>
<td>229,000</td>
<td>$24.00</td>
<td>8.71</td>
<td>$</td>
</tr>
<tr>
<td>Granted</td>
<td>93,891</td>
<td>21.54</td>
<td>8.77</td>
<td>137</td>
</tr>
<tr>
<td>Vested</td>
<td>(47,191)</td>
<td>20.83</td>
<td>6.78</td>
<td>137</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(8,500)</td>
<td>23.29</td>
<td>8.56</td>
<td></td>
</tr>
<tr>
<td>Balance, December 31, 2015</td>
<td>267,200</td>
<td>23.72</td>
<td>8.22</td>
<td>$</td>
</tr>
</tbody>
</table>

Information related to the Plan during the year ended December 31, 2016 follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrinsic value of options exercised</td>
<td>$36</td>
<td>$</td>
</tr>
<tr>
<td>Cash received from options exercised</td>
<td>36</td>
<td>198</td>
</tr>
<tr>
<td>Tax benefit realized from options exercised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Weighted average fair value of options granted</td>
<td>4.30</td>
<td>4.33</td>
</tr>
</tbody>
</table>

As of December 31, 2016, there was $1,016 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 5.50 years.

The Company granted options under the 2015 Stock Option Plan in 2016. Expense of $211 and $237 was recorded during the years ended December 31, 2016 and 2015, respectively.

NOTE 12 - STOCK APPRECIATION RIGHTS

The Guaranty Bancshares, Inc. Fair Market Value Stock Appreciation Rights Plan provides eligible employees the opportunity to share in the growth of the Company. This non-funded plan provides for annual participant awards at the Company's sole discretion, with vesting to occur as defined in the individual award agreements. Vested stock appreciation rights ("SARs") will be paid in a single lump-sum cash payment. The stock price, as valued by an external third party, is used to value the SARs. The valuation of the stock price is the same stock price used for the stock option plan and KSOP. There were no SARs granted in 2016 and 2015. The Company's liability for outstanding SARs of $563 and $509 at December 31, 2016 and December 31, 2015, respectively, is reflected in accrued interest and other liabilities in the accompanying consolidated balance sheets.

(Continued)
NOTE 12 - STOCK APPRECIATION RIGHTS (Continued)

Additional information regarding SARs as of December 31, 2016 is presented in the following table:

<table>
<thead>
<tr>
<th>Exercise Price</th>
<th>Rights Granted</th>
<th>Rights Vested</th>
<th>Weighted-Average Vested Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7.62</td>
<td>2,000</td>
<td>2,000</td>
<td>100%</td>
</tr>
<tr>
<td>11.03</td>
<td>4,000</td>
<td>4,000</td>
<td>100%</td>
</tr>
<tr>
<td>11.08</td>
<td>2,000</td>
<td>2,000</td>
<td>100%</td>
</tr>
<tr>
<td>13.50</td>
<td>15,500</td>
<td>15,500</td>
<td>100%</td>
</tr>
<tr>
<td>17.00</td>
<td>20,200</td>
<td>20,200</td>
<td>100%</td>
</tr>
<tr>
<td>18.00</td>
<td>10,000</td>
<td>10,000</td>
<td>100%</td>
</tr>
<tr>
<td>19.50</td>
<td>3,000</td>
<td>3,000</td>
<td>100%</td>
</tr>
<tr>
<td>21.00</td>
<td>19,000</td>
<td>14,800</td>
<td>78%</td>
</tr>
<tr>
<td>21.50</td>
<td>20,000</td>
<td>12,000</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>95,700</strong></td>
<td><strong>83,500</strong></td>
<td><strong>87%</strong></td>
</tr>
</tbody>
</table>

NOTE 13 - EMPLOYEE BENEFITS

KSOP
The Company maintains an Employee Stock Ownership Plan containing Section 401(k) provisions covering substantially all employees ("KSOP"). The plan provides for a matching contribution of up to 5% of a participant's qualified compensation starting January 1, 2016. The plan includes a put option which is a right to demand that the sponsor redeem shares of employer stock held by the participant, for which there is no market, with an established cash price. Total contributions accrued or paid during the years ended December 31, 2016, 2015 and 2014 totaled $935, $824 and $684, respectively.

Benefits under the KSOP generally are distributed to participants in the form of cash. In addition, until the Company's common stock is actively traded on an established securities market, the participant may demand (in accordance with the terms of the KSOP and applicable law) that the Company repurchase any shares of common stock distributed to the participant at the estimated fair value.

