REFINITIV

DELTA REPORT

10-Q

GNTY - GUARANTY BANCSHARES INC /

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1021
CHANGES	546
DELETIONS	245
ADDITIONS	230

REFINITIV

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 001-38087

GUARANTY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas	**001-38087**	**75-1656431**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)
16475 Dallas Parkway, Suite 600		
Addison, Texas		**75001**
(Address of Principal Executive Offices)		(Zip Code)

(888) 572 - 9881

(Registrant's telephone number, including area code)

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

Title of each class	**Trading symbol**	**Name of each exchange on which registered**
Common Stock, par value $1.00 per share	GNTY	New York Stock Exchange

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☒

As of August 2, 2023 November 1, 2023, there were 11,567,302 11,529,294 outstanding shares of the registrant's common stock, par value $1.00 per share.

GUARANTY BANCSHARES, INC.

PART I — FINANCIAL INFORMATION **Page**

PART II — OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	(Unaudited) June 30, 2023	(Audited) December 31, 2022	(Unaudited) September 30, 2023	(Audited) December 31, 2022
ASSETS				
Cash and due from banks	$ 47,663	$ 52,390	$ 47,922	$ 52,390
Federal funds sold	44,950	47,275	73,275	47,275
Interest-bearing deposits	4,738	6,802	8,980	6,802
Total cash and cash equivalents	97,351	106,467	130,177	106,467
Securities available for sale	166,596	188,927	178,644	188,927
Securities held to maturity	437,292	509,008	408,308	509,008
Loans held for sale	795	3,156	2,506	3,156
Loans, net of allowance for credit losses of $31,759 and $31,974, respectively	2,300,882	2,344,245		
Loans, net of allowance for credit losses of $31,140 and $31,974, respectively			2,286,163	2,344,245
Accrued interest receivable	11,110	11,555	11,307	11,555
Premises and equipment, net	56,151	54,291	56,712	54,291
Other real estate owned	—	38	—	38
Cash surrender value of life insurance	41,830	38,404	42,096	38,404

Core deposit intangible, net	1,633	1,859	1,524	1,859
Goodwill	32,1 60	32,16 0	32,16 0	32,16 0
Other assets	60,3 96	61,38 5	80,81 6	61,38 5
Total assets	3,20 $ 6,196	3,351 $,495	3,230 $,413	3,351 $,495
LIABILITIES AND EQUITY				
Liabilities				
Deposits				
Noninterest-bearing	915, $ 462	1,052 $,144	903,3 $ 91	1,052 $,144
Interest-bearing	1,68 7,355	1,629 ,010	1,754 ,902	1,629 ,010
Total deposits	2,60 2,817	2,681 ,154	2,658 ,293	2,681 ,154
Securities sold under agreements to repurchase	20,5 32	7,221	19,36 6	7,221
Accrued interest and other liabilities	30,7 01	28,40 9	31,21 8	28,40 9
Line of credit	12,0 00	—	2,000	—
Federal Home Loan Bank advances	195, 000	290,0 00	175,0 00	290,0 00
Subordinated debt, net	47,7 19	49,15 3	47,75 2	49,15 3
Total liabilities	2,90 8,769	3,055 ,937	2,933 ,629	3,055 ,937
Commitments and contingencies (see Note 11)				
Equity				
Preferred stock, $5.00 par value, 15,000,000 shares authorized, no shares issued	—	—	—	—

Common stock, $1.00 par value, 50,000,000 shares authorized, 14,218,363 and 14,208,558 shares issued, and 11,603,167 and 11,941,672 shares outstanding, respectively	14,218	14,209		
Common stock, $1.00 par value, 50,000,000 shares authorized, 14,230,978 and 14,208,558 shares issued, and 11,554,094 and 11,941,672 shares outstanding, respectively			14,231	14,209
Additional paid-in capital	228,241	227,727	228,666	227,727
Retained earnings	150,015	137,565	153,654	137,565
Treasury stock, 2,615,196 and 2,266,886 shares, respectively, at cost	(69,107)	(60,257)		
Treasury stock, 2,676,884 and 2,266,886 shares, respectively, at cost			(70,796)	(60,257)
Accumulated other comprehensive loss	(26,505)	(24,260)	(29,529)	(24,260)
Equity attributable to Guaranty Bancshares, Inc.	296,862	294,984	296,226	294,984
Noncontrolling interest	565	574	558	574
Total equity	297,427	295,558	296,784	295,558
Total liabilities and equity	$ 3,206,196	$ 3,351,495	$ 3,230,413	$ 3,351,495

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**

Interest income								
Loans, including fees	$ 33,591	$ 24,587	$ 65,748	$ 46,859	$ 34,765	$ 27,455	$ 100,513	$ 74,314
Securities								
Taxable	2,841	2,849	5,655	4,802	2,906	3,331	8,561	8,133
Nontaxable	1,195	1,290	2,499	2,440	1,150	1,324	3,649	3,764
Nonmarketable equity securities	301	289	720	697	304	172	1,024	869
Federal funds sold and interest-bearing deposits	806	105	1,256	215	693	194	1,949	409
Total interest income	38,734	29,120	75,878	55,013	39,818	32,476	115,696	87,489
Interest expense								
Deposits	9,946	1,623	17,601	2,865	13,069	2,455	30,670	5,320
FHLB advances and federal funds purchased	3,349	190	7,123	236	2,588	1,211	9,711	1,447
Subordinated debt	535	453	1,075	699	534	509	1,609	1,208
Other borrowed money	201	3	214	39	325	4	539	43
Total interest expense	14,031	2,269	26,013	3,839	16,516	4,179	42,529	8,018
Net interest income	24,703	26,851	49,865	51,174	23,302	28,297	73,167	79,471
Reversal of provision for credit losses	—	—	—	(1,250)				
Provision for (reversal of provision for) credit losses					—	600	—	(650)

Net interest income after reversal of provision for credit losses	24,703	26,851	49,865	52,424	23,302	27,697	73,167	80,121
Noninterest income								
Service charges	1,056	1,070	2,133	2,046	1,131	1,146	3,264	3,192
Net realized loss on sales of securities available for sale	(322)	—	(229)	—	—	—	(229)	—
Net realized gain on sale of loans	473	882	787	1,787	218	338	1,005	2,125
Merchant and debit card fees	2,121	2,061	3,795	3,672	1,752	1,738	5,547	5,410
Other income	4,545	2,068	6,292	5,055	1,838	2,581	8,130	7,636
Total noninterest income	7,873	6,081	12,778	12,560	4,939	5,803	17,717	18,363
Noninterest expense								
Employee compensation and benefits	11,939	11,730	24,203	23,262	11,944	11,851	36,147	35,113
Occupancy expenses	2,754	2,848	5,584	5,559	2,960	2,800	8,544	8,359
Other expenses	5,778	5,116	10,651	9,952	5,610	5,586	16,261	15,538
Total noninterest expense	20,471	19,694	40,438	38,773	20,514	20,237	60,952	59,010
Income before income taxes	12,105	13,238	22,205	26,211	7,727	13,263	29,932	39,474
Income tax provision	2,529	2,472	4,352	4,707	1,437	2,363	5,789	7,070
Net earnings	$ 9,576	$ 10,766	$ 17,853	$ 21,504	$ 6,290	$ 10,900	$ 24,143	$ 32,404

Net loss attributable to noncontrolling interest	5	18	9	18	7	3	16	21
Net earnings attributable to Guaranty Bancshares, Inc.	9,5 $ 81	10, $ 784	17, $ 862	21, $ 522	6,2 $ 97	10, $ 903	24,1 $ 59	32, $ 425
Basic earnings per share	0.8 $ 2	0.9 $ 0	1.5 $ 1	1.7 $ 9	0.5 $ 4	0.9 $ 2	$ 2.06	2.7 $ 0
Diluted earnings per share	0.8 $ 1	0.8 $ 9	1.5 $ 0	1.7 $ 7	0.5 $ 4	0.9 $ 1	$ 2.05	2.6 $ 8

See accompanying notes to consolidated financial statements.

2.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		**Six Months Ended June 30,**		**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Net earnings	9,5 $ 76	10, 76 $ 6	17, 85 $ 3	21 ,5 $ 04	6, 29 $ 0	10 ,9 $ 00	24 ,1 $ 43	32 ,4 $ 04
Other comprehensive loss:								
Unrealized (losses) gains on securities:								
Unrealized holding (losses) gains arising during the period, net of tax	(1, 82 2)	4,4 48	(1, 85 9)	(1 1, 76 5)				
Unrealized losses on securities:								

Unrealized holding losses arising during the period, net of tax					(2,659)	(2,155)	(4,518)	(13,920)
Reclassification adjustment for net losses included in net earnings, net of tax	254	—	181	—	—	—	181	—
Unrealized losses on available for sale securities transferred to held to maturity, net of tax and amortization	(227)	(16,117)	(567)	(16,893)	(365)	(277)	(932)	(17,170)
Unrealized losses on securities, net of tax	(1,795)	(11,669)	(2,245)	(28,658)	(3,024)	(2,432)	(5,269)	(31,090)
Unrealized losses on interest rate swaps:								
Unrealized holding gains arising during the period	—	—	—	497	—	—	—	497
Reclassification of realized gains on interest rate swap termination from accumulated other comprehensive income	—	—	—	(685)				
Reclassification of realized gains on interest rate swap termination from accumulated other comprehensive loss					—	—	—	(685)
Unrealized losses on interest rate swaps	—	—	—	(188)	—	—	—	(188)
Total other comprehensive loss	(1,795)	(11,669)	(2,245)	(28,846)	(3,024)	(2,432)	(5,269)	(31,278)

Comprehensive income (loss)	7,781	(903)	15,608	(7,342)				
Comprehensive income					3,266	8,468	18,874	1,126
Less comprehensive loss attributable to noncontrolling interest	5	18	9	18	7	3	16	21
Comprehensive income (loss) attributable to Guaranty Bancshares, Inc.	$ 7,786	$ (885)	$ 15,617	$ (7,324)				
Comprehensive income attributable to Guaranty Bancshares, Inc.					$ 3,273	$ 8,471	$ 18,890	$ 1,147

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

(Dollars in thousands, except per share data)

Attributable to Guaranty Bancshares, Inc.								Attributable to Guaranty Bancshares, Inc.							
Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity

	For the Six Months Ended June 30, 2023								For the Nine Months Ended September 30, 2023							
Balance at December 31, 2022	$ —	$ 14,209	$ 227,727	$ 137,565	$ (60,257)	$ (24,260)	$ 574	$ 295,558	$ —	$ 14,209	$ 227,727	$ 137,565	$ (60,257)	$ (24,260)	$ 574	$ 295,558
Net earnings	—	—	—	17,862	—	—	(9)	17,853	—	—	—	24,159	—	—	(16)	24,143

Other comprehensive loss	—	—	—	—	—	(2,245)	—	(2,245)	—	—	—	—	—	(5,269)	—	(5,269)
Exercise of stock options	—	8	217	—	—	—	—	225	—	21	495	—	—	—	—	516
Purchase of treasury stock	—	—	—	—	(8,850)	—	—	(8,850)	—	—	—	—	(10,539)	—	—	(10,539)
Restricted stock grants	—	1	(1)	—	—	—	—	—	—	1	(1)	—	—	—	—	—
Stock based compensation	—	—	298	—	—	—	—	298	—	—	445	—	—	—	—	445
Cash dividends:																

Common - $0.46 per share	—	—	—	(5,412)	—	—	—	(5,412)								
Total equity at June 30, 2023	$ —	$ 14,218	$ 228,241	$ 150,015	$ (69,107)	$ (26,505)	$ 565	$ 297,427								
Common - $0.69 per share									—	—	—	(8,070)	—	—	—	(8,070)

Total equity at September 30, 2023	$ —	14 ,2 $ 31	22 8, 66 $ 6	15 3, 65 $ 4	(7 0, 79 $ 6)	(2 9, 52 $ 9)	55 $ 8	29 6, 78 $ 4
For the Three Months Ended June 30, 2023								
Balance at March 31, 2023	$ —	14 ,2 $ 18	22 8, 09 $ 1	14 3, 10 $ 2	(6 1, 00 $ 1)	(2 4, 71 $ 0)	57 $ 0	30 0, 27 $ 0

For the Three Months Ended September 30, 2023																
Balance at June 30, 2023									$ —	$ 14,218	$ 228,241	$ 150,015	$ (69,107)	$ (26,505)	$ 565	$ 297,427
Net earnings	—	—	—	9,581	—	—	(5)	9,576	—	—	—	6,297	—	—	(7)	6,290
Other comprehensive loss	—	—	—	—	—	(1,795)	—	(1,795)	—	—	—	—	—	(3,024)	—	(3,024)
Exercise of stock options	—	—	—	—	—	—	—	—	—	13	278	—	—	—	—	291

Purchase of treasury stock	—	—	—	—	(8,106)	—	—	(8,106)	—	—	—	—	(1,689)	—	—	(1,689)
Stock based compensation	—	—	150	—	—	—	—	150	—	—	147	—	—	—	—	147
Cash dividends:																
Common - $0.23 per share	—	—	—	(2,668)	—	—	—	(2,668)	—	—	—	(2,658)	—	—	—	(2,658)
Total equity at June 30, 2023	$ —	$ 14,218	$ 228,241	$ 150,015	$ (69,107)	$ (26,505)	$ 565	$ 297,427								

Total equity at September 30, 2023	$ —	$ 14,231	$ 228,666	$ 153,654	$ (70,796)	$ (29,529)	$ 558	$ 296,784

See accompanying notes to consolidated financial statements.

4.

Attributable to Guaranty Bancshares, Inc.								Attributable to Guaranty Bancshares, Inc.							
Preferred Stock	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interest**	**Total Equity**	**Preferred Stock**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interest**	**Total Equity**

	For the Six Months Ended June 30, 2022								For the Nine Months Ended September 30, 2022							
Balance at December 31, 2021	$ —	$ 14,139	$ 225,544	$ 107,645	$ (51,419)	$ 6,305	$ —	$ 302,214	$ —	$ 14,139	$ 225,544	$ 107,645	$ (51,419)	$ 6,305	$ —	$ 302,214
Net earnings	—	—	—	21,522	—	—	(18)	21,504	—	—	—	32,425	—	—	(21)	32,404

Other comprehensive loss	—	—	—	—	—	(28,846)	—	(28,846)	—	—	—	—	—	(31,278)	—	(31,278)
Contributions from noncontrolling interest	—	—	—	—	—	—	598	598	—	—	—	—	—	—	598	598
Exercise of stock options	—	21	453	—	—	—	—	474	—	43	933	—	—	—	—	976
Purchase of treasury stock	—	—	—	—	(8,151)	—	—	(8,151)	—	—	—	—	(8,838)	—	—	(8,838)
Stock based compensation	—	—	321	—	—	—	—	321	—	—	485	—	—	—	—	485
Cash dividends:																

Common - $0.44 per share	—	—	—	(5,279)	—	—	—	(5,279)
Total equity at June 30, 2022	$ —	$ 14,160	$ 226,318	$ 123,888	$ (59,570)	$ (22,541)	$ 580	$ 282,835
Common - $0.66 per share	—	—	—	(7,900)	—	—	—	(7,900)

Total equity at September 30, 2022	$ —	$ 14,182	$ 226,962	$ 132,170	$ (60,257)	$ (24,973)	$ 577	$ 288,661
For the Three Months Ended June 30, 2022								
Balance at March 31, 2022	$ —	$ 14,139	$ 225,700	$ 115,727	$ (53,412)	$ (10,872)	$ 598	$ 291,880

For the Three Months Ended September 30, 2022																
Balance at June 30, 2022									$ —	$ 14,160	$ 226,318	$ 123,888	$ (59,570)	$ (22,541)	$ 580	$ 282,835
Net earnings	—	—	—	10,784	—	—	(18)	10,766	—	—	—	10,903	—	—	(3)	10,900
Other comprehensive loss	—	—	—	—	—	(11,669)	—	(11,669)	—	—	—	—	—	(2,432)	—	(2,432)

Exercise of stock options	—	21	453	—	—	—	—	474	—	22	480	—	—	—	—	502
Purchase of treasury stock	—	—	—	—	(6,158)	—	—	(6,158)	—	—	—	—	(687)	—	—	(687)
Stock based compensation	—	—	165	—	—	—	—	165	—	—	164	—	—	—	—	164
Dividends:																
Common - $0.22 per share	—	—	—	(2,623)	—	—	—	(2,623)	—	—	—	(2,621)	—	—	—	(2,621)

Total equity at June 30, 2022	$ —	$ 14,160	$ 226,318	$ 123,888	$ (59,570)	$ (22,541)	$ 580	$ 282,835								
Total equity at September 30, 2022									$ —	$ 14,182	$ 226,962	$ 132,170	$ (60,257)	$ (24,973)	$ 577	$ 288,661

See accompanying notes to consolidated financial statements.

5.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	For the Six Months Ended June 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash flows from operating activities				
Net earnings	$ 17,853	$ 21,504	$ 24,143	$ 32,404
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation	2,028	2,146	3,036	3,180
Amortization	376	397	556	563
Deferred taxes	(1,157)	(3,742)	(1,157)	(4,315)
Premium amortization, net of discount accretion	1,240	2,914	1,613	4,211

Net realized loss on sales of securities available for sale	229	—	229	—
Gain on sale of loans	(787)	(1,787)	(1,005)	(2,125)
Provision for (reversal of) credit losses	—	(1,250)	—	(650)
Origination of loans held for sale	(22,127)	(48,365)	(32,719)	(62,579)
Proceeds from loans held for sale	25,275	51,511	34,374	66,084
Write-down of other real estate and repossessed assets			—	19
Net gain on sale of premises, equipment, other real estate owned and other assets	(2,945)	(38)	(2,944)	(923)
Stock based compensation	298	321	445	485
Net change in accrued interest receivable and other assets	(982)	(1,983)	(21,196)	(8,509)
Net change in accrued interest payable and other liabilities	2,251	1,067	2,778	420
Net cash provided by operating activities	$ 21,552	$ 22,695	$ 8,153	$ 28,265
Cash flows from investing activities				
Securities available for sale:				
Purchases	$ (484,132)	$ (17,201)	$ (1,404,235)	$ (28,952)
Proceeds from sales	21,268	—	21,268	—
Proceeds from maturities and principal repayments	482,114	24,465	1,386,666	31,248
Securities held to maturity:				
Purchases	—	(1,033,052)	—	(1,043,343)
Proceeds from maturities and principal repayments	70,637	607,338	99,020	696,450
Net originations of loans	43,363	(230,359)		
Net repayments (originations) of loans			58,082	(358,088)
Purchases of premises and equipment	(3,888)	(2,882)	(5,464)	(4,574)
Proceeds from sale of premises, equipment, other real estate owned and other assets	3,492	77	3,498	1,853

Net cash provided by (used in) investing activities	$ 132,854	$ (651,614)	$ 158,835	$ (705,406)

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	For the Six Months Ended June 30,		For the Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Cash flows from financing activities				
Net change in deposits	$ (78,337)	$ 109,131	$ (22,861)	$ 120,020
Net change in securities sold under agreements to repurchase	13,311	(6,280)	12,145	(6,559)
Proceeds from FHLB advances	1,725,000	124,000	2,480,000	325,000
Repayment of FHLB advances	(1,820,000)	(40,000)	(2,595,000)	(147,500)
Proceeds from line of credit	12,000	1,000	15,000	1,000
Repayment of line of credit	—	(6,000)	(13,000)	(6,000)
Proceeds from issuance of subordinated debt	—	34,336	—	34,402
Repayments of debentures	(1,500)	(3,093)	(1,500)	(3,093)
Purchase of treasury stock	(8,850)	(8,151)	(10,539)	(8,838)
Exercise of stock options	225	474	516	976
Cash dividends paid	(5,371)	(5,080)	(8,039)	(7,703)
Net cash (used in) provided by financing activities	$ (163,522)	$ 200,337	$ (143,278)	$ 301,705
Net change in cash and cash equivalents	(9,116)	(428,582)	23,710	(375,436)

Cash and cash equivalents at beginning of period	106,467	499,605	106,467	499,605
Cash and cash equivalents at end of period	$ 97,351	$ 71,023	$ 130,177	$ 124,169
Supplemental disclosures of cash flow information				
Interest paid	$ 24,150	$ 3,312	$ 39,832	$ 7,307
Income taxes paid	4,080	4,400	6,580	7,100
Supplemental schedule of noncash investing and financing activities				
Cash dividends accrued	$ 2,668	$ 2,623	$ 2,658	$ 2,621
Lease right of use assets obtained in exchange for lease liabilities	568	337	568	337
Available for sale securities transferred to held to maturity, net of unrealized loss of $13,186	—	106,157	—	106,157
Transfer of loans to other real estate owned and repossessed assets	—	27	—	32
Contributions from noncontrolling interest	—	580	—	577

See accompanying notes to consolidated financial statements.

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation: The consolidated financial statements in this Quarterly Report on Form 10-Q (this "Report") include the accounts of Guaranty, the Bank and indirect subsidiaries that are wholly-owned or controlled. Subsidiaries that are less than wholly owned are fully consolidated if they are controlled by Guaranty or one of its subsidiaries, and the portion of any subsidiary not owned by Guaranty is reported as noncontrolling interest. All significant intercompany balances and transactions have been eliminated in consolidation. The Bank has eight wholly-owned or controlled non-bank subsidiaries, Guaranty Company, Inc., G B COM, INC., 2800 South Texas Avenue LLC, Pin Oak Realty Holdings, Inc., Pin Oak Asset Management, LLC, Guaranty Bank & Trust Political Action Committee, White Oak Aviation, LLC and Caliber Guaranty Private Account, LLC, the entity which has a noncontrolling interest. The accounting and financial reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the financial services industry.

Basis of Presentation: The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments were of a normal and recurring nature. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended December 31, 2022, included in Guaranty's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 10, 2023. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

All dollar amounts referenced and discussed in the notes to the consolidated financial statements in this report are presented in thousands, unless noted otherwise.

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

(Dollars in thousands, except per share amounts)

Recent Accounting Pronouncements: In March 2022, the FASB issued *ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. The update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Finally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures. The Company adopted this ASU effective on January 1, 2023, and used the modified retrospective method, which did not have a significant impact on its consolidated financial statements. The new modification disclosure

requirements are applied on a prospective basis.

NOTE 2 - MARKETABLE SECURITIES

The following tables summarize the amortized cost and fair value of available for sale and held to maturity securities as of June 30, 2023 September 30, 2023 and December 31, 2022 and the corresponding amounts of gross unrealized gains and losses:

June 30, 2023	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**				
September 30, 2023					**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available for sale:								

Corporate bonds	$ 29,923	$ —	$ 3,133	$ 26,790	$ 29,902	$ —	$ 3,353	$ 26,549
Municipal securities	2,323	119	—	2,442	2,322	42	—	2,364
Mortgage-backed securities	137,875	—	16,435	121,440	151,424	19	19,302	132,141
Collateralized mortgage obligations	17,838	1	1,915	15,924	19,725	—	2,135	17,590
Total available for sale	$ 187,959	$ 120	$ 21,483	$ 166,596	$ 203,373	$ 61	$ 24,790	$ 178,644
Held to maturity:								
U.S. government agencies	$ 9,216	$ —	$ 1,235	$ 7,981	$ 9,254	$ —	$ 1,357	$ 7,897
Treasury securities	89,131	—	2,128	87,003	69,307	—	1,725	67,582
Municipal securities	174,273	451	8,149	166,575	168,992	104	9,568	159,528
Mortgage-backed securities	125,005	—	15,734	109,271	122,231	—	19,631	102,600
Collateralized mortgage obligations	39,667	—	7,762	31,905	38,524	—	8,440	30,084
Total held to maturity	$ 437,292	$ 451	$ 35,008	$ 402,735	$ 408,308	$ 104	$ 40,721	$ 367,691

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
Corporate bonds	$ 29,964	$ —	$ 2,177	$ 27,787
Municipal securities	10,324	326	8	10,642

(Dollars in thousands, except per share amounts)

Mortgage-backed securities	145,896	1	15,556	130,341
Collateralized mortgage obligations	21,981	3	1,827	20,157
Total available for sale	$ 208,165	$ 330	$ 19,568	$ 188,927
Held to maturity:				
U.S. government agencies	$ 9,141	$ —	$ 1,259	$ 7,882
Treasury securities	133,735	—	2,921	130,814
Municipal securities	191,680	658	8,285	184,053
Mortgage-backed securities	132,693	—	14,708	117,985
Collateralized mortgage obligations	41,759	—	7,425	34,334
Total held to maturity	$ 509,008	$ 658	$ 34,598	$ 475,068

From time to time, we have reclassified certain securities from available for sale to held to maturity. Such transfers are made at fair value at the date of transfer. The unrealized holding gains and losses at the date of transfer are retained in accumulated other comprehensive loss and in the carrying value of the held to maturity securities and are amortized or accreted over the remaining life of the security. During the second quarter of 2022, we transferred $106,157 of securities from available for sale to held to maturity, which included a net unrealized loss on the date of transfer of $13,186. During the third quarter of 2021, we transferred $172,292 of securities from available for sale to held to maturity, which included a net unrealized gain on the date of transfer of $10,235. These unamortized unrealized losses and unaccreted unrealized gains on our transferred securities are included in accumulated other comprehensive loss on our balance sheet and they netted to an unrealized loss of $6,427 6,791 at June 30, 2023 September 30, 2023 compared to an unrealized loss of $5,861 at December 31, 2022. This amount will continue to be amortized and accreted out of accumulated other comprehensive loss over the remaining life of the underlying securities as an adjustment of the yield on those securities.

There is no allowance for credit losses recorded for our available for sale or held to maturity debt securities as of June 30, 2023 September 30, 2023 or December 31, 2022.

Information pertaining to securities with gross unrealized losses as of June 30, 2023 September 30, 2023 and December 31, 2022, for which no allowance for credit losses has been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is detailed in the following tables:

	Less Than 12 Months		**12 Months or Longer**		**Total**		**Less Than 12 Months**		**12 Months or Longer**		**Total**	
June 30, 2023	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**						
September 30, 2023							**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available for sale:												
Corporate bonds	$ —	$ —	$ (3,133)	$ 26,790	$ (3,133)	$ 26,790	$ —	$ —	$ (3,353)	$ 26,549	$ (3,353)	$ 26,549
Mortgage-backed securities	(734)	18,117	(15,701)	103,323	(16,435)	121,440	(454)	21,642	(18,848)	98,588	(19,302)	120,230

Collateralized mortgage obligations	—	—	(1,915)	15,778	(1,915)	15,778	(3)	3,117	(2,132)	14,473	(2,135)	17,590
Total available for sale	$ (734)	$ 18,117	$ (20,749)	$ 145,891	$ (21,483)	$ 164,008	$ (457)	$ 24,759	$ (24,333)	$ 139,610	$ (24,790)	$ 164,369
Held to maturity:												
U.S. government agencies	$ —	$ —	$ (1,235)	$ 7,981	$ (1,235)	$ 7,981	$ —	$ —	$ (1,357)	$ 7,897	$ (1,357)	$ 7,897
Treasury securities	(2,128)	87,003	—	—	(2,128)	87,003	(1,725)	67,582	—	—	(1,725)	67,582
Municipal securities	(722)	71,567	(7,427)	70,520	(8,149)	142,087	(798)	61,215	(8,770)	77,783	(9,568)	138,998

Mortgage-backed securities	(915)	9,757	(14,819)	99,514	(15,734)	109,271	—	—	(19,631)	102,600	(19,631)	102,600
Collateralized mortgage obligations	—	(3,911)	(7,762)	35,816	(7,762)	31,905	—	—	(8,440)	30,084	(8,440)	30,084
Total held to maturity	$ (3,765)	$ 164,416	$ (31,243)	$ 213,831	$ (35,008)	$ 378,247	$ (2,523)	$ 128,797	$ (38,198)	$ 218,364	$ (40,721)	$ 347,161

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2022	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available for sale:						
Corporate bonds	$ (1,518)	$ 20,323	$ (659)	$ 7,464	(2,177)	27,787
Municipal securities	(8)	1,659	—	—	(8)	1,659
Mortgage-backed securities	(6,150)	74,146	(9,406)	55,826	(15,556)	129,972
Collateralized mortgage obligations	(908)	16,575	(919)	3,411	(1,827)	19,986
Total available for sale	$ (8,584)	$ 112,703	$ (10,984)	$ 66,701	$ (19,568)	$ 179,404
Held to maturity:						
U.S. government agencies	$ (1,259)	$ 7,882	$ —	$ —	$ (1,259)	$ 7,882
Treasury securities	(2,921)	130,814	—	—	(2,921)	130,814
Municipal securities	(7,071)	118,117	(1,214)	3,701	(8,285)	121,818

(Dollars in thousands, except per share amounts)

Mortgage-backed securities	(8,355)	80,556	(6,353)	37,429	(14,708)	117,985
Collateralized mortgage obligations	(1,031)	10,750	(6,394)	23,584	(7,425)	34,334
Total held to maturity	$ (20,637)	$ 348,119	$ (13,961)	$ 64,714	$ (34,598)	$ 412,833

There were 287 292 investments in an unrealized loss position at June 30, 2023 September 30, 2023, of which 74 77 were available for sale debt securities in an unrealized loss position with no recorded allowance for credit losses. The available for sale securities in a loss position were composed of corporate bonds, collateralized mortgage obligations and mortgage-backed securities. Management evaluates available for sale debt securities in an unrealized loss position to determine whether the impairment is due to credit-related factors or noncredit-related factors. With respect to the collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government and its agencies, the Company has determined that a decline in fair value is not due to credit-related factors. The Company monitors the credit quality of other debt securities through the use of credit ratings and other factors specific to an individual security in assessing whether or not the decline in fair value of municipal or corporate securities, relative to their amortized cost, is due to credit-related factors. Triggers to prompt further investigation of securities when the fair value is less than the amortized cost are when a security has been downgraded and falls below an A credit rating, and the security's unrealized loss exceeds 20% of its book value. Consideration is given to (1) the extent to which fair value is less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. Based on evaluation of available evidence, management believes the unrealized losses on the securities as of June 30, 2023 September 30, 2023 and December 31, 2022 are not credit-related. Management does not have the intent to sell any of these securities and believes that it is more likely than not the Company will not have to sell any such securities before recovery of cost. The fair values are expected to recover as the securities approach their maturity date or repricing

(Continued)

repricing date or if market yields for the investments decline. Accordingly, no allowance for credit losses has been recorded for these securities.