The fair value of shares of common stock, held by the KSOP, are deducted from permanent shareholders' equity in the consolidated balance sheets, and reflected in a line item below liabilities and above shareholders' equity. This presentation is necessary in order to recognize the put option within the KSOP-owned shares, consistent with SEC guidelines, that is present as long as the Company is not publicly traded. The Company uses a valuation by an external third party to determine the maximum possible cash obligation related to those securities. The valuation is the same that is used for the stock option plan and stock appreciation rights plan. Increases or decreases in the value of the cash obligation are included in a separate line item in the statements of changes in shareholders' equity. The fair value of allocated shares subject to this repurchase obligation totaled $31,661 and $35,384 at December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the number of shares held by the KSOP was 1,319,225 and 1,538,443, respectively. Of these shares, there were 50,000 shares and zero shares unallocated to plan participants as of December 31, 2016 and 2015, respectively. In 2016 and 2015, the Company did not repurchase any shares from KSOP participants that received distributions and exercised the put option.

(Continued)
NOTE 13 - EMPLOYEE BENEFITS (Continued)

described above. All shares held by the KSOP were treated as outstanding at each of the respective period ends.

Supplemental Retirement Plan
The Company maintains a non-qualified, non-contributory supplemental retirement plan. The plan covers a retired officer to provide benefits equal to amounts payable under the Company's retirement plan and certain social security benefits to aggregate a predetermined percentage of the officer's final five-year average salary. The plan is non-funded. Amounts expensed during the years ended December 31, 2016, 2015 and 2014 totaled $1, $4 and $12 respectively, and is included in employee compensation and benefits on the statements of earnings. The recorded obligation was approximately $5 and $27 as of December 31, 2016 and 2015, respectively and is included in accrued interest and other liabilities on the consolidated balance sheets.

Salary Continuation Plan
The Company maintains a non-qualified, non-contributory salary continuation plan. The plan covers an executive officer to provide benefits equal to an amount which represents approximately 75% of compensation at retirement as adjusted for amounts payable under the Company's retirement plan and certain social security benefits. This plan is non-funded. Payments began in 2006 and are scheduled over ten years. The Company made our last payment December 2015. There was no salary continuation plan liability held by the Company as of December 31, 2016 and 2015.

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 Salary Continuation Plan and 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 $17,804 and $16,783 as of December 31, 2016 and 2015, respectively.

Expense related to these plans totaled $390, $303 and $251 for the years ended December 31, 2016, 2015 and 2014, respectively, and is included in employee compensation and benefits on the consolidated statements of earnings. The recorded liability totaled approximately $2,002 and $1,663 as of December 31, 2016 and 2015, respectively and is included in accrued interest and other liabilities on the consolidated balance sheets.

Bonus Plan
The Company has a Bonus Plan that rewards officers and employees based on performance of individual business units of the Company. Earnings and growth performance goals for each business unit and for the Company as a whole are established at the beginning of the calendar year and approved annually by the board of directors. The Bonus Plan provides for a predetermined bonus amount to be contributed to the employee bonus pool based on (i) earnings target and growth for individual business units and (ii) achieving certain pre-tax return on average equity and pre-tax return on average asset levels for the Company as a whole. These bonus amounts are established annually by our board of directors. The bonus expense under this plan for the years ended December 31, 2016, 2015, and 2014 totaled $2,069, $1,828 and $1,486, respectively and is included in employee compensation and benefits on the consolidated statements of earnings.
NOTE 14 - 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 were as follows as of December 31:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current federal tax expense</td>
<td>$ 6,045</td>
<td>$ 5,551</td>
<td>$ 4,884</td>
</tr>
<tr>
<td>Deferred federal tax (benefit)</td>
<td>(1,330)</td>
<td>(1,189)</td>
<td>(861)</td>
</tr>
<tr>
<td>Total</td>
<td>$ 4,715</td>
<td>$ 4,362</td>
<td>$ 4,023</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory income tax at 35%</td>
<td>$ 5,893</td>
<td>$ 5,066</td>
<td>$ 4,809</td>
</tr>
<tr>
<td>Tax exempt interest income</td>
<td>(1,428)</td>
<td>(818)</td>
<td>(786)</td>
</tr>
<tr>
<td>Earnings bank owned life insurance</td>
<td>(128)</td>
<td>(147)</td>
<td>(144)</td>
</tr>
<tr>
<td>Non deductible expenses</td>
<td>223</td>
<td>320</td>
<td>88</td>
</tr>
<tr>
<td>Other</td>
<td>155</td>
<td>(59)</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>$ 4,715</td>
<td>$ 4,362</td>
<td>$ 4,023</td>
</tr>
</tbody>
</table>

(Continued)
NOTE 14 - INCOME TAXES (Continued)