Management assesses held to maturity securities sharing similar risk characteristics on a collective basis for expected credit losses under the current expected credit losses ("CECL") methodology. As of June 30, 2023 September 30, 2023 and December 31, 2022, our held to maturity securities consisted of U.S. government agencies, municipal bonds, treasury securities, collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government and its agencies. With regard to the treasuries, collateralized mortgage obligations and mortgage-backed securities issued by the U.S. government, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. For municipal securities, management reviewed key risk indicators, including ratings by credit agencies when available, and determined that there is no current expectation of credit loss. Accordingly, no allowance for credit losses has been recorded for these securities.

As of June 30, 2023 September 30, 2023, there were no holdings of securities of any one issuer, other than the collateralized mortgage obligations, treasuries and mortgage-backed securities issued by the U.S. government and its agencies, in an amount greater than 10% of total equity attributable to Guaranty Bancshares, Inc.

Securities with fair values of approximately $315,075 292,192 and $396,584 at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, were pledged to secure public fund deposits and for other purposes as required or permitted by law.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**		**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Proceeds from sales	$ 14,029	$ —	$ 21,268	$ —	$ —	$ —	$ 21,268	$ —
Gross gains	65	—	184	—	—	—	184	—
Gross losses	(387)	—	(413)	—	—	—	(413)	—

The contractual maturities at June 30, 2023 September 30, 2023 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 Expected maturities that may differ from their contractual maturities. These differences arise maturities because borrowers and/or issuers may have the right to call or prepay their obligation with or without call or prepayment penalties.

	Available for Sale		**Held to Maturity**		**Available for Sale**	**Held to Maturity**
June 30, 2023	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**		

(Dollars in thousands, except per share amounts)

September 30, 2023					Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ —	$ —	$ 66,242	$ 65,078	$ 2,005	$ 1,967	$ 46,996	$ 46,316
Due after one year through five years	9,556	9,104	67,339	64,222	7,544	7,145	68,569	65,029
Due after five years through ten years	20,367	17,686	80,604	77,506	22,675	19,801	80,411	76,728
Due after ten years	2,323	2,442	58,435	54,753	—	—	51,577	46,934
Mortgage-backed securities	137,875	121,440	125,005	109,271	151,424	132,141	122,231	102,600
Collateralized mortgage obligations	17,838	15,924	39,667	31,905	19,725	17,590	38,524	30,084
Total securities	$ 187,959	$ 166,596	$ 437,292	$ 402,735	$ 203,373	$ 178,644	$ 408,308	$ 367,691

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commercial and industrial	$ 295,864	$ 314,067	$ 292,410	$ 314,067
Real estate:				

Construction and development	345, 127	377, 135	317,484	377,135
Commercial real estate	891, 883	887, 587	901,321	887,587
Farmland	187, 105	185, 817	188,614	185,817
1-4 family residential	496, 340	493, 061	504,002	493,061
Multi-family residential	44,3 85	45,1 47	42,720	45,147
Consumer	59,4 98	61,3 94	58,294	61,394
Agricultural	13,4 47	13,6 86	13,076	13,686
Overdrafts	252	282	328	282
Total loans	2,33 3,90 1	2,37 8,17 6	2,318,249	2,378,176
Net of:				
Deferred loan fees, net	(1,2 60)	(1,95 7)	(946)	(1,957)
Allowance for credit losses	(31, 759)	(31,9 74)	(31,140)	(31,974)
Total net loans(1)	2,30 0,88 $ 2	2,34 4,24 $ 5	$ 2,286,163	$ 2,344,245

(1) Excludes accrued interest receivable on loans of $7.7 million and $7.6 million as of June 30, 2023 and December 31, 2022, respectively, which is presented separately on the consolidated balance sheets.

(Dollars in thousands, except per share amounts)

(1) Excludes accrued interest receivable on loans of $8.6 million and $7.6 million as of September 30, 2023 and December 31, 2022, respectively, which is presented separately on the consolidated balance sheets.	(1) Excludes accrued interest receivable on loans of $8.6 million and $7.6 million as of September 30, 2023 and December 31, 2022, respectively, which is presented separately on the consolidated balance sheets.

(Continued)

The Company's estimate of the allowance for credit losses ("ACL") reflects losses expected over the remaining contractual life of the assets, adjusted for expected prepayments when appropriate. The contractual term does not consider possible extensions, renewals or modifications. The following tables present the activity in the ACL by class of loans for the six nine months ended June 30, 2023 September 30, 2023, for the year ended December 31, 2022 and for the six nine months ended June 30, 2022 September 30, 2022:

For the Six Months Ended June 30, 2023	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total

For the Nine Months Ended September 30, 2023		Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for credit losses:											

B eg in ni ng ba la nc e	4 , 3 8 $ 2	4, 8 8 $ 9	1 2, 6 5 $ 8	2, 0 0 $ 8	6, 6 1 $ 7	4 9 $ 0	7 7 $ 8	1 4 $ 9	$ 3	3 1, 9 7 $ 4	4 , 3 8 $ 2	4, 8 8 $ 9	1 2, 6 5 $ 8	2, 0 0 $ 8	6, 6 1 $ 7	4 9 $ 0	7 7 $ 8	1 4 $ 9	$ 3	3 1, 9 7 $ 4

(Reversal of) provision for credit losses	(102)	(470)	136	97	82	—	155	(3)	105	—	(186)	(1,257)	701	111	161	(19)	309	(7)	187	—

Loans charged-off	(20)	—	(87)	—	—	—	(72)	(3)	(136)	(318)	(392)	—	(266)	—	—	—	(72)	(3)	(229)	(962)
Recoveries	12	—	—	—	—	—	58	2	31	103	19	—	—	—	—	—	65	2	42	128
Ending balance	$ 4,272	$ 4,419	$ 12,707	$ 2,105	$ 6,699	$ 490	$ 919	$ 145	$ 3	$ 31,759	$ 3,823	$ 3,632	$ 13,093	$ 2,119	$ 6,778	$ 471	$ 1,080	$ 141	$ 3	$ 31,140

For the Year Ended December 31, 2022	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total

Allowance for credit losses:										
Beginning balance	$ 3,600	$ 4,221	$ 13,765	$ 1,698	$ 5,818	$ 396	$ 762	$ 169	$ 4	$ 30,433
Provision for (reversal of) credit losses	902	668	(1,108)	310	769	94	283	(20)	252	2,150
Loans charged-off	(192)	—	—	—	—	—	(322)	—	(335)	(849)
Recoveries	72	—	1	—	30	—	55	—	82	240
Ending balance	$ 4,382	$ 4,889	$ 12,658	$ 2,008	$ 6,617	$ 490	$ 778	$ 149	$ 3	$ 31,974

For the Six Months Ended June 30, 2022	Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total

For the Nine Months Ended September 30, 2022		Commercial and industrial	Construction and development	Commercial real estate	Farmland	1-4 family residential	Multi-family residential	Consumer	Agricultural	Overdrafts	Total
Allowance for credit losses:											

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nc	0	2	6	9	1	9	6	6		3	0	2	6	9	1	9	6	6		3
e	$ 0	$ 1	$ 5	$ 8	$ 8	$ 6	$ 2	$ 9	$ 4	3	$ 0	$ 1	$ 5	$ 8	$ 8	$ 6	$ 2	$ 9	$ 4	3

Provision for (reversal of) credit losses	462	27	(2,420)	55	121	208	209	(8)	96	(1,250)	347	389	(2,121)	141	158	50	229	(19)	176	(650)

Loans charged-off	(154)	—	—	—	—	—	(36)	—	(138)	(328)	(192)	—	—	—	—	—	(313)	—	(241)	(746)
Recoveries	45	—	1	—	30	—	23	—	43	142	62	—	1	—	30	—	40	—	65	198
Ending balance	$ 3,953	$ 4,248	$ 11,346	$ 1,753	$ 5,969	$ 604	$ 958	$ 161	$ 5	$ 28,997	$ 3,817	$ 4,610	$ 11,645	$ 1,839	$ 6,006	$ 446	$ 718	$ 150	$ 4	$ 29,235

(Continued)

During the first and second quarters of 2023, we We recorded no provision for credit loss. losses during the first three quarters of 2023. During the fourth quarter of 2022, we recorded a $2.8 million provision to incorporate economic forecasts for a recession an economic downturn and possible borrower stressors into our CECL model. The factors that were adjusted in the fourth quarter of 2022 are still relevant, however additional certain minor adjustments to certain qualitative factors were made in the subsequent quarters to reflect current quarter to incorporate industry-level concerns with respect to CRE valuations and "higher for longer" interest projections that could impact borrower cash flows and repayment ability. These qualitative factor adjustments were offset by a decline in the total loan portfolio balance during the quarter, resulting in no adjustment to the ACL during the first half of the year.credit quality trends.

The Company uses the weighted-average remaining maturity ("WARM") method as the basis for the estimation of expected credit losses. The WARM method uses a historical average annual charge-off rate containing loss content over a historical lookback period and is used as a foundation for estimating the credit loss reserve for the remaining outstanding balances of loans in a segment at the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments, to determine the unadjusted historical charge-off rate. The calculation of the unadjusted historical charge-off rate is then adjusted, using qualitative factors, for current conditions and for reasonable and supportable forecast periods. Qualitative loss factors are based on the Company's judgment of company, market, industry or business specific data, differences in loan-specific risk characteristics such as underwriting standards, portfolio mix, risk grades, delinquency level, or term. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historic loss factors. Additionally, we have adjusted for changes in expected environmental and economic conditions, such as changes in unemployment rates, property values, and other relevant factors over the next 12 to 24 months. Management adjusted the historical loss experience for these expectations. No reversion adjustments were necessary, as the starting point for the Company's estimate was a cumulative loss rate covering the expected contractual term of the portfolio.

The ACL is measured on a collective segment basis when similar risk characteristics exist. Our loan portfolio is segmented first by regulatory call report code, and second, by internally identified risk grades for our commercial loan segments and by delinquency status for our consumer loan segments. We also have separate segments for our internally originated SBA loans and for our SBA loans acquired from Westbound Bank. Consistent forecasts of the loss drivers are used across the loan segments. For loans that do not share general risk characteristics with segments, we estimate a specific reserve on an individual basis. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate or the fair value of collateral for collateral-dependent loans.

Assets are graded “pass” when the relationship exhibits acceptable credit risk and indicates repayment ability, tolerable collateral coverage and reasonable performance history. Lending relationships exhibiting potentially significant credit risk and marginal repayment ability and/or asset protection are graded “special mention.” Assets classified as “substandard” are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. Substandard graded loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets graded “doubtful” are substandard graded loans that have added characteristics that make collection or liquidation in full improbable. Loans that are on nonaccrual status are generally classified as substandard.

(Dollars in thousands, except per share amounts)

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

The following table summarizes the credit exposure in the Company’s loan portfolio, by year of origination, as of June 30, 2023 September 30, 2023:

June 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost	Total

September 30, 2023									2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost	Total
Commercial and industrial:																
Pass	$ 22,316	$ 82,430	$ 50,556	$ 15,647	$ 9,617	$ 15,421	$ 97,494	$ 293,481	$ 32,026	$ 79,790	$ 46,995	$ 14,326	$ 8,905	$ 13,823	$ 94,131	$ 289,996
Special mention	—	—	—	—	242	—	1,000	1,242	—	—	106	—	178	—	914	1,198

Substandard	—	12	—	234	396	173	—	815	—	240	—	158	382	163	—	943
Nonaccrual	—	58	117	51	—	100	—	326	—	55	19	49	—	91	59	273
Total commercial and industrial loans	$ 22,316	$ 82,500	$ 50,673	$ 15,932	$ 10,255	$ 15,694	$ 98,494	$ 295,864	$ 32,026	$ 80,085	$ 47,120	$ 14,533	$ 9,465	$ 14,077	$ 95,104	$ 292,410

Charge-offs	$ —	$ —	$ (16)	$ —	$ —	$ (4)	$ —	$ (20)	$ (79)	$ —	$ (16)	$ —	$ —	$ (4)	$ (293)	$ (392)
Recoveries	—	—	—	—	—	4	8	12	—	—	—	—	—	4	15	19
Current period net	$ —	$ —	$ (16)	$ —	$ —	$ —	$ 8	$ (8)	$ (79)	$ —	$ (16)	$ —	$ —	$ —	$ (278)	$ (373)
Construction and development:																

Pass	$ 34,521	$ 165,818	$ 102,018	$ 9,817	$ 6,943	$ 13,271	$ 12,473	$ 344,861	$ 60,356	$ 139,131	$ 78,124	$ 7,990	$ 6,654	$ 12,970	$ 11,738	$ 316,963
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	193	—	—	—	—	—	193	—	191	213	—	—	—	—	404
Nonaccrual	—	73	—	—	—	—	—	73	—	73	—	—	—	44	—	117

Total construction and development loans	$ 34,521	$ 166,084	$ 102,018	$ 9,817	$ 6,943	$ 13,271	$ 12,473	$ 345,127	$ 60,356	$ 139,395	$ 78,337	$ 7,990	$ 6,654	$ 13,014	$ 11,738	$ 317,484
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate:																
Pass	$ 26,620	$ 346,197	$ 160,027	$ 83,822	$ 56,784	$ 192,256	$ 17,483	$ 883,189	$ 32,724	$ 344,992	$ 148,989	$ 82,926	$ 55,603	$ 184,028	$ 15,697	$ 864,959
Special mention	—	—	—	1,370	—	1,308	—	2,678	—	7,000	—	1,363	—	1,283	—	9,646

Substandard	—	1,609	—	—	—	4,135	—	5,744	—	15,840	6,853	—	53	3,938	—	26,684
Nonaccrual	—	—	—	—	80	192	—	272	—	—	—	—	32	—	—	32
Total commercial real estate loans	$ 26,620	$ 347,806	$ 160,027	$ 85,192	$ 56,864	$ 197,891	$ 17,483	$ 891,883	$ 32,724	$ 367,832	$ 155,842	$ 84,289	$ 55,688	$ 189,249	$ 15,697	$ 901,321

(Dollars in thousands, except per share amounts)

Charge-offs	$ —	$ —	$ —	$ —	$ —	$ (87)	$ —	$ (87)	$ (179)	$ —	$ —	$ —	$ —	$ (87)	$ —	$ (266)
Recoveries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ (87)	$ —	$ (87)	$ (179)	$ —	$ —	$ —	$ —	$ (87)	$ —	$ (266)

(Continued)

	June 30, 2023: 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost	Total	September 30, 2023: 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost	Total
Farmland:																
Pass	$ 13,333	$ 85,291	$ 50,428	$ 9,181	$ 6,298	$ 16,692	$ 5,521	$ 186,744	$ 19,029	$ 81,693	$ 49,194	$ 8,725	$ 6,156	$ 16,160	$ 7,302	$ 188,259
Special mention	—	—	—	—	—	—	99	99	—	—	—	—	—	—	98	98

Substandard	—	—	—	—	29	58	—	87	—	—	—	—	28	55	—	83
Nonaccrual	—	—	—	—	—	175	—	175	—	—	—	—	—	174	—	174
Total farmland loans	$ 13,333	$ 85,291	$ 50,428	$ 9,181	$ 6,327	$ 16,925	$ 5,620	$ 187,105	$ 19,029	$ 81,693	$ 49,194	$ 8,725	$ 6,184	$ 16,389	$ 7,400	$ 188,614
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Recoveries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
1-4 family residential:																
Pass	$ 25,834	$ 144,395	$ 126,461	$ 45,281	$ 28,519	$ 105,173	$ 18,090	$ 493,753	$ 41,824	$ 143,644	$ 125,123	$ 44,271	$ 27,866	$ 99,789	$ 19,372	$ 501,889

Special mention	—	—	—	—	—	46	—	46	—	—	—	—	—	273	—	273
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonaccrual	—	—	180	703	155	1,503	—	2,541	—	—	174	54	182	1,430	—	1,840

Total 1-4 family residential loans	$ 25,834	$ 144,395	$ 126,641	$ 45,984	$ 28,674	$ 106,722	$ 18,090	$ 496,340	$ 41,824	$ 143,644	$ 125,297	$ 44,325	$ 28,048	$ 101,492	$ 19,372	$ 504,002
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Multi-family residential:																
Pass	$ 195	$ 18,111	$ 18,118	$ 2,414	$ 3,933	$ 1,614	$ —	$ 44,385	$ 192	$ 18,077	$ 16,602	$ 2,389	$ 3,903	$ 1,553	$ 4	$ 42,720
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total multi-family residential loans	$ 195	$ 18,111	$ 18,118	$ 2,414	$ 3,933	$ 1,614	$ —	$ 44,385	$ 192	$ 18,077	$ 16,602	$ 2,389	$ 3,903	$ 1,553	$ 4	$ 42,720

Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(Continued)

June 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost	Total								
September 30, 2023									**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost**	**Total**
Consumer and overdrafts:																
Pass	$ 14,651	$ 23,127	$ 8,249	$ 3,648	$ 975	$ 2,864	$ 6,054	$ 59,568	$ 21,536	$ 18,832	$ 6,718	$ 2,996	$ 754	$ 2,483	$ 4,981	$ 58,300

Special mention	8	34	—	—	8	—	—	50	—	5	76	3	—	—	—	84
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonaccrual	—	17	43	13	44	15	—	132	18	80	69	12	43	16	—	238

Total consumer loans and overdrafts	$ 14,659	$ 23,178	$ 8,292	$ 3,661	$ 1,027	$ 2,879	$ 6,054	$ 59,750	$ 21,554	$ 18,917	$ 6,863	$ 3,011	$ 797	$ 2,499	$ 4,981	$ 58,622
Charge-offs	$ (141)	$ (18)	$ (36)	$ (8)	$ (5)	$ —	$ —	$ (208)	$ (234)	$ (18)	$ (36)	$ (8)	$ (5)	$ —	$ —	$ (301)
Recoveries	31	—	3	—	—	15	40	89	42	—	3	1	—	21	40	107

Current period net	$ (110)	$ (18)	$ (33)	$ (8)	$ (5)	$ 15	$ 40	$ (119)	$ (192)	$ (18)	$ (33)	$ (7)	$ (5)	$ 21	$ 40	$ (194)
Agricultural:																
Pass	$ 1,057	$ 2,264	$ 1,358	$ 852	$ 378	$ 662	$ 6,820	$ 13,391	$ 1,544	$ 2,115	$ 1,175	$ 721	$ 330	$ 650	$ 6,478	$ 13,013
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Substandard	—	—	—	—	—	25	—	25	—	—	—	—	—	25	—	25
Nonaccrual	—	—	—	—	—	31	—	31	—	8	—	—	—	30	—	38
Total agricultural loans	$ 1,057	$ 2,264	$ 1,358	$ 852	$ 378	$ 718	$ 6,820	$ 13,447	$ 1,544	$ 2,123	$ 1,175	$ 721	$ 330	$ 705	$ 6,478	$ 13,076
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ (3)	$ —	$ (3)	$ —	$ —	$ —	$ —	$ —	$ (3)	$ —	$ (3)

Recoveries	—	—	—	—	—	2	—	2	—	—	—	—	—	2	—	2
Current period net	$ —	$ —	$ —	$ —	$ —	$ (1)	$ —	$ (1)	$ —	$ —	$ —	$ —	$ —	$ (1)	$ —	$ (1)
Total loans:																
Pass	13 8, 52 $ 7	86 7, 63 $ 3	51 7, 21 $ 5	17 0, 66 $ 2	11 3, 44 $ 7	34 7, 95 $ 3	16 3, 93 $ 5	2, 31 9, 37 $ 2	20 9, 23 $ 1	82 8, 27 $ 4	47 2, 92 $ 0	16 4, 34 $ 4	11 0, 17 $ 1	33 1, 45 $ 6	15 9, 70 $ 3	2, 27 6, 09 $ 9

Special mention	8	34	—	1,370	250	1,354	1,099	4,115	—	7,005	182	1,366	178	1,556	1,012	11,299
Substandard	—	1,814	—	234	425	4,391	—	6,864	—	16,271	7,066	158	463	4,181	—	28,139
Nonaccrual	—	148	340	767	279	2,016	—	3,550	18	216	262	115	257	1,785	59	2,712
Total loans	$ 138,535	$ 869,629	$ 517,555	$ 173,033	$ 114,401	$ 355,714	$ 165,034	$ 2,333,901	$ 209,249	$ 851,766	$ 480,430	$ 165,983	$ 111,069	$ 338,978	$ 160,774	$ 2,318,249

Charge-offs	$ (141)	$ (18)	$ (52)	$ (8)	$ (5)	$ (94)	$ —	$ (318)	$ (492)	$ (18)	$ (52)	$ (8)	$ (5)	$ (94)	$ (293)	$ (962)
Recoveries	31	—	3	—	—	21	48	103	42	—	3	1	—	27	55	128

(Dollars in thousands, except per share amounts)

Total current period net (charge-offs) recoveries	$ (110)	$ (18)	$ (49)	$ (8)	$ (5)	$ (73)	$ 48	$ (215)	$ (450)	$ (18)	$ (49)	$ (7)	$ (5)	$ (67)	$ (238)	$ (834)

(Continued)

The following table summarizes the credit exposure in the Company’s loan portfolio, by year of origination, as of December 31, 2022:

December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Total
Commercial and industrial:								

Pass	$ 99,750	$ 57,854	$ 19,577	$ 11,797	$ 4,172	$ 12,907	$ 105,628	$ 311,685
Special mention	—	131	—	333	—	—	905	1,369
Substandard	14	—	246	423	192	23	—	898
Nonaccrual	72	33	10	—	—	—	—	115
Total commercial and industrial loans	$ 99,836	$ 58,018	$ 19,833	$ 12,553	$ 4,364	$ 12,930	$ 106,533	$ 314,067
Charge-offs	$ —	$ —	$ (67)	$ —	$ —	$ —	$ (125)	$ (192)
Recoveries	—	—	—	—	—	32	40	72
Current period net	$ —	$ —	$ (67)	$ —	$ —	$ 32	$ (85)	$ (120)
Construction and development:								
Pass	179,50 $ 1	$ 138,388	$ 17,361	$ 8,697	$ 3,443	$ 10,535	$ 16,870	$ 374,795
Special mention	905	—	—	—	—	—	—	905
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	1,435	—	—	1,435
Total construction and development loans	180,40 $ 6	$ 138,388	$ 17,361	$ 8,697	$ 4,878	$ 10,535	$ 16,870	$ 377,135
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate:								
Pass	347,16 $ 2	$ 147,986	$ 86,897	$ 63,988	$ 51,002	$ 158,384	$ 12,007	$ 867,426
Special mention	—	—	1,300	—	2,594	3,427	—	7,321
Substandard	1,336	—	—	—	26	4,207	—	5,569
Nonaccrual	—	—	251	96	—	6,924	—	7,271
Total commercial real estate loans	348,49 $ 8	$ 147,986	$ 88,448	$ 64,084	$ 53,622	$ 172,942	$ 12,007	$ 887,587

(Dollars in thousands, except per share amounts)

Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	1	—	—	1
Current period net	$ —	$ —	$ —	$ —	$ 1	$ —	$ —	$ 1

(Continued)

December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Total
Farmland:								
Pass	$ 93,128	$ 51,912	$ 10,284	$ 6,646	$ 5,956	$ 11,741	$ 5,948	$ 185,615
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	31	—	62	—	93
Nonaccrual	—	—	—	—	—	109	—	109
Total farmland loans	$ 93,128	$ 51,912	$ 10,284	$ 6,677	$ 5,956	$ 11,912	$ 5,948	$ 185,817
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
1-4 family residential:								
Pass	$ 143,268	$ 128,957	$ 50,140	$ 30,068	$ 27,104	$ 89,678	$ 21,956	$ 491,171
Special mention	—	—	43	—	—	156	—	199
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	148	—	116	118	1,309	—	1,691
Total 1-4 family residential loans	$ 143,268	$ 129,105	$ 50,183	$ 30,184	$ 27,222	$ 91,143	$ 21,956	$ 493,061

(Dollars in thousands, except per share amounts)

Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	30	—	30
Current period net	$ —	$ —	$ —	$ —	$ —	$ 30	$ —	$ 30
Multi-family residential:								
Pass	$ 18,183	$ 18,331	$ 2,463	$ 4,216	$ 878	$ 985	$ 91	$ 45,147
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total multi-family residential loans	$ 18,183	$ 18,331	$ 2,463	$ 4,216	$ 878	$ 985	$ 91	$ 45,147
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(Continued)

December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost	Total
Consumer and overdrafts:								
Pass	$ 32,817	$ 11,789	$ 5,455	$ 1,835	$ 3,079	$ 473	$ 6,008	$ 61,456
Special mention	14	4	—	28	4	—	—	50
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	17	93	21	12	23	4	—	170

Total consumer loans and overdrafts	$ 32,848	$ 11,886	$ 5,476	$ 1,875	$ 3,106	$ 477	$ 6,008	$ 61,676
Charge-offs	$ (335)	$ (26)	$ (25)	$ (21)	$ —	$ —	$ (250)	$ (657)
Recoveries	83	3	6	11	1	33	—	137
Current period net	$ (252)	$ (23)	$ (19)	$ (10)	$ 1	$ 33	$ (250)	$ (520)
Agricultural:								
Pass	$ 3,148	$ 1,914	$ 984	$ 491	$ 392	$ 422	$ 6,243	$ 13,594
Special mention	—	—	—	—	—	3	—	3
Substandard	—	—	—	—	—	32	—	32
Nonaccrual	—	—	—	—	4	53	—	57
Total agricultural loans	$ 3,148	$ 1,914	$ 984	$ 491	$ 396	$ 510	$ 6,243	$ 13,686
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Recoveries	—	—	—	—	—	—	—	—
Current period net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total loans:								
Pass	$ 916,957	$ 557,131	$ 193,161	$ 127,738	$ 96,026	$ 285,125	$ 174,751	$ 2,350,889
Special mention	919	135	1,343	361	2,598	3,586	905	9,847
Substandard	1,350	—	246	454	218	4,324	—	6,592
Nonaccrual	89	274	282	224	1,580	8,399	—	10,848
Total loans	$ 919,315	$ 557,540	$ 195,032	$ 128,777	$ 100,422	$ 301,434	$ 175,656	$ 2,378,176
Charge-offs	$ (335)	$ (26)	$ (92)	$ (21)	$ —	$ —	$ (375)	$ (849)
Recoveries	83	3	6	11	2	95	40	240
Total current period net charge-offs	$ (252)	$ (23)	$ (86)	$ (10)	$ 2	$ 95	$ (335)	$ (609)

There were no loans classified in the "doubtful" or "loss" risk rating categories as of June 30, 2023 September 30, 2023 and December 31, 2022.

(Dollars in thousands, except per share amounts)

The following table presents the amortized cost basis of individually evaluated collateral-dependent loans within the ACL model as of September 30, 2023.

September 30, 2023	Real Estate		Non-RE		Total		Allowance for Credit Losses Allocation	
Commercial real estate	$	14,527	$	—	$	14,527	$	—
Total	$	14,527	$	—	$	14,527	$	—

There were no individually evaluated collateral-dependent loans within the ACL model as of December 31, 2022.

There were no individually evaluated collateral-dependent loans within the ACL model as of June 30, 2023 or December 31, 2022.

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

June 30, 2023	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing

September 30, 2023								**30 to 59 Days Past Due**	**60 to 89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Current**	**Total Loans**	**Recorded Investment > 90 Days and Accruing**
Commercial and industrial	$ 171	$ 44	$ 71	$ 286	$ 295,578	$ 295,864	$ —	$ 1,168	$ 93	$ 147	$ 1,408	$ 291,002	$ 292,410	$ —
Real estate:														

Construction and development	1,633	44	73	1,750	343,377	345,127	—	7,976	—	117	8,093	309,391	317,484	—
Commercial real estate	601	—	5	606	891,277	891,883	—	4,483	1,212	—	5,695	895,626	901,321	—

Farmland	326	—	—	326	186,779	187,105	—	1,937	32	73	2,042	186,572	188,614	—
1-4 family residential	1,082	273	377	1,732	494,608	496,340	—	3,906	403	670	4,979	499,023	504,002	—
Multi-family residential	—	—	—	—	44,385	44,385	—	—	—	—	—	42,720	42,720	—
Consumer	755	75	51	881	58,617	59,498	—	412	129	118	659	57,635	58,294	—

Agricultural	40	2	—	42	13,405	13,447	—	79	1	—	80	12,996	13,076	—
Overdrafts	—	—	—	—	252	252	—	—	—	—	—	328	328	—
Total	$ 4,608	$ 438	$ 577	$ 5,623	$ 2,328,278	$ 2,333,901	$ —	$ 19,961	$ 1,870	$ 1,125	$ 22,956	$ 2,295,293	$ 2,318,249	$ —

December 31, 2022	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial and industrial	$ 440	$ 44	$ 105	$ 589	$ 313,478	$ 314,067	$ —
Real estate:							
Construction and development	258	73	1,435	1,766	375,369	377,135	—
Commercial real estate	882	354	6,708	7,944	879,643	887,587	—
Farmland	129	79	—	208	185,609	185,817	—
1-4 family residential	2,101	547	572	3,220	489,841	493,061	—
Multi-family residential	—	—	—	—	45,147	45,147	—
Consumer	164	118	70	352	61,042	61,394	—
Agricultural	37	10	—	47	13,639	13,686	—
Overdrafts	—	—	—	—	282	282	—
Total	$ 4,011	$ 1,225	$ 8,890	$ 14,126	$ 2,364,050	$ 2,378,176	$ —

The following table presents information regarding nonaccrual loans as of:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commercial and industrial	$ 326	$ 115	$ 273	$ 115
Real estate:				
Construction and development	73	1,435	117	1,435
Commercial real estate	272	7,271	32	7,271
Farmland	175	109	174	109
1-4 family residential	2,541	1,691	1,840	1,691
Consumer and overdrafts	132	170	238	170
Agricultural	31	57	38	57
Total	$ 3,550	$ 10,848	$ 2,712	$ 10,848

There were no commitments to lend additional funds to borrowers whose loans were classified as nonaccrual. There were no nonaccrual loans for which there was no related allowance at June 30, 2023 September 30, 2023.

Modifications to Borrowers Experiencing Financial Difficulty

(Continued)

The Company adopted Accounting Standards Update ("ASU") 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

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The following table presents the amortized cost basis of loans made to borrowers experiencing financial difficulty that were modified during the six nine months ended June 30, 2023 September 30, 2023 and continue to experience financial difficulty as of September 30, 2023:

For the Six Months Ended June 30, 2023	Term Extension		Total Class of Financing Receivable		
For the Nine Months Ended September 30, 2023				**Term Extension**	**Total Class of Financing Receivable**
1-4 family residential	$	60	0.01 %	58	0.01 %
Consumer		64	0.11 %	14	0.02 %
Total loans	$	124	0.12 %	$ 72	0.03 %

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty during the six nine months ended June 30, 2023 September 30, 2023:

	Term Extension
Loan Type	**Financial Effect**
1-4 family residential	Amortization period was extended by a weighted-average period of 5.00 years.
Consumer	Amortization period was extended by a weighted-average period of 5.49 0.26 years.