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

### Deferred tax assets:

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for loan losses</td>
<td>$4,192</td>
<td>$3,289</td>
</tr>
<tr>
<td>Deferred compensation</td>
<td>701</td>
<td>582</td>
</tr>
<tr>
<td>Unrealized loss on available-for-sale securities</td>
<td>1,140</td>
<td>1,083</td>
</tr>
<tr>
<td>Stock appreciation rights</td>
<td>197</td>
<td>178</td>
</tr>
<tr>
<td>Non accrual loans</td>
<td>90</td>
<td>94</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Basis in securities</td>
<td>282</td>
<td>224</td>
</tr>
<tr>
<td>Other</td>
<td>1,479</td>
<td>1,568</td>
</tr>
<tr>
<td><strong>Total deferred tax assets</strong></td>
<td>8,099</td>
<td>7,037</td>
</tr>
</tbody>
</table>

### Deferred tax liabilities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises and equipment</td>
<td>(2,447)</td>
<td>$2,619</td>
</tr>
<tr>
<td>Deferred loan costs, net</td>
<td>(388)</td>
<td>(451)</td>
</tr>
<tr>
<td>Intangibles</td>
<td>(299)</td>
<td>(407)</td>
</tr>
<tr>
<td>Other</td>
<td>(73)</td>
<td>(55)</td>
</tr>
<tr>
<td><strong>Total deferred tax liabilities</strong></td>
<td>(3,207)</td>
<td>(3,532)</td>
</tr>
</tbody>
</table>

**Net deferred tax asset**

$4,892 $3,505

NOTE 15 - NONINTEREST INCOME AND NONINTEREST EXPENSE

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary income</td>
<td>$1,405</td>
<td>$1,432</td>
<td>$1,134</td>
</tr>
<tr>
<td>Bank-owned life insurance income</td>
<td>453</td>
<td>421</td>
<td>410</td>
</tr>
<tr>
<td>Merchant and debit card fees</td>
<td>2,741</td>
<td>2,737</td>
<td>2,418</td>
</tr>
<tr>
<td>Loan processing fee income</td>
<td>622</td>
<td>501</td>
<td>441</td>
</tr>
<tr>
<td>Title policies</td>
<td>-</td>
<td>-</td>
<td>240</td>
</tr>
<tr>
<td>Other noninterest income</td>
<td>2,465</td>
<td>1,769</td>
<td>1,752</td>
</tr>
<tr>
<td><strong>Total noninterest income</strong></td>
<td><strong>$7,686</strong></td>
<td><strong>$6,860</strong></td>
<td><strong>$6,395</strong></td>
</tr>
</tbody>
</table>

(Continued)
NOTE 15 - NONINTEREST INCOME AND NONINTEREST EXPENSE (Continued)

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal and professional fees</td>
<td>$ 1,935</td>
<td>$ 2,064</td>
<td>$ 1,625</td>
</tr>
<tr>
<td>Software support fees</td>
<td>1,870</td>
<td>1,840</td>
<td>1,447</td>
</tr>
<tr>
<td>Amortization</td>
<td>980</td>
<td>951</td>
<td>904</td>
</tr>
<tr>
<td>Director and committee fees</td>
<td>940</td>
<td>859</td>
<td>853</td>
</tr>
<tr>
<td>Advertising and promotions</td>
<td>1,015</td>
<td>918</td>
<td>756</td>
</tr>
<tr>
<td>ATM and debit card expense</td>
<td>933</td>
<td>1,201</td>
<td>940</td>
</tr>
<tr>
<td>Office and computer supplies</td>
<td>464</td>
<td>495</td>
<td>472</td>
</tr>
<tr>
<td>Postage</td>
<td>325</td>
<td>310</td>
<td>296</td>
</tr>
<tr>
<td>Telecommunication expense</td>
<td>609</td>
<td>572</td>
<td>533</td>
</tr>
<tr>
<td>FDIC insurance assessment fees</td>
<td>1,200</td>
<td>743</td>
<td>680</td>
</tr>
<tr>
<td>Other real estate owned expenses and write-downs</td>
<td>140</td>
<td>118</td>
<td>96</td>
</tr>
<tr>
<td>Other</td>
<td>3,265</td>
<td>3,367</td>
<td>2,541</td>
</tr>
<tr>
<td><strong>Total Other Operating Expense</strong></td>
<td><strong>$ 13,676</strong></td>
<td><strong>$ 13,438</strong></td>
<td><strong>$ 11,143</strong></td>
</tr>
</tbody>
</table>

NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Interest rate swaps with notional amounts totaling $5,000 as of December 31, 2016 and 2015, were designated as cash flow hedges of the debentures and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in accrued interest and other liabilities within the consolidated balance sheets with changes in fair value recorded in other comprehensive income. The amount included in accumulated other comprehensive income would be reclassified to current earnings.
NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

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

December 31, 2016:

<table>
<thead>
<tr>
<th>Notional Amount</th>
<th>Pay Rate</th>
<th>Receive Rate</th>
<th>Effective Date</th>
<th>Maturity in Years</th>
<th>Unrealized Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000</td>
<td>5.979%</td>
<td>3 month LIBOR plus 1.67%</td>
<td>October 1, 2016</td>
<td>9.25</td>
<td>$342</td>
</tr>
<tr>
<td>$3,000</td>
<td>7.505%</td>
<td>3 month LIBOR plus 3.35%</td>
<td>October 30, 2012</td>
<td>5.83</td>
<td>$353</td>
</tr>
</tbody>
</table>

December 31, 2015:

<table>
<thead>
<tr>
<th>Notional Amount</th>
<th>Pay Rate</th>
<th>Receive Rate</th>
<th>Effective Date</th>
<th>Maturity in Years</th>
<th>Unrealized Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000</td>
<td>5.979%</td>
<td>3 month LIBOR plus 1.67%</td>
<td>October 1, 2016</td>
<td>10.25</td>
<td>$342</td>
</tr>
<tr>
<td>$3,000</td>
<td>7.505%</td>
<td>3 month LIBOR plus 3.35%</td>
<td>October 30, 2012</td>
<td>6.83</td>
<td>$433</td>
</tr>
</tbody>
</table>

Interest expense recorded on these swap transactions totaled $882, $603 and $536 during the years ended December 31, 2016, 2015 and 2014, respectively, and is reported as a component of interest expense on the debentures. At December 31, 2016, the Company expected none of the unrealized loss to be reclassified as a reduction of interest expense during the remainder of 2017.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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

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

Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company’s policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table below. If the commitment were funded, the Company would be entitled to seek recovery from the
NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)

customer. As of December 31, 2016 and 2015, no amounts have been recorded as liabilities for the Bank’s potential obligations under these guarantees.

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

<table>
<thead>
<tr>
<th>Contract or Notional Amount</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments to extend credit</td>
<td>$297,607</td>
<td>$205,919</td>
</tr>
<tr>
<td>Letters of credit</td>
<td>8,879</td>
<td>6,641</td>
</tr>
</tbody>
</table>

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.

Operating Leases
The Company leases some of its banking facilities under non-cancelable operating leases expiring in various years through 2023. Minimum future lease payments under these non-cancelable operating leases in excess of one year as of December 31, 2016, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$396</td>
</tr>
<tr>
<td>2018</td>
<td>317</td>
</tr>
<tr>
<td>2019</td>
<td>266</td>
</tr>
<tr>
<td>2020</td>
<td>228</td>
</tr>
<tr>
<td>2021</td>
<td>67</td>
</tr>
<tr>
<td>Thereafter</td>
<td>4</td>
</tr>
</tbody>
</table>

$1,278

Rental expense for the years ended December 31, 2016, 2015 and 2014, was approximately $717, $474 and $131 respectively, and is included in other expenses in the accompanying consolidated statement of income.

Certain of the operating leases above provide for renewal options at their fair value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases.

NOTE 18 - REGULATORY MATTERS

Under banking law, there are legal restrictions limiting the amount of dividends the Company can declare. Approval of the regulatory authorities is required if the effect of the dividends declared would cause regulatory capital of the Company to fall below specified minimum levels.

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

(Continued)
NOTE 18 - REGULATORY MATTERS (Continued)

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.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital to risk-weighted assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>$149,468</td>
<td>10.86%</td>
<td>$110,083</td>
<td>8.00%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>173,528</td>
<td>12.63%</td>
<td>109,947</td>
<td>8.00%</td>
<td>137,434 10.00%</td>
</tr>
<tr>
<td>Tier 1 capital to risk-weighted assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>137,984</td>
<td>10.03%</td>
<td>82,562</td>
<td>6.00%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>162,044</td>
<td>11.79%</td>
<td>82,460</td>
<td>6.00%</td>
<td>109,947 8.00%</td>
</tr>
<tr>
<td>Tier 1 capital to average assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>137,984</td>
<td>7.71%</td>
<td>71,560</td>
<td>4.00%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>162,044</td>
<td>9.06%</td>
<td>71,505</td>
<td>4.00%</td>
<td>89,381 5.00%</td>
</tr>
<tr>
<td>Common equity tier 1 risk-based capital:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>127,674</td>
<td>9.28%</td>
<td>61,922</td>
<td>4.50%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>162,044</td>
<td>11.79%</td>
<td>61,845</td>
<td>4.50%</td>
<td>89,332 6.50%</td>
</tr>
<tr>
<td>December 31, 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital to risk-weighted assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>$143,742</td>
<td>12.08%</td>
<td>$95,222</td>
<td>8.00%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>169,870</td>
<td>14.29%</td>
<td>95,096</td>
<td>8.00%</td>
<td>118,870 10.00%</td>
</tr>
<tr>
<td>Tier 1 capital to risk-weighted assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>134,480</td>
<td>11.30%</td>
<td>71,416</td>
<td>6.00%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>160,607</td>
<td>13.51%</td>
<td>71,322</td>
<td>6.00%</td>
<td>95,096 8.00%</td>
</tr>
<tr>
<td>Tier 1 capital to average assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>134,480</td>
<td>8.33%</td>
<td>64,603</td>
<td>4.00%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>160,607</td>
<td>9.95%</td>
<td>64,557</td>
<td>4.00%</td>
<td>80,696 5.00%</td>
</tr>
<tr>
<td>Common equity tier 1 risk-based capital:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated</td>
<td>124,170</td>
<td>10.43%</td>
<td>53,562</td>
<td>4.50%</td>
<td>n/a</td>
</tr>
<tr>
<td>Bank</td>
<td>160,607</td>
<td>13.51%</td>
<td>53,492</td>
<td>4.50%</td>
<td>77,266 6.50%</td>
</tr>
</tbody>
</table>