The following table provides an age analysis of loans made to borrowers experiencing financial difficult that were modified on or after our ASU 2022-02 adoption date of January 1, 2023:

	Current	30 to 89 Days Past Due	90 Days or Greater Past Due	Current	30 to 89 Days Past Due	90 Days or Greater Past Due
1-4 family residential	$ 60	$ —	$ —	$ 58	$ —	$ —
Consumer	64	—	—	14	—	—
Total loans	$ 124	$ —	$ —	$ 72	$ —	$ —

As of June 30, 2023 September 30, 2023, the Company did not have any loans made to borrowers experiencing financial difficulty that were modified during the six nine months ended June 30, 2022 September 30, 2023 that subsequently defaulted.

There were no loans restructured during the six nine months ended June 30, 2022 September 30, 2022.

NOTE 4 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER DEBT

(Dollars in thousands, except per share amounts)

Securities sold under agreements to repurchase were $20,532 19,366 and $7,221 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively, and are secured by mortgage-backed securities and collateralized mortgage obligations.

The Company has an unsecured $25,000 revolving line of credit, which had a $12,000 2,000 outstanding balance at June 30, 2023 September 30, 2023 and no outstanding balance at December 31, 2022, bears interest at the greater of (i) the prime rate, which was 8.25 8.50% at June 30, 2023 September 30, 2023, or (ii) the rate floor of 3.50%, with interest payable quarterly, and matures in March 2024.

Federal Home Loan Bank (FHLB) advances bear interest based on a fixed or variable rate, payable monthly, with all principal due at maturity. The following table presents the scheduled maturities of fixed and variable rate FHLB advances and their weighted average rates, as of June 30, 2023 September 30, 2023:

Year	Current Weighted Average Rate	Principal Due	Current Weighted Average Rate	Principal Due
Fixed rate advances				
2023	5.13 %	$ 185,000	5.38 %	$ 165,000
2024	4.38 %	10,000	4.38 %	10,000
Total fixed rate FHLB advances		$ 195,000		
Total variable rate FHLB advances		—		
Total FHLB advances		$ 195,000		$ 175,000

NOTE 5 - SUBORDINATED DEBT

Subordinated debt was made up of the following as of:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022

Trust III Debentures	$ 2,062	$ 2,062	$ 2,062	$ 2,062
DCB Trust I				
Debentures	5,155	5,155	5,155	5,155
Subordinated note	34,502	34,436	34,535	34,436
Other debentures	6,000	7,500	6,000	7,500
	$ 47,719	$ 49,153	$ 47,752	$ 49,153

As of June 30, 2023 September 30, 2023, the Company has two active trusts, Guaranty (TX) Capital Trust III ("Trust III") and DCB Financial Trust I ("DCB Trust I"). 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 (composed of Trust III and DCB Trust I) issued common securities to the Company. The Trusts invested the proceeds of the sales of securities to the Company ("Debentures"). The Debentures mature approximately 30 years after the formation date, which may be shortened if certain conditions are met (including the Company having received prior approval of the Federal Reserve and any other required regulatory approvals).

	Trust III	DCB Trust I
Formation date	July 25, 2006	March 29, 2007
Capital trust pass-through securities		
Number of shares	2,000	5,000
Original liquidation value	$ 2,000	$ 5,000
Common securities liquidation value	62	155

The securities held by the Trusts qualify as Tier 1 capital for the Company under Federal Reserve Board guidelines. The Federal Reserve's guidelines restrict core capital elements (including trust preferred securities and qualifying perpetual preferred stock) to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Because the Company's aggregate amount of trust preferred securities is less than the limit of 25% of Tier 1 capital, net of goodwill, the full amount is includable in Tier 1 capital at June 30, 2023 September 30, 2023 and December 31, 2022. Additionally, the terms provide that trust preferred securities would no longer qualify for Tier 1 capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the junior subordinated debentures.

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

DCB Trust I

	Trust III Debentures		Debentures	
Original amount	$	2,062	$	5,155
Maturity date	October 1, 2036		June 15, 2037	
Interest due	Quarterly		Quarterly	

In accordance with ASC 810, "*Consolidation,*" the junior subordinated debentures issued by the Company to the subsidiary trusts are shown as liabilities in the consolidated balance sheets and interest expense associated with the junior subordinated debentures is shown in the consolidated statements of earnings.

Trust III Debentures

Interest is payable at a variable rate per annum, reset quarterly, equal to 3-month LIBOR plus 1.67%.

On any interest payment date on or after October 1, 2016 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

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GUARANTY BANCSHARES, INC.
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DCB Trust I Debentures

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

On any interest payment date on or after June 15, 2012 and prior to maturity date, the debentures are redeemable for cash at the option of the Company, on at least 30, but not more than 60 days' notice, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

Subordinated Note

In March 2022, the Company completed a private placement of $35,000 aggregate principal amount of its fixed-to-floating rate subordinated note due April 1, 2032. The subordinated note initially bears a fixed interest rate of 3.625% per year, due semi-annually in arrears on April 1 and October 1. Commencing on April 1, 2027, the interest rate on the subordinated note will reset each quarter at a floating interest rate equal to the then-current three-month term Secured Overnight Financing Rate ("SOFR") plus 192 basis points. The Company may at its option redeem in whole or in part the subordinated note on or after March 4, 2027 without a premium. The subordinated note is treated as Tier 2 capital for regulatory purposes (subject to reductions in the amount includable as Tier 2 capital in the final five years prior to maturity), and is presented net of related unamortized issuance costs on the consolidated balance sheets.

Other Debentures

In May 2020, the Company issued $10,000 in debentures to directors and other related parties. The debentures were issued at a par value of $500 each with fixed annual rates between 1.00% and 4.00% and maturity dates between November 1, 2020 and November 1, 2024. Various of these debentures have matured since issuance and $6,000 remains as of June 30, 2023 September 30, 2023. 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 maturity date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued interest.

The scheduled principal payments and weighted average rates of the Debentures, the subordinated note and other debentures are as follows:

Year	Current Weighted Average Rate	Principal Due	Current Weighted Average Rate	Principal Due
2023	3.24 %	$ 4,000	3.00 %	$ 2,000
2024	4.00 %	2,000	3.74 %	4,000
Thereafter	4.20 %	42,217	4.20 %	42,217
Total scheduled principal payments		48,217		48,217
Unamortized debt issuance costs		(498)		(465)
		$ 47,719		$ 47,752

NOTE 6 – EQUITY AWARDS

The Company's 2015 Equity Incentive Plan (the "Plan") was adopted by the Company and approved by its shareholders in April 2015. The maximum number of shares of common stock that may be issued pursuant to stock-based awards under the Plan equals 1,100,000 shares, all of which may be subject to incentive stock option treatment. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods ranging from 5 to 10 years and have 10-year contractual terms. Restricted stock awards vest under the period of restriction specified within their respective award agreements as determined by the Company. Forfeitures are recognized as they occur, subject to a 90-day grace period for vested options.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the

Company's common stock and similar peer group averages. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes in to account that the options are not transferable. The dividend yield is the total dividends per share paid during the period divided by the average of the

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Company's stock price on each date a grant was issued. The risk-free interest rate for the expected term of the option is based on U.S. Treasury yield curve in effect at the time of the grant.

A summary of stock option activity in the Plan during the six nine months ended June 30, 2023 September 30, 2023 and 2022 follows:

	Six Months Ended June 30, 2023: Number of Shares	Six Months Ended June 30, 2023: Weighted-Average Exercise Price	Six Months Ended June 30, 2023: Weighted-Average Remaining Contractual Life in Years	Six Months Ended June 30, 2023: Aggregate Intrinsic Value	Nine Months Ended September 30, 2023: Number of Shares	Nine Months Ended September 30, 2023: Weighted-Average Exercise Price	Nine Months Ended September 30, 2023: Weighted-Average Remaining Contractual Life in Years	Nine Months Ended September 30, 2023: Aggregate Intrinsic Value
Outstanding at beginning of year	497,820	$ 28.07	5.87	$ 3,402	497,820	$ 28.07	5.87	$ 3,402
Granted	28,500	27.74			41,500	28.44		
Exercised	(8,800)	25.57			(21,440)	24.05		
Forfeited	(27,690)	30.65			(48,450)	30.62		
Balance, June 30, 2023	489,830	$ 27.95	5.59	$ 884				
Balance, September 30, 2023					469,430	$ 28.02	5.53	$ 1,228
Exercisable at end of period	283,270	$ 25.65	4.04	$ 713	268,030	$ 25.87	3.96	$ 956

Six Months Ended June 30, 2022	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value				
Nine Months Ended September 30, 2022					**Number of Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life in Years**	**Aggregate Intrinsic Value**
Outstanding at beginning of year	502,780	$ 25.77	5.59	$ 5,936	502,780	$ 25.77	5.59	$ 5,936
Granted	60,000	35.84			69,000	35.71		
Exercised	(20,950)	22.60			(43,280)	22.56		
Forfeited	(20,900)	25.95			(29,920)	27.21		
Balance, June 30, 2022	520,930	$ 27.05	5.62	$ 4,815				
Balance, September 30, 2022					498,580	$ 27.34	5.62	$ 3,725
Exercisable at end of period	289,920	$ 24.52	4.07	$ 3,401	283,910	$ 24.96	4.20	$ 2,733

A summary of nonvested stock option activity in the Plan during the six nine months ended June 30, 2023 September 30, 2023 and 2022 follows:

Six Months Ended June 30, 2023 / Nine Months Ended September 30, 2023	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	216,480	$ 5.95	216,480	$ 5.95
Granted	28,500	5.45	41,500	5.82
Vested	(27,460)	5.80	(35,860)	5.82
Forfeited	(10,960)	13.53	(20,720)	12.41
Balance, June 30, 2023	206,560	$ 5.89		
Balance, September 30, 2023			201,400	$ 5.95

Six Months Ended June 30, 2022 / Nine Months Ended September 30, 2022	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	207,084	$ 5.23	207,084	$ 5.23
Granted	60,000	6.40	69,000	6.56
Vested	(29,694)	6.24	(46,014)	5.90
Forfeited	(6,380)	14.82	(15,400)	9.09
Balance, June 30, 2022	231,010	$ 5.38		
Balance, September 30, 2022			214,670	$ 5.53

Information related to stock options in the Plan is as follows for the six nine months ended:

	September 30, 2023	September 30, 2022
Intrinsic value of options exercised	$ 99	$ 521

(Dollars in thousands, except per share amounts)

Cash received from options exercised	516	976
Weighted average fair value of options granted	5.82	6.56

(Continued)

	June 30, 2023	June 30, 2022
Intrinsic value of options exercised	$ 17	$ 286
Cash received from options exercised	225	474
Weighted average fair value of options granted	5.45	6.40

Restricted Stock Awards

A summary of restricted stock activity in the Plan during the six nine months ended June 30, 2023 September 30, 2023 and 2022 follows:

Six Months Ended June 30, 2023	Number of Shares	Weighted-Average Grant Date Fair Value		
Nine Months Ended September 30, 2023			**Number of Shares**	**Weighted-Average Grant Date Fair Value**
Outstanding at beginning of year	18,930	$ 27.51	18,930	$ 27.51
Granted	2,056	34.10	2,056	34.10
Vested	(2,970)	27.50	(3,670)	28.57
Forfeited	(1,051)	28.81	(1,076)	28.93
Balance, June 30, 2023	16,965	$ 28.23		
Balance, September 30, 2023			16,240	$ 28.02

Six Months Ended June 30, 2022	Number of Shares	Weighted-Average Grant Date Fair Value

Nine Months Ended September 30, 2022				Number of Shares		Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	30,190	$	27.52	30,190	$	27.52
Vested	(4,070)		27.50	(4,770)		28.32
Balance, June 30, 2022	26,120	$	27.52			
Balance, September 30, 2022				25,420	$	27.37

Restricted stock granted to employees typically vests over five years, but vesting periods may vary. Compensation expense for these grants will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date.

As of June 30, 2023 September 30, 2023, there was $1,488 1,372 of total unrecognized compensation expense related to nonvested stock options granted under the Plan. The expense is expected to be recognized over a weighted-average period of 3.15 3.06 years.

The Company granted options under the Plan during the first six nine months of 2023 and 2022. Expense of $298 445 and $321 485 was recorded during the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively, which represents the fair value of shares, restricted stock and stock options vested during those periods.

NOTE 7 - EMPLOYEE BENEFITS

KSOP

The Company maintains an Employee Stock Ownership Plan containing Section 401(k) provisions covering substantially all employees ("KSOP"). The plan provides for a matching contribution of up to 5% of a participant's qualified compensation starting January 1, 2016. Guaranty's total contributions accrued or paid during the six nine months ended June 30, 2023 September 30, 2023 and 2022 totaled $868 1,258 and $784 1,221, respectively, and is included in employee compensation and benefits on the Company's consolidated statements of earnings.

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

As of June 30, 2023 September 30, 2023, the number of shares held by the KSOP was 1,019,722 1,018,013. There were no unallocated shares to plan participants as of June 30, 2023 September 30, 2023, and all shares held by the KSOP were treated as outstanding.

Executive Incentive Retirement Plan

The Company established a nonqualified, 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.

(Continued)

In connection with the Executive Incentive Retirement Plan, the Company has purchased life insurance policies on the respective officers. The cash surrender value of life insurance policies held by the Company totaled $41,830 42,096 and $38,404 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

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Expense related to these plans totaled $551 764 and $508 651 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. This expense is included in employee compensation and benefits on the Company’s consolidated statements of earnings. The recorded liability totaled approximately $5,782 5,917 and $5,388 as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively and is included in accrued interest and other liabilities on the Company’s consolidated balance sheets.

Bonus Plan

The Company has a bonus plan that rewards officers and employees based on performance of individual business units of the Company. Earnings and growth performance goals for each business unit and for the Company as a whole are established at the beginning of the calendar year and approved annually by Guaranty’s board of directors. The bonus plan provides for a predetermined bonus amount to be contributed to the employee bonus pool based on (i) earnings target and growth for individual business units and (ii) achieving certain pre-tax return on average equity and pre-tax return on average asset levels for the Company as a whole. These bonus amounts are established annually by Guaranty’s board of directors. The bonus expense under this plan for the six nine months ended June 30, 2023 September 30, 2023 and 2022 totaled $1,900 2,877 and $2,695, respectively, which included accrued bonus expense at June 30, 2023 and December 31, 2022 of $1,550 and $2,332 3,933, respectively. This expense is included in employee compensation and benefits on the consolidated statements of earnings and the accrual is included in accrued interest and other liabilities on the consolidated balance sheets. earnings.

NOTE 8 – LEASES

The Company has operating leases for bank locations, ATMs, corporate offices, and certain other arrangements, which have remaining lease terms of 1 year to 13 12 years. Some of the Company's operating leases include options to extend the leases for up to 10 years.

Operating leases in which we are the lessee must be recorded as right-of-use assets with corresponding lease liabilities. The right-of-use asset represents our right to utilize the underlying asset during the lease term, while the lease liability represents the present value of the obligation of the Company to make periodic lease payments over the life of the lease. The associated operating lease costs are composed of the amortization of the right-of-use asset and the implicit interest accreted on the lease liability, which is recognized on a straight-line basis over the life of the lease. As of June 30, 2023 September 30, 2023, operating lease right-of-use assets were $12,450 11,997 and liabilities were $13,088 12,643, and as of December 31, 2022, lease assets and liabilities were $12,896 and $13,520, respectively, and were included within the accompanying consolidated balance sheets as components of other assets and accrued interest and other liabilities, respectively.

Operating lease expense for operating leases accounted for under ASC 842 for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was approximately $1,147 1,724 and $1,104 1,673, respectively, and is included as a component of occupancy expenses within the accompanying consolidated statements of earnings.

The table below summarizes other information related to our operating leases as of:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Operating leases				
Operating lease right-of-use assets	$ 12,450	$ 12,896	$ 11,997	$ 12,896
Operating lease liabilities	13,088	13,520	12,643	13,520
Weighted average remaining lease term				
Operating leases	7 years	8 years	7 years	8 years
Weighted average discount rate				
Operating leases	2.05 %	2.00 %	2.09 %	2.00 %

(Continued)

(Dollars in thousands, except per share amounts)

The Company leases some of its banking facilities under non-cancelable operating leases expiring in various years through 2027 and thereafter. Minimum future lease payments under these non-cancelable operating leases as of June 30, 2023 September 30, 2023, are as follows:

Year Ended December 31,	Amount	Amount
2023	$ 1,127	$ 563
2024	2,200	2,212
2025	2,028	2,043
2026	1,793	1,806
2027	1,601	1,615
Thereafter	4,699	4,715
Total lease payments	13,448	12,954
Less: interest	(360)	(311)
Present value of lease liabilities	$ 13,088	$ 12,643

NOTE 9 - INCOME TAXES

Income tax expense was as follows for:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Income tax expense for the period	$ 2,529	$ 2,472	$ 4,352	$ 4,707	$ 1,437	$ 2,363	$ 5,789	$ 7,070
Effective tax rate	20.89 %	18.67 %	19.60 %	17.96 %	18.60 %	17.82 %	19.34 %	17.91 %

The effective tax rates differ from the statutory federal tax rate of 21% for the three and six nine months ended June 30, 2022 September 30, 2022 largely due to tax exempt interest income earned on certain investment securities and loans. For the three and six nine months ended June 30, 2023 September 30, 2023, effective tax rates were higher due to tax provisions made for the extraordinary gain effects of higher interest expense on sale of correspondent bank stock during the period. tax-exempt municipal securities.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

In the first quarter of 2022, the Company terminated interest rate swaps that were originally designed to receive payments at a floating rate in exchange for paying a fixed rate, the objective of which was to reduce the overall cost of short-term 3-month FHLB advances that were renewed consistent with the reset terms on the interest rate swaps. The swaps were canceled at a net gain of $685, which is included in other noninterest income in the Consolidated Statement of Earnings.

Interest expense recorded on these swap transactions totaled $119 188 during the six nine months ended June 30, 2022 September 30, 2022. This expense is reported as a component of interest expense on the debentures and the FHLB advances and federal funds purchased.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in its consolidated balance sheets. These transactions are referred to as "off-balance sheet commitments." The

(Continued)

Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and letters of credit, which involve elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Customers use credit commitments to ensure that funds will be available for working capital purposes, for capital expenditures and to ensure access to funds at specified terms and conditions. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management considers the likelihood of commitments and letters of credit to be funded, along with credit related conditions present in the loan agreements when estimating an ACL for off-balance sheet commitments. Loan agreements executed in connection with construction loans and commercial lines of credit have standard conditions which must be met prior to the Company being required to provide additional funding, including conditions precedent that typically include: (i) no event of default or potential default has occurred; (ii) that no material adverse events have taken place that would materially affect the borrower or the value of the collateral, (iii) that the borrower remains in compliance with all loan obligations and covenants and has made no misrepresentations; (iv) that the collateral has not been damaged or impaired; (v) that the project remains on budget and in compliance with all laws and regulations; and (vi) that all management agreements, lease agreements and franchise agreements that affect the value of the collateral remain in force. If the conditions precedent have not been met, the Company retains the option to cease current draws and/or future funding. As a result of these conditions within our loan agreements, management has determined that credit risk is minimal and there is no recorded ACL with respect to these commitments as of June 30, 2023 September 30, 2023 and December 31, 2022.

Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table below. If the commitment were funded, the Company would be entitled to seek recovery from the customer. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers. As of June 30, 2023 September 30, 2023 and December 31, 2022, no amounts have been recorded as an ACL for the Bank's potential obligations under these guarantees.

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

	Contract or Notional Amount		Contract or Notional Amount	
	June 30, 2023	**December 31, 2022**	**September 30, 2023**	**December 31, 2022**
Commitments to extend credit	$ 430,969	$ 474,745	$ 362,267	$ 474,745

(Dollars in thousands, except per share amounts)

Letters of credit	7,058	8,289	8,396	8,289

Litigation

The Company is involved in certain claims and lawsuits occurring in the normal course of business. Management, after consultation with legal counsel, does not believe that the outcome of these actions, if determined adversely, would have a material impact on the consolidated financial statements of the Company.

FHLB Letters of Credit

At June 30, 2023 September 30, 2023, the Company had letters of credit of $15,000 pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

NOTE 12 - REGULATORY MATTERS

The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and

(Continued)

classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective for the Company and Bank on January 1, 2015, with certain transition provisions that were fully phased in on January 1, 2019. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and or Tier 1 capital to adjusted quarterly average assets (as defined). Management believes, as of June 30, 2023 September 30, 2023 and December 31, 2022, that the Bank met all capital adequacy requirements to which it was subject.

The Basel III Capital Rules, among other things, (i) introduced a new capital measure called “Common Equity Tier 1” (“CET1”), (ii) specified that Tier 1 capital consist of CET1 and “Additional Tier 1 Capital” instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, (iv) expanded the scope of the deductions/adjustments as compared to existing regulations, and (v) imposed a "capital conservation buffer" of 2.5% above minimum risk-based capital requirements, below which an institution would be subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers.

As of June 30, 2023 September 30, 2023 and December 31, 2022, the Company’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized”, the Company must maintain minimum capital ratios as set forth in the table. There are no conditions or events since June 30, 2023 September 30, 2023 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 1 capital, net of goodwill, the rules permit the inclusion of $7,217 of trust preferred securities in Tier 1 capital as of both June 30, 2023 September 30, 2023 and December 31, 2022. Additionally, the rules provide that trust preferred securities would no longer qualify for Tier 1 capital within five years of their maturity, but would be included as Tier 2 capital. However, the trust preferred securities would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the subordinated debentures.

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

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Basel III (Including Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions		Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Basel III (Including Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2023																

September 30, 2023																
Total capital to risk-weighted assets:																
Consolidated	$ 362,203	14.90%	$ 194,419	8.00%	$ 255,175	10.50%	$ 243,024	10.00%	$ 364,878	14.93%	$ 195,454	8.00%	$ 256,533	10.50%	$ 244,317	10.00%
Bank	379,964	15.65%	194,265	8.00%	254,972	10.50%	242,831	10.00%	372,346	15.25%	195,334	8.00%	256,376	10.50%	244,167	10.00%
Tier 1 capital to risk-weighted assets:																
Consolidated	297,306	12.23%	145,814	6.00%	206,570	8.50%	145,814	6.00%	299,796	12.27%	146,590	6.00%	207,670	8.50%	146,590	6.00%

Bank	349,593	14.40%	145,698	6.00%	206,406	8.50%	194,265	8.00%	341,818	14.00%	146,500	6.00%	207,542	8.50%	195,334	8.00%
Tier 1 capital to average assets:(1)																
Consolidated	297,306	9.11%	130,480	4.00%	130,480	4.00%	n/a		299,796	9.34%	128,334	4.00%	128,334	4.00%	n/a	
Bank	349,593	10.74%	130,222	4.00%	130,222	4.00%	162,777	5.00%	341,818	10.68%	128,010	4.00%	128,010	4.00%	160,013	5.00%
Common equity tier 1 capital to risk-weighted assets:																

Consolidated	290,089	11.94%	109,361	4.50%	170,117	7.00%	n/a		292,579	11.98%	109,943	4.50%	171,022	7.00%	n/a	
Bank	349,593	14.40%	109,274	4.50%	169,982	7.00%	157,840	6.50%	341,818	14.00%	109,875	4.50%	170,917	7.00%	158,709	6.50%
(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve and the FDIC may require the Consolidated Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.	(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve and the FDIC may require the Consolidated Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.								(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve and the FDIC may require the Consolidated Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.							

GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Basel III (Including Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2022								
Total capital to risk-weighted assets:								
Consolidated	$ 358,702	14.37%	$ 199,687	8.00%	$ 262,089	10.50%	$ 249,608	10.00%
Bank	361,125	14.48%	199,570	8.00%	261,936	10.50%	249,463	10.00%
Tier 1 capital to risk-weighted assets:								
Consolidated	292,966	11.74%	149,765	6.00%	212,167	8.50%	149,765	6.00%
Bank	329,933	13.23%	149,678	6.00%	212,044	8.50%	199,570	8.00%
Tier 1 capital to average assets:(1)								
Consolidated	292,966	8.77%	133,614	4.00%	133,614	4.00%	n/a	
Bank	329,933	9.89%	133,375	4.00%	133,375	4.00%	166,718	5.00%
Common equity tier 1 capital to risk-weighted assets:								
Consolidated	285,749	11.45%	112,324	4.50%	174,726	7.00%	n/a	
Bank	329,933	13.23%	112,258	4.50%	174,624	7.00%	162,151	6.50%

(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve and the FDIC may require the Consolidated Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.

Dividends paid by Guaranty are mainly provided by dividends from its subsidiaries. However, certain regulatory restrictions exist regarding the ability of its bank subsidiary to transfer funds to Guaranty in the form of cash dividends, loans or advances. The amount of dividends that a subsidiary bank organized as a national banking association, such as the Bank, may declare in a calendar year is the subsidiary bank's net profits for that year combined with its retained net profits for the preceding two years. Retained net profits, as defined by the OCC, consist of net income less dividends declared during the period.

NOTE 13 - 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:

<u>Marketable Securities</u>: 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).

<u>Loans Held For Sale</u>: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

<u>Other Real Estate Owned</u>: 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

(Continued)

or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly (Level 3).

Individually Evaluated Collateral Dependent Loans: The fair value of individually evaluated collateral dependent loans is generally based on the fair value of collateral, less costs to sell. The fair value of real estate collateral is determined using recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant (Level 3). Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business (Level 3).

The following tables summarize quantitative disclosures about the fair value measurements for each category of financial assets (liabilities) carried at fair value:

June 30, 2023	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)

September 30, 2023					Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets at fair value on a recurring basis:								
Available for sale securities:								
Mortgage-backed securities	$ 121,440	$ —	$ 121,440	$ —	$ 132,141	$ —	$ 132,141	$ —
Collateralized mortgage obligations	15,924	—	15,924	—	17,590	—	17,590	—
Municipal securities	2,442	—	2,442	—	2,364	—	2,364	—
Corporate bonds	26,790	—	26,790	—	26,549	—	26,549	—
Loans held for sale	795	—	—	795	2,506	—	—	2,506
Cash surrender value of life insurance	41,830	—	41,830	—	42,096	—	42,096	—
SBA servicing assets	782	—	—	782	709	—	—	709

(Dollars in thousands, except per share amounts)

Assets at fair value on a nonrecurring basis:								
Individually evaluated collateral dependent loans	—	—	—	—	14,527	—	—	14,527

December 31, 2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets at fair value on a recurring basis:				
Available for sale securities:				
Mortgage-backed securities	$ 130,341	$ —	$ 130,341	$ —
Collateralized mortgage obligations	20,157	—	20,157	—
Municipal securities	10,642	—	10,642	—
Corporate bonds	27,787	—	27,787	—
Loans held for sale	3,156	—	—	3,156
Cash surrender value of life insurance	38,404	—	38,404	—
SBA servicing assets	874	—	—	874
Assets at fair value on a nonrecurring basis:				
Individually evaluated collateral dependent loans	—	—	—	—

There were no transfers between Level 2 and Level 3 during the six nine months ended June 30, 2023 September 30, 2023 or during the year ended December 31, 2022.

(Continued)

Nonfinancial Assets and Nonfinancial Liabilities

Nonfinancial assets measured at fair value on a nonrecurring basis include certain foreclosed assets which, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for credit losses and certain foreclosed assets which, subsequent to their initial recognition, are 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.

As of June 30, 2023 September 30, 2023 and 2022, and December 31, 2022, there were no foreclosed assets that were remeasured and recorded at fair value.

As The following table presents quantitative information about nonrecurring Level 3 fair value measurements as of June 30, 2023 and December 31, 2022, there. There were no nonrecurring level 3 fair value measurements requiring quantitative information. information as of September 30, 2023.

December 31, 2022	**Fair Value**		**Valuation Technique(s)**	**Unobservable Input(s)**	**Range (Weighted Average)**
Other real estate owned	$	38	Appraisal value of collateral	Selling costs or other normal adjustments	49 %

The following table presents information on individually evaluated collateral dependent loans included in the ACL model as of September 30, 2023. There were no individually evaluated collateral dependent loans included in the ACL model as of June 30, 2023 or December 31, 2022.

	Fair Value Measurements Using							
September 30, 2023	**Level 1**		**Level 2**		**Level 3**		**Total Fair Value**	
Commercial real estate		—		—	$	14,527	$	14,527
Total	$	—	$	—	$	14,527	$	14,527

The carrying amounts and estimated fair values of financial instruments not previously discussed in this note, as of June 30, 2023 September 30, 2023 and December 31, 2022, are as follows:

	Fair value measurements as of June 30, 2023 using:	**Fair value measurements as of September 30, 2023 using:**

	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:										
Cash, due from banks, federal funds sold and interest-bearing deposits	$ 97,351	$ 97,351	$ —	$ —	$ 97,351	$ 130,177	$ 130,177	$ —	$ —	$ 130,177
Marketable securities held to maturity	437,292	—	402,735	—	402,735	408,308	—	367,691	—	367,691
Loans, net	2,300,882	—	—	2,154,341	2,154,341	2,286,163	—	—	2,149,124	2,149,124
Accrued interest receivable	11,110	—	11,110	—	11,110	11,307	—	11,307	—	11,307
Nonmarketable equity securities	24,673	—	24,673	—	24,673	26,077	—	26,077	—	26,077
Financial liabilities:										
Deposits	$ 2,602,817	$ 1,962,122	$ 638,880	$ —	$ 2,601,002	$ 2,658,293	$ 1,944,979	$ 712,856	$ —	$ 2,657,835
Securities sold under repurchase agreements	20,532	—	20,532	—	20,532	19,366	—	19,366	—	19,366
Accrued interest payable	4,211	—	4,211	—	4,211	5,045	—	5,045	—	5,045

(Dollars in thousands, except per share amounts)

Federal Home Loan Bank advances	19 5,0 00	—	19 4,8 71	—	19 4,8 71	17 5,0 00	—	17 4,8 72	—	17 4,8 72
Subordinated debt	47, 71 9	—	48, 35 7	—	48, 35 7	47, 75 2	—	48, 45 2	—	48, 45 2

	Fair value measurements as of December 31, 2022 using:									
		Carrying Amount		Level 1 Inputs		Level 2 Inputs		Level 3 Inputs		Total Fair Value
Financial assets:										
Cash, due from banks, federal funds sold and interest-bearing deposits	$	106,467	$	106,467	$	—	$	—	$	106,467
Marketable securities held to maturity		509,008		—		475,068		—		475,068
Loans, net		2,344,245		—		—		2,217,606		2,217,606
Accrued interest receivable		11,555		—		11,555		—		11,555
Nonmarketable equity securities		25,585		—		25,585		—		25,585
Financial liabilities:										
Deposits	$	2,681,154	$	2,326,615	$	351,981	$	—	$	2,678,596
Securities sold under repurchase agreements		7,221		—		7,221		—		7,221
Accrued interest payable		2,348		—		2,348		—		2,348
Federal Home Loan Bank advances		290,000		—		289,926		—		289,926
Subordinated debt		49,153		—		50,025		—		50,025

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

<u>Cash and Cash Equivalents</u>: The carrying amounts of cash and short-term instruments approximate fair values (Level 1).