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CETI"), (ii) specify that Tier I capital consist of Common Equity Tier I and "Additional Tier I Capital" instruments meeting specified requirements, (iii) define Common Equity Tier I narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier I and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules
NOTE 18 - REGULATORY MATTERS (Continued)

became effective for the Company on January 1, 2015, with certain transition provisions to be fully phased in by January 1, 2019.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CETI and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), ad of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016 and December 31, 2015 that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2016 and December 31, 2015, the Company's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Company must maintain minimum total risk-based, CETI, Tier 1 risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since December 31, 2016 that management believes have changed the Company's category.

The Federal Reserve's guidelines regarding the capital treatment of trust preferred securities limits restricted core capital elements (including trust preferred securities and qualifying perpetual preferred stock) to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Because the Company's aggregate amount of trust preferred securities is less than the limit of 25% of Tier I capital, net of goodwill, the rules permit the inclusion of $10,310 of trust preferred securities in Tier I capital at December 31, 2016 and 2015. Additionally, the rules provide that trust preferred securities would no longer qualify for Tier I capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the subordinated debentures.

Dividends paid by the Company are mainly provided by dividends from its subsidiaries. However, certain restrictions exist regarding the ability of its bank subsidiary to transfer funds to the Company in the form of cash dividends, loans or advances. These guidelines do not currently restrict the Bank from paying normal dividends to the Company. The amount of dividends that a subsidiary 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, 2016, the Bank had $10,975 available for payment of dividends.

NOTE 19 - CONCENTRATIONS OF CREDIT RISK

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

The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.
NOTE 20 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured by collateralized mortgage obligations securities with a carrying amount of $11,033 as of December 31, 2016 and collateralized mortgage obligations and agency securities with a carrying amount of $12,993 as of December 31, 2015, respectively.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average balance during the year</td>
<td>$12,475</td>
<td>$11,223</td>
<td>$ 7,633</td>
</tr>
<tr>
<td>Average interest rate during the year</td>
<td>0.53%</td>
<td>0.49%</td>
<td>0.45%</td>
</tr>
<tr>
<td>Maximum month-end balance during the year</td>
<td>$14,817</td>
<td>$14,405</td>
<td>$ 9,720</td>
</tr>
<tr>
<td>Weighted average interest rate at year-end</td>
<td>0.41%</td>
<td>0.49%</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

NOTE 21 - RELATED PARTIES

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

NOTE 22 - FAIR VALUE

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

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

- **Loans Held For Sale:** Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar

(Continued)
NOTE 22 - FAIR VALUE (Continued)

assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

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

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

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly (Level 3).
NOTE 22 - FAIR VALUE (Continued)

The following table summarizes quantitative disclosures about the fair value measurements for each category of financial assets (liabilities) carried at fair value as of December 31, 2016 and 2015.

<table>
<thead>
<tr>
<th>Assets (liabilities) at fair value on a recurring basis:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available for sale securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>$ 59,690</td>
<td></td>
</tr>
<tr>
<td>Collateralized mortgage obligations</td>
<td>65,133</td>
<td>107,321</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>24,883</td>
<td>29,985</td>
</tr>
<tr>
<td>U.S. treasury securities</td>
<td>24,883</td>
<td>29,985</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>(695)</td>
<td>(775)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets (liabilities) at fair value on a nonrecurring basis:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans</td>
<td>6,065</td>
<td>5,555</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>1,692</td>
<td>1,693</td>
</tr>
</tbody>
</table>

There were no transfers between Level 2 and Level 3 during 2016 or 2015.