Marketable Securities Held to Maturity: The fair values for marketable securities held to maturity are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

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

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 debt 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 14 - 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. Net losses attributable to the noncontrolling interest during the three and six nine months ended June 30, 2023 September 30, 2023 were $5 7 and $9 16, respectively, and are excluded from this calculation. Net losses attributable to the noncontrolling interest during the three and six nine months ended June 30, 2022 September 30, 2022 were $18 3 for both periods, and $21, respectively, and are excluded from this calculation. 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 diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money awards which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax impact that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

(Continued)

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GUARANTY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

The computations of basic and diluted earnings per share for the Company were as follows for the:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Numerator:								
Net earnings attributable to Guaranty Bancshares, Inc.	$ 9,581	$ 10,784	$ 17,862	$ 21,522	$ 6,297	$ 10,903	$ 24,159	$ 32,425
Denominator:								
Weighted-average shares outstanding (basic)	11,735,475	11,968,227	11,836,970	12,038,261	11,568,897	11,907,233	11,746,630	11,994,105
Effect of dilutive securities:								

Common stock equivalent shares from stock options	21,037	130,756	44,464	135,252	50,445	125,158	44,573	125,344
Weighted-average shares outstanding (diluted)	11,756,512	12,098,983	11,881,434	12,173,513	11,619,342	12,032,391	11,791,204	12,119,449
Net earnings attributable to Guaranty Bancshares, Inc. per share								
Basic	$ 0.82	$ 0.90	$ 1.51	$ 1.79	$ 0.54	$ 0.92	$ 2.06	$ 2.70
Diluted	$ 0.81	$ 0.89	$ 1.50	$ 1.77	$ 0.54	$ 0.91	$ 2.05	$ 2.68

(Continued)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto appearing in Item 1 of Part I of this Quarterly Report on Form 10-Q (this "Report") and any subsequent Quarterly Reports on Form 10-Q, the risk factors appearing in Item 1A of Part II of this Report, and the other risks and uncertainties listed from time to time in our reports and documents filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2022. Unless the context indicates otherwise, references in this Report to "we," "our," "us," and the "Company" refer to Guaranty Bancshares, Inc., a Texas corporation, and its consolidated subsidiaries. References in this Report to "Guaranty Bank & Trust" and the "Bank" refer to Guaranty Bank & Trust, N.A., a national banking association and our wholly-owned consolidated subsidiary.

General

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

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

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

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

QUARTERLY HIGHLIGHTS

- **Excellent Granular and Stable Core Deposit Base.** As of September 30, 2023, we have 87,208 total deposit accounts with an average account balance of $30,482. We have a historically reliable core deposit base, with strong and trusted banking relationships. Total deposits increased by $55.5 million during the third quarter, which consisted primarily of an increase in core deposits of $75.7 million, offset by a decrease in public funds deposits of $20.2 million. The bank has not historically used brokered deposits and does not foresee a reliance on them going forward, however, we issued $50.0 million of these deposits during the second quarter to test their availability as a contingent liquidity source. Half of the brokered CD's mature in November 2023 and the remainder in February

2024. Excluding public funds and bank-owned accounts, our uninsured deposits as of September 30, 2023 were 25.02% of total deposits.

We continued to increase interest rates paid on deposits during the quarter in order to pay competitive rates, however noninterest-bearing deposits still represent 34.0% of total deposits. Our cost of interest-bearing deposits

(Continued)

increased 59 basis points during the quarter from 2.41% in the prior quarter to 3.00%, representing a beta on interest-bearing deposits of approximately 217.6% for the linked quarter compared to the federal funds target rates. Our cost of total deposits for the third quarter of 2023 increased 45 basis points from 1.53% in the prior quarter to 1.98%, representing a beta on total deposits of approximately 166.0% for the linked quarter.

- **Strong Asset Quality.** Nonperforming assets as a percentage of total assets were 0.11% 0.09% at June 30, 2023 September 30, 2023, compared to 0.40% 0.11% at March 31, 2023 June 30, 2023 and 0.30% 0.28% at June 30, 2022 September 30, 2022. Net charge-offs (annualized) to average loans were 0.11% for the quarter ended September 30, 2023, compared to 0.03% for the quarter ended June 30, 2023, compared to 0.00% and 0.07% for the quarter ended March 31, 2023, and 0.02% for the quarter ended June 30, 2022 September 30, 2022. During the second third quarter, four nonperforming assets consisted primarily of nonaccrual loans that were acquired and the decrease from Westbound Bank the prior quarter resulted from the resolution or payoff of smaller balance loans.

  Loans risk rated as substandard increased during the quarter from $8.1 million as of June 30, 2023 to $29.5 million as of September 30, 2023, an increase of $21.4 million. Despite the increase, substandard loans continued to represent a modest 1.3% of total loans at quarter-end. The increase results primarily from two commercial real estate loans, with combined outstanding balances of $6.7 million were $14.5 million and $6.9 million, respectively. The larger credit is currently performing, is not past due, and is well-collateralized in the desirable Austin, Texas market with an LTV of 69%. Management believes this credit will be favorably resolved and paid off with minimal charge-offs. An additional nonperforming to no loss by year-end. The second, smaller loan is an amortizing commercial real estate loan in which we hold a priority first lien position. The project is being developed under an SBA 504 program, with a different lender managing the project's construction phase and financing the second lien debenture note. This loan is also performing, is not past due and is well-collateralized with an outstanding balance LTV of $1.4 million was resolved 46%. These two downgrades resulted from general economic stress factors, and paid off with a minimal charge-off. appropriate credit reserves were captured in our CECL model.

  Commercial real estate (CRE) loans, particularly office related loans, have received increased scrutiny in recent months. Our CRE loans and real estate C&D loans represent 38.2% 38.9% and 14.8% 13.7% of the total loan portfolio,

(Continued)

respectively. Office-related loans represent 4.4% 4.7% of the total loan portfolio and have an average balance of $541,000. $523,000.

Although asset quality remains strong, we adjusted made minor adjustments to certain qualitative factors during the second third quarter to incorporate industry-wide concerns over CRE valuations improvements in C&D concentrations and the possibility of higher-for-longer interest rates, which could impact cash flows past-due and repayment ability of borrowers. non-accrual trends. These qualitative adjustments, along with minimal charge-offs and a slight reduction in the total loan portfolio, resulted in no provision for credit loss in the second third quarter of 2023.

- **Granular and Reliable Deposit Base.** As of June 30, 2023, we have 85,615 total deposit accounts with an average account balance of $29,693. We have a historically reliable core deposit base, with strong and trusted banking relationships. Total deposits decreased by $20.6 million during the second quarter, which consisted primarily of a decrease in public funds balances of $28.1 million, a decrease in other deposits of $52.3 million, partially offset by an increase in brokered certificates of deposit of $50.0 million. The bank has not historically used brokered deposits and does not foresee a reliance on them going forward, but issued these deposits during the quarter to test their availability as a contingent liquidity source. We also had an increase of approximately $7.0 million in collateralized repurchase agreements, which are shown on our balance sheet as a separate line item than deposits, but would be classified as deposits if not for the repurchase agreement.

  As an additional resource to our uninsured depositors, we implemented both the IntraFi CDARS and ICS programs during the second quarter of 2023. These programs allow CD and money market deposit customers, respectively, to obtain full FDIC deposit insurance while maintaining one time deposit or savings relationship with our Bank. Excluding public funds and bank-owned accounts, our uninsured deposits as of June 30, 2023 were 22.31% of total deposits.

  We continued to increase interest rates paid on deposits during the quarter in order to pay competitive rates, however noninterest-bearing deposits still represent 35.2% of total deposits. Our cost of interest-bearing deposits increased 50 basis points during the quarter from 1.91% in the prior quarter to 2.41%, representing a beta on interest-bearing deposits of approximately 105.6% for the linked quarter compared to the federal funds target rates. Our cost of total deposits (cost of funds) for the second quarter of 2023 increased 35 basis points from 1.18% in the prior quarter to 1.53%, representing a beta on total deposits of approximately 73.9% for the linked quarter.

- **Strong Capital and Liquidity.** Our capital and liquidity ratios, as well as contingent liquidity sources, are solid. remain very healthy. We are taking continue to take advantage of low stock prices to repurchase shares of Company stock and add intrinsic value for shareholders. During the second third quarter of 2023, we repurchased 322,601 61,688 shares, or 2.8% 0.53% of average shares outstanding during the period, at an average price of $25.13 $27.38 per share. Our liquidity ratio, calculated as cash and cash equivalents and unpledged investments divided by total liabilities, was 12.9% 14.0% as of quarter-end. Our total available contingent liquidity, net of current outstanding borrowings, is $1.5 billion $1.2 billion, consisting of FHLB, FRB and correspondent bank fed funds and revolving lines of credit. Finally, our total equity to average assets as on June 30, 2023 of September 30, 2023 is 9.1% 9.2%. If we had to recognize our entire unrealized losses on both AFS and HTM securities, the our total equity to average assets ratio would be 8.3% 8.2%†, which is still well capitalized a strong capital level under regulatory requirements.

- **Investment Portfolio Discipline.** During late 2021 and early 2022, we had significant excess cash but did not believe the low yields on investments at that time warranted the interest rate risk. To slightly improve the yields meant investing in securities with much longer lives. Because of this disciplined approach, our total unrealized losses, including both AFS and HTM securities remain manageable and low. However, during the second quarter, we used advantageous market movements to restructure $14.3 million in AFS securities to improve overall yield with minimal realized losses and an estimated earnback period of just under one year. The table below presents total unrealized losses as of June 30, 2023, along with estimated unrealized losses if interest rates increase or decrease by 100 basis points.

	June 30, 2023		Net Unrealized Loss		
(dollars in thousands)	Amortized Cost	Estimated Fair Value	-100 bps	Actual	+100 bps
Available for sale	$ 187,959	$ 166,596	$ (12,801)	$ (21,363)	$ (29,313)
Held to maturity	437,292	402,735	(18,333)	(34,557)	(50,644)
Total securities	$ 625,251	$ 569,331	$ (31,134)	$ (55,920)	$ (79,957)

† Non-GAAP financial metric. Calculations of this metric and reconciliations to GAAP are included in subsequent sections of this MD&A.

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Discussion and Analysis of Results of Operations for the Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

Results of Operations

The following discussion and analysis compares our results of operations for the six nine months ended June 30, 2023 September 30, 2023 with the six nine months ended June 30, 2022 September 30, 2022. The results of operations for the six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2023.

(Continued)

Net earnings attributable to Guaranty Bancshares, Inc. (which excludes the minority interest of consolidated subsidiaries) were $17.9 million $24.1 million for the six nine months ended June 30, 2023 September 30, 2023, as compared to $21.5 million $32.4 million for the six nine months ended June 30, 2022 September 30, 2022. The following table presents key earnings data for the periods indicated:

(dollars in thousands, except per share data)	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net earnings attributable to Guaranty Bancshares, Inc.	$ 17,862	$ 21,522	$ 24,159	$ 32,425
Net earnings attributable to Guaranty Bancshares, Inc. per common share				
-basic	1.51	1.79	2.06	2.70
-diluted	1.50	1.77	2.05	2.68
Net interest margin(1)	3.23 %	3.45 %	3.17 %	3.49 %
Net interest rate spread(2)	2.29 %	3.28 %	2.17 %	3.26 %
Return on average assets	1.09 %	1.37 %	0.99 %	1.34 %
Return on average equity	12.12 %	14.65 %	10.82 %	14.73 %
Average equity to average total assets	9.01 %	9.32 %	9.14 %	9.11 %
Cash dividend payout ratio	30.46 %	24.58 %	33.50 %	24.44 %
(1) Net interest margin is equal to net interest income divided by average interest-earning assets.	(1) Net interest margin is equal to net interest income divided by average interest-earning assets.		(1) Net interest margin is equal to net interest income divided by average interest-earning assets.	
(2) Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	(2) Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.		(2) Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	

Net Interest Income

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

Net interest income, before the provision for credit losses, for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was $49.9 million $73.2 million and $51.2 million $79.5 million, respectively, a decrease of $1.3 million $6.3 million, or 2.6% 7.9%. The decrease in net interest income resulted primarily from an increase in interest expense of $22.2 million $34.5 million, or 577.6% 430.4% partially offset by a $20.9 million $28.2 million, or 37.9% 32.2%, increase in interest income.

The $22.2 million $34.5 million increase in interest expense for the six nine months ended June 30, 2023 September 30, 2023 was primarily related to a $14.7 million $25.4 million, or 514.3% 476.5%, increase in interest on deposits, despite a $63.2 million $16.3 million, or 3.7% 1.0%, decrease in average interest-bearing deposits. The increase in deposit-related interest expense was due to a 183 204 basis point increase in average rate paid on these deposits over the same period in 2022. Additionally, there was a $6.9 million $8.3 million increase in interest on FHLB advances.

The increase in interest income for the six nine months ended June 30, 2023 September 30, 2023 was primarily related to an increase in interest income on loans of $18.9 million $26.2 million, or 40.3% 35.3%, during the six nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022.