(Continued)
NOTE 22 - FAIR VALUE (Continued)

Nonfinancial Assets and Nonfinancial Liabilities
Nonfinancial assets measured at fair value on a nonrecurring basis during the years ended December 31, 2016 and 2015 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. The following table presents foreclosed assets that were remeasured and recorded at fair value (in thousands of dollars) as of December 31:

<table>
<thead>
<tr>
<th>Foreclosed assets remeasured at initial recognition:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value of foreclosed assets prior to remeasurement</td>
<td>$78</td>
<td>$364</td>
</tr>
<tr>
<td>Charge-offs recognized in the allowance for loan losses</td>
<td>(11)</td>
<td>(124)</td>
</tr>
<tr>
<td>Fair value of foreclosed assets remeasured at initial recognition</td>
<td>$67</td>
<td>$240</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreclosed assets remeasured subsequent to initial recognition:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value of foreclosed assets prior to remeasurement</td>
<td>$170</td>
<td>$167</td>
</tr>
<tr>
<td>Write-downs included in collection and other real estate owned expense</td>
<td>(69)</td>
<td>(102)</td>
</tr>
<tr>
<td>Fair value of foreclosed assets remeasured subsequent to initial recognition</td>
<td>$101</td>
<td>$65</td>
</tr>
</tbody>
</table>
NOTE 22 - FAIR VALUE (Continued)

The following table presents quantitative information about nonrecurring Level 3 fair value measurements at December 31, 2016 and 2015:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>Fair Value</th>
<th>Valuation Technique(s)</th>
<th>Unobservable Input(s)</th>
<th>Range (Weighted Average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans</td>
<td>$ 6,065</td>
<td></td>
<td>Fair value of collateral sales comparison approach</td>
<td>Selling costs or other normal adjustments: Real estate Equipment</td>
<td>10%-20% (16%) 40%-50% (42%)</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>$ 1,692</td>
<td></td>
<td>Appraisal value of collateral</td>
<td>Selling costs or other normal adjustments</td>
<td>10%-20% (16%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2015</th>
<th>Fair Value</th>
<th>Valuation Technique(s)</th>
<th>Unobservable Input(s)</th>
<th>Range (Weighted Average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans</td>
<td>$ 5,555</td>
<td></td>
<td>Fair value of collateral sales comparison approach</td>
<td>Selling costs or other normal adjustments: Real estate Equipment</td>
<td>10%-20% (16%) 40%-50% (49%)</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>$ 1,693</td>
<td></td>
<td>Appraisal value of collateral</td>
<td>Selling costs or other normal adjustments</td>
<td>10%-20% (16%)</td>
</tr>
</tbody>
</table>
NOTE 22 - FAIR VALUE (Continued)

The carrying amounts and estimated fair values of financial instruments, not previously in this note, at December 31, 2016 and 2015 are as follows:

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Carrying Amount</th>
<th>December 31, 2016 Using:</th>
<th>December 31, 2015 Using:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td>Cash, due from banks, federal funds sold and interest-bearing deposits</td>
<td>$127,543</td>
<td>$100,205</td>
<td>$27,338</td>
</tr>
<tr>
<td>Marketable securities held to maturity</td>
<td>189,371</td>
<td>-</td>
<td>186,155</td>
</tr>
<tr>
<td>Loans, net</td>
<td>1,233,651</td>
<td>-</td>
<td>1,235,306</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>7,419</td>
<td>-</td>
<td>7,419</td>
</tr>
<tr>
<td>Nonmarketable equity securities</td>
<td>10,500</td>
<td>-</td>
<td>10,500</td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>17,804</td>
<td>-</td>
<td>17,804</td>
</tr>
<tr>
<td>Deposits</td>
<td>$1,576,791</td>
<td>$1,234,875</td>
<td>$342,615</td>
</tr>
<tr>
<td>Securities sold under repurchase agreements</td>
<td>10,859</td>
<td>-</td>
<td>10,859</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>889</td>
<td>-</td>
<td>889</td>
</tr>
<tr>
<td>Other debt</td>
<td>18,286</td>
<td>-</td>
<td>18,286</td>
</tr>
<tr>
<td>Federal Home Loan Bank advances</td>
<td>55,170</td>
<td>-</td>
<td>55,170</td>
</tr>
<tr>
<td>Subordinated debentures</td>
<td>19,310</td>
<td>-</td>
<td>16,809</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>$1,466,197</td>
<td>$1,109,080</td>
<td>$357,878</td>
</tr>
<tr>
<td>Securities sold under repurchase agreements</td>
<td>12,963</td>
<td>-</td>
<td>12,963</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>987</td>
<td>-</td>
<td>987</td>
</tr>
<tr>
<td>Other debt</td>
<td>18,000</td>
<td>-</td>
<td>18,000</td>
</tr>
<tr>
<td>Federal Home Loan Bank advances</td>
<td>21,342</td>
<td>-</td>
<td>21,272</td>
</tr>
<tr>
<td>Subordinated debentures</td>
<td>21,310</td>
<td>-</td>
<td>18,644</td>
</tr>
</tbody>
</table>

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).
NOTE 22 - FAIR VALUE (Continued)

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

Cash Surrender Value of Life Insurance
The carrying amounts of bank-owned life insurance approximate their fair value.

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

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

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

Accrued Interest Receivable/Payable
The carrying amounts of accrued interest approximate their fair values (Level 2).

Off-balance Sheet Instruments
Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.
NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE LOSS

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

<table>
<thead>
<tr>
<th>Details about Accumulated Other Comprehensive Loss Components</th>
<th>Amount Reclassified From Accumulated Other Comprehensive Loss</th>
<th>Affected Line Item in the Statement Where Net Earnings is Presented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gain on available for sale securities</td>
<td>$ (82)</td>
<td>Net realized gain on sale of securities transactions</td>
</tr>
<tr>
<td></td>
<td>29</td>
<td>Tax benefit</td>
</tr>
<tr>
<td></td>
<td>$ (53)</td>
<td>Net of Tax</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Gains and (Losses) on Cash Flow Hedges</th>
<th>Unrealized Gains and (Losses) on Available for Sale Securities</th>
<th>Unrealized Gains and (Losses) on Held to Maturity Securities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$ (775)</td>
<td>$ (5,212)</td>
<td>$ (586)</td>
</tr>
<tr>
<td>Other comprehensive income (loss) before reclassification</td>
<td>80</td>
<td>(54)</td>
<td>113</td>
</tr>
<tr>
<td>Amounts reclassified from accumulated other comprehensive loss</td>
<td>-</td>
<td>(53)</td>
<td>-</td>
</tr>
<tr>
<td>Net current period other comprehensive income (loss)</td>
<td>80</td>
<td>(107)</td>
<td>113</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$ (695)</td>
<td>$ (5,319)</td>
<td>$ (473)</td>
</tr>
</tbody>
</table>

(Continued)
NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

The following are changes in accumulated other comprehensive loss by component, net of tax, for the year ending December 31, 2015:

<table>
<thead>
<tr>
<th>Gains and (Losses) on Cash Flow Hedges</th>
<th>Unrealized Gains and (Losses) on Available for Sale Securities</th>
<th>Unrealized Gains and (Losses) on Held to Maturity Securities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$ (733)</td>
<td>$ (4,413)</td>
<td>$ (678)</td>
</tr>
<tr>
<td>Other comprehensive (loss) income before reclassification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts reclassified from accumulated other comprehensive loss</td>
<td>(42)</td>
<td>(749)</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(50)</td>
<td></td>
</tr>
<tr>
<td>Net current period other comprehensive (loss) income</td>
<td>(42)</td>
<td>(799)</td>
<td>92</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$ (775)</td>
<td>$ (5,212)</td>
<td>$ (586)</td>
</tr>
</tbody>
</table>

The following are significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ending December 31, 2015:

<table>
<thead>
<tr>
<th>Details about Accumulated Other Comprehensive Loss Components</th>
<th>Amount Reclassified From Accumulated Other Comprehensive Loss</th>
<th>Affected Line Item in the Statement Where Net Earnings is Presented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gain on available for sale securities</td>
<td>$ (77)</td>
<td>Net realized gain on sale of securities transactions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax benefit</td>
</tr>
<tr>
<td></td>
<td>27</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ (50)</td>
<td>Net of Tax</td>
</tr>
</tbody>
</table>

NOTE 24 - EARNINGS PER SHARE

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

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

(Continued)
NOTE 24 - EARNINGS PER SHARE (Continued)

impact that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numerator:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings (basic)</td>
<td>$12,121</td>
<td>$10,111</td>
<td>$9,716</td>
</tr>
<tr>
<td>Net earnings (diluted)</td>
<td>$12,121</td>
<td>$10,111</td>
<td>$9,716</td>
</tr>
<tr>
<td>Denominator:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted-average shares outstanding (basic)</td>
<td>8,968,262</td>
<td>8,796,029</td>
<td>7,771,346</td>
</tr>
<tr>
<td>Effect of dilutive securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock equivalent shares from stock options</td>
<td>8,066</td>
<td>5,958</td>
<td>-</td>
</tr>
<tr>
<td>Weighted-average shares outstanding (diluted)</td>
<td>8,976,328</td>
<td>8,801,987</td>
<td>7,771,346</td>
</tr>
<tr>
<td>Net earnings per share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$1.35</td>
<td>$1.15</td>
<td>$1.25</td>
</tr>
<tr>
<td>Diluted</td>
<td>$1.35</td>
<td>$1.15</td>
<td>$1.25</td>
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</tbody>
</table>

NOTE 25 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Guaranty Bancshares, Inc. follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,645</td>
<td>$1,430</td>
<td>$865</td>
</tr>
<tr>
<td>Investment in banking subsidiaries</td>
<td>176,979</td>
<td>174,948</td>
<td>131,994</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,781</td>
<td>2,347</td>
<td>1,223</td>
</tr>
<tr>
<td>Total assets</td>
<td>$180,405</td>
<td>$178,725</td>
<td>$134,082</td>
</tr>
<tr>
<td>LIABILITIES AND EQUITY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>$37,596</td>
<td>$39,310</td>
<td>$20,155</td>
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<tr>
<td>Accrued expenses and other liabilities</td>
<td>895</td>
<td>1,679</td>
<td>1,638</td>
</tr>
<tr>
<td>KSOP-owned shares</td>
<td>31,681</td>
<td>35,384</td>
<td>36,300</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>110,253</td>
<td>102,352</td>
<td>75,989</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>$180,405</td>
<td>$178,725</td>
<td>$134,082</td>
</tr>
</tbody>
</table>
NOTE 25 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$19</td>
<td>$3</td>
<td>$3</td>
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<tr>
<td>Dividends from Guaranty</td>
<td>12,000</td>
<td>20,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Bank &amp; Trust</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12,019</td>
<td>20,003</td>
<td>6,003</td>
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<tr>
<td>Expenses</td>
<td></td>
<td></td>
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<tr>
<td>Interest expense</td>
<td>1,417</td>
<td>1,045</td>
<td>788</td>
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<tr>
<td>Other expenses</td>
<td>1,406</td>
<td>1,811</td>
<td>1,073</td>
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<tr>
<td></td>
<td>2,823</td>
<td>2,856</td>
<td>1,881</td>
</tr>
<tr>
<td>Income before income tax</td>
<td>9,196</td>
<td>17,147</td>
<td>4,142</td>
</tr>
<tr>
<td>and equity in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>undistributed income of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>subsidiary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>900</td>
<td>850</td>
<td>575</td>
</tr>
<tr>
<td>Income before equity in</td>
<td>10,096</td>
<td>17,997</td>
<td>4,717</td>
</tr>
<tr>
<td>undistributed earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of subsidiary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity in undistributed</td>
<td>2,025</td>
<td>(7,886)</td>
<td>4,999</td>
</tr>
<tr>
<td>earnings (loss) of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>subsidiary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td>$12,121</td>
<td>$10,111</td>
<td>$9,716</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$12,207</td>
<td>$9,362</td>
<td>$14,144</td>
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</tbody>
</table>
### NOTE 25 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td>$12,121</td>
<td>$10,111</td>
<td>$9,716</td>
</tr>
<tr>
<td>Adjustments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions in excess of (equity in undistributed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>subsidiary earnings</td>
<td>(2,025)</td>
<td>7,886</td>
<td>(4,999)</td>
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<tr>
<td>Stock based compensation</td>
<td>211</td>
<td>237</td>
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<tr>
<td>Change in other assets</td>
<td>89</td>
<td>(646)</td>
<td>(737)</td>
</tr>
<tr>
<td>Change in other liabilities</td>
<td>(227)</td>
<td>(95)</td>
<td>161</td>
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<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>10,169</td>
<td>17,493</td>
<td>4,141</td>
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<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of DCB Financial Corporation</td>
<td>-</td>
<td>(7,329)</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of Texas Leadership Bank of Royce City</td>
<td>-</td>
<td>(7,771)</td>
<td>-</td>
</tr>
<tr>
<td>Investment in Guaranty Bank &amp; Trust</td>
<td>-</td>
<td>(4,000)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>-</td>
<td>(19,100)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds of borrowings</td>
<td>19,000</td>
<td>27,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Repayments of borrowings</td>
<td>(20,714)</td>
<td>(13,000)</td>
<td>(16,000)</td>
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<tr>
<td>Sale of common stock</td>
<td>-</td>
<td>7,266</td>
<td>14,442</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(12,218)</td>
<td>(14,568)</td>
<td>(1,533)</td>
</tr>
<tr>
<td>Sale of treasury stock</td>
<td>8,557</td>
<td>-</td>
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<tr>
<td>Exercise of stock options</td>
<td>36</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(4,615)</td>
<td>(4,526)</td>
<td>(11,863)</td>
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<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>(9,954)</td>
<td>2,172</td>
<td>(3,950)</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td>215</td>
<td>565</td>
<td>191</td>
</tr>
<tr>
<td><strong>Beginning cash and cash equivalents</strong></td>
<td>1,430</td>
<td>865</td>
<td>674</td>
</tr>
<tr>
<td><strong>Ending cash and cash equivalents</strong></td>
<td>$1,645</td>
<td>$1,430</td>
<td>$865</td>
</tr>
</tbody>
</table>