For the six nine months ended June 30, 2023 September 30, 2023, net interest margin on a taxable equivalent basis and net interest spread were 3.22% 3.16% and 2.29% 2.17%, respectively, compared to 3.49% 3.53% and 3.28% 3.26% for the same period in 2022, which reflects a 121 118 basis point increase in the yield on interest-earning assets offset by 220 227 basis point increase in the rate on interest-bearing liabilities from the same period of the prior year. The increase in rates is primarily due to market rate conditions during the six nine months ended June 30, 2023 September 30, 2023 compared to the same period of the prior year.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis

The following table presents an analysis of net interest income and net interest spread for the periods indicated, including average outstanding balances for all major categories of interest-earning assets and interest-bearing liabilities,

(Continued)

the interest earned or paid on such amounts, and the average rates earned or paid on such assets or liabilities, respectively. The table also sets forth the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the six nine months ended June 30, 2023 September 30, 2023 and 2022, the amount of

(Continued)

interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

(dollars in thousands)	Six Months Ended June 30,						Nine Months Ended September 30,					
	2023			2022			2023			2022		
	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate
ASSETS												
Interest-earning assets:												
Total loans(1)	$ 2,375,533	$ 65,748	5.58 %	$ 2,003,053	$ 46,859	4.72 %	$ 2,359,880	$ 100,513	5.69 %	$ 2,066,529	$ 74,314	4.81 %
Securities available for sale	179,984	2,273	2.55	377,132	3,091	1.65	180,645	3,619	2.68	316,386	4,330	1.83
Securities held to maturity	479,063	5,881	2.48	393,110	4,151	2.13	463,434	8,591	2.48	499,092	7,567	2.03
Nonmarketable equity securities	28,658	720	5.07	14,678	698	9.59	27,727	1,024	4.94	16,937	869	6.86

Interest-bearing deposits in other banks	48,650	1,256	5.21	203,738	214	0.21	49,923	1,949	5.22	145,936	409	0.37
Total interest-earning assets	3,111,888	75,878	4.92	2,991,711	55,013	3.71	3,081,609	115,696	5.02	3,044,880	87,489	3.84
Allowance for credit losses	(31,922)			(29,628)			(31,804)			(29,341)		
Noninterest-earning assets	218,868			215,886			219,227			216,140		
Total assets	$ 3,298,834			$ 3,177,969			$ 3,269,032			$ 3,231,679		
LIABILITIES AND EQUITY												
Interest-bearing liabilities:												
Interest-bearing deposits	$ 1,639,003	$ 17,601	2.17%	$ 1,702,216	$ 2,865	0.34%	$ 1,668,394	$ 30,670	2.46%	$ 1,684,725	$ 5,320	0.42%
Advances from FHLB and fed funds purchased	285,963	7,123	5.02	42,395	236	1.12	255,011	9,711	5.09	96,462	1,447	2.01

Line of credit	3,696	64	3.49	1,878	34	3.65	4,139	268	8.66	—	34	—
Subordinated debt	48,675	1,075	4.45	41,572	699	3.39	48,357	1,609	4.45	46,024	1,208	3.51
Securities sold under agreements to repurchase	17,937	150	1.69	9,976	5	0.10	19,548	271	1.85	8,920	9	0.13
Total interest-bearing liabilities	1,995,274	26,013	2.63	1,798,037	3,839	0.43	1,995,449	42,529	2.85	1,836,131	8,018	0.58
Noninterest-bearing liabilities:												
Noninterest-bearing deposits	977,738			1,059,032			944,870			1,075,941		
Accrued interest and other liabilities	28,706			24,680			30,057			25,212		
Total noninterest-bearing liabilities	1,006,444			1,083,712			974,927			1,101,153		
Equity	297,116			296,220			298,656			294,395		

Total liabilities and equity	3, 29 8, 83 $ 4		3, 17 7, 96 $ 9		3, 26 9, 03 $ 2		3,2 31, 67 $ 9	
Net interest rate spread(2)		2. 2 9 %		3. 2 8 %		2. 1 7 %		3.2 6 %
Net interest income		4 9, 8 6 $ 5		5 1, 1 7 $ 4		7 3, 1 6 $ 7	7 9, 4 7 $ 1	
Net interest margin(3)		3. 2 3 %		3. 4 5 %		3. 1 7 %		3.4 9 %
Net interest margin, fully taxable equivalent(4)		3. 2 2 %		3. 4 9 %		3. 1 6 %		3.5 3 %

(1) Includes average outstanding balances of loans held for sale of $1.5 million and $2.9 million for the six months ended June 30, 2023 and 2022, respectively.

(1) Includes average outstanding balances of loans held for sale of $1.4 million and $2.6 million for the nine months ended September 30, 2023 and 2022, respectively.

(1) Includes average outstanding balances of loans held for sale of $1.4 million and $2.6 million for the nine months ended September 30, 2023 and 2022, respectively.

(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.
(3) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.	(3) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.	(3) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.
(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.	(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.	(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.

The following table presents the change in interest income and interest expense for the periods indicated for all major components of interest-earning assets and interest-bearing liabilities and distinguishes between the changes

(Continued)

attributable to changes in volume and interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

(in thousands)	For the Six Months Ended June 30, 2023 vs. 2022 — Increase (Decrease) Due to Change in — Volume	Rate	Total Increase (Decrease)	For the Nine Months Ended September 30, 2023 vs. 2022 — Increase (Decrease) Due to Change in — Volume	Rate	Total Increase (Decrease)
Interest-earning assets:						
Total loans	$ 8,791	$ 10,098	$ 18,889	$ 10,554	$ 15,645	$ 26,199
Securities available for sale	(1,613)	795	(818)	(1,858)	1,147	(711)
Securities held to maturity	909	821	1,730	(541)	1,565	1,024
Nonmarketable equity securities	665	(643)	22	554	(399)	155
Interest-earning deposits in other banks	(162)	1,204	1,042	(266)	1,806	1,540
Total increase in interest income	$ 8,590	$ 12,275	$ 20,865	$ 8,443	$ 19,764	$ 28,207
Interest-bearing liabilities:						
Interest-bearing deposits	$ (107)	$ 14,843	$ 14,736	$ (51)	$ 25,401	$ 25,350
Advances from FHLB	1,353	5,534	6,887	2,384	5,880	8,264
Line of credit	33	(3)	30	—	234	234
Subordinated debt	119	257	376	61	340	401
Securities sold under agreements to repurchase	4	141	145	10	252	262
Total increase in interest expense	1,402	20,772	22,174	2,404	32,107	34,511
Increase (decrease) in net interest income	$ 7,188	$ (8,497)	$ (1,309)	$ 6,039	$ (12,343)	$ (6,304)

Provision for Credit Losses

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

During the six nine months ended June 30, 2023 September 30, 2023, we recorded no provision for credit loss, compared to a reverse provision of $1.3 million $650,000 during the same period in 2022. During the fourth quarter of 2022, we recorded a $2.8 million provision to incorporate economic forecasts for a recession an economic downturn and possible borrower stressors into our CECL model. The factors that were adjusted in the fourth quarter of 2022 are still relevant, however additional certain minor adjustments to certain qualitative factors were made in the subsequent quarters to reflect current quarter to incorporate industry-level concerns with respect to CRE valuations and "higher for longer" interest projections that could impact borrower cash flows and repayment ability. These qualitative factor adjustments were offset by a decline in the total loan portfolio balance during the quarter, resulting in no adjustment to the ACL during the quarter. credit quality trends. As of June 30, 2023 September 30, 2023, our allowance for credit losses as a percentage of total loans was 1.36% 1.34%.

As of June 30, 2023 September 30, 2023, there were $5.6 million $23.0 million in loan balances past due 30 or more days, including $1.3 million $1.6 million in loan balances for nonperforming (nonaccrual) loans, compared to $14.1 million and $7.5 million, respectively, as of December 31, 2022, and $11.0 million $9.9 million and $9.8 million $7.5 million, respectively, as of June 30, 2022 September 30, 2022.

Noninterest Income

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

(Continued)

The following table presents components of noninterest income for the six nine months ended June 30, 2023 September 30, 2023 and 2022 and the period-over-period variations in the categories of noninterest income:

	Six Months Ended June 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
(in thousands)	2023	2022	2023 vs. 2022	2023	2022	2023 vs. 2022

Noninterest income:						
Service charges	$ 2,133	$ 2,046	$ 87	$ 3,264	$ 3,192	$ 72
Net realized loss on securities transactions	(229)	—	(229)	(229)	—	(229)
Gain on sale of loans	787	1,787	(1,000)	1,005	2,125	(1,120)
Fiduciary and custodial income	1,268	1,280	(12)	1,905	1,856	49
Bank-owned life insurance income	425	418	7	692	633	59
Merchant and debit card fees	3,795	3,672	123	5,547	5,410	137
Loan processing fee income	276	419	(143)	404	611	(207)
Mortgage fee income	118	233	(115)	164	308	(144)
Other noninterest income	4,205	2,705	1,500	4,965	4,228	737
Total noninterest income	$ 12,778	$ 12,560	$ 218	$ 17,717	$ 18,363	$ (646)

Total noninterest income increased $218,000, decreased $646,000, or 1.7% 3.5%, for the six nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022. Material changes in the components of noninterest income are discussed below.

Service Charges on Deposit Accounts. We earn fees from our customers for deposit related services, and these fees typically constitute a significant and generally predictable component of our noninterest income. Service fee income was $2.1 million for the six months ended June 30, 2023 compared to $2.0 million for the same period in 2022, an increase of $87,000, or 4.3%, resulting primarily from a decrease in service charge refunds, and increases in both ATM fee income and account analysis income for the six months ended June 30, 2023 compared to the same period in 2022.

Net Realized Loss on Securities Transactions. We sell securities from time-to-time, which results in gains or losses being recognized in the income statement as noninterest income. During the six nine months ended June 30, 2023 September 30, 2023 we sold securities for a net loss of $229,000. No securities were sold during the six nine months ended June 30, 2022 September 30, 2022.

Gain on Sale of Loans. We originate long-term fixed-rate mortgage loans and Small Business Administration (SBA) loans for resale into the secondary market. We sold 95 130 mortgage loans for $25.3 million $34.2 million during the six nine months ended June 30, 2023 September 30, 2023 compared to 179 229 mortgage loans for $47.7 million $62.2 million for the quarter ended June 30, 2022 September 30, 2022, which is consistent with the industry-wide decline in overall mortgage volumes attributable to increased mortgage loan rates. Gain on sale of loans was $787,000 $1.0 million for the six nine months ended June 30, 2023 September 30, 2023, a decrease of $1.0 million $1.1 million, or 56.0% 52.7%, compared to $1.8 million $2.1 million for the six nine months ended June 30, 2022 September 30, 2022. The gain reported in the current period was attributable to the gain on sale of mortgage loans of $654,000 $844,000 and gain on SBA 7(a) loan sales of $133,000, $162,000, while the gain during the same period in the prior year consisted of $1.4 million $1.7 million in mortgage loan sales and $392,000 in SBA 7(a) loan sales.

Merchant and Debit Card Fees. We earn interchange income related to the activity of our customers' merchant debit card usage. Debit card interchange income was $3.8 million $5.5 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $3.7 million $5.4 million for the same period in 2022, an increase of $123,000, $137,000, or 3.3% 2.5%. The increase was primarily due to an annual service provider bonus of $299,000 received in June of 2023. Additionally, there has been growth in the number of DDAs and debit card usage volume during 2023. The total number of DDAs increased by 1,350 1,326 accounts, from 54,147 54,673 as of June 30, 2022 September 30, 2022 to 55,497 55,999 as of June 30, 2023 September 30, 2023.

Loan Processing Fee Income. Revenue earned from collection of loan processing fees was $276,000 $404,000 for the six nine months ended June 30, 2023 September 30, 2023, compared to $419,000 $611,000 for the same period in 2022, a decrease of $143,000, $207,000, or 34.1% 33.9%. The decrease in loan processing fee income is primarily attributable to a decrease in the volume of newly originated, renewed or extended loans during the period.

Mortgage Fee Income. Mortgage fee income consists of lender processing fees such as underwriting fees, administrative fees and funding fees that are collected from mortgage loans that the Bank intends to sell on the secondary market. The decrease of $115,000, $144,000, or 49.4% 46.8%, from June 30, 2022 September 30, 2022 was primarily due to a lower volume of mortgage purchases and refinances during the six nine months ended June 30, 2023 September 30, 2023.

Other. This category includes a variety of other income producing activities, including loan origination fees, wire transfer fees, loan administration fees, and other fee income. Other noninterest income increased $1.5 million, $737,000, or 55.5% 17.4%, for the six nine months ended June 30, 2023 September 30, 2023, compared to the same period in 2022, resulting primarily from a one-time gain on the sale of nonmarketable correspondent bank stock of $2.8 million during the six nine months ended June 30, 2023 September 30, 2023. This was partially offset by a one-time net gain of $685,000 during the first quarter of 2022 from the termination of three interest rate

(Continued)

swaps. swaps which was not present in 2023. Additionally, there was a decrease in warehouse lending fees of $155,000 $214,000 due to a decrease in overall warehouse lending activity and a $219,000 downward adjustment on the fair value of our SBA servicing assets in 2023.

Noninterest Expense

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

For the six nine months ended June 30, 2023 September 30, 2023, noninterest expense totaled $40.4 million $61.0 million, an increase of $1.7 million $1.9 million, or 4.3% 3.3%, compared to $38.8 million $59.0 million for the six nine months ended June 30, 2022 September 30, 2022. The following table presents, for the periods indicated, the major categories of noninterest expense:

(in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Increase (Decrease) 2023 vs. 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Increase (Decrease) 2023 vs. 2022
Employee compensation and benefits	$ 24,203	$ 23,262	$ 941	$ 36,147	$ 35,113	$ 1,034
Non-staff expenses:						
Occupancy expenses	5,584	5,559	25	8,544	8,359	185
Legal and professional fees	1,568	1,543	25	2,470	2,046	424
Software and technology	2,927	2,548	379	4,417	3,957	460
Amortization	310	397	(87)	457	563	(106)
Director and committee fees	400	424	(24)	592	637	(45)
Advertising and promotions	536	727	(191)	824	1,105	(281)
ATM and debit card expense	1,338	1,252	86	2,141	1,975	166

Telecommunication expense	354	373	(19)	532	557	(25)
FDIC insurance assessment fees	823	470	353	1,186	742	444
Other noninterest expense	2,395	2,218	177	3,642	3,956	(314)
Total noninterest expense	$ 40,438	$ 38,773	$ 1,665	$ 60,952	$ 59,010	$ 1,942

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

Employee Compensation and Benefits. Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $24.2 million $36.1 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $941,000, $1.0 million, or 4.0% 2.9%, compared to $23.3 million $35.1 million for the same period in 2022. Employee compensation and benefits expense increased due to higher salaries of $912,000 $1.5 million and higher employee benefits of $416,000, $581,000, partially offset by lower bonus expense of $796,000. $1.1 million.

Software and Technology. Software and technology expenses increased $379,000, $460,000, or 14.9% 11.6%, from $2.5 million $4.0 million for the six nine months ended June 30, 2022 September 30, 2022 to $2.9 million $4.4 million for the six nine months ended June 30, 2023 September 30, 2023. The increase is attributable primarily to additional technology investments and an increase in the cost of our core processing software. software resulting from a higher asset tier adjustment in 2023.

Amortization. Amortization costs include amortization of software and core deposit intangibles. Amortization costs were $310,000 $457,000 for the six nine months ended June 30, 2023 September 30, 2023, a decrease of $87,000, $106,000, or 21.9% 18.8%, compared to $397,000 $563,000 for the same period in 2022. The primary reason for the decrease in amortization was due to a reduction in software amortization from $171,000 $223,000 to $84,000 $122,000 for the six nine months ended June 30, 2022 September 30, 2022 and 2023, respectively.

Advertising and Promotions. Advertising and promotion-related expenses were $536,000 $824,000 and $727,000 $1.1 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively, a decrease of $191,000, $281,000, or 26.3% 25.4%. The decrease was primarily due to decreased advertising and vendor costs in the current period compared to the same period in the prior year.

ATM and Debit Card Expense. We pay processing fees related to the activity of our customers' ATM and debit card usage. ATM and debit card expenses were $1.3 million $2.1 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $86,000, $166,000, or 6.9% 8.4%, compared to the same period in 2022, as a result of increased ATM and debit card usage by our customers.

FDIC Insurance Assessment Fees. FDIC insurance assessment fees were $823,000 $1.2 million for the six nine months ended June 30, 2023 September 30, 2023, compared to $470,000 $742,000 for the same period in 2022. The increase of $353,000, $444,000, or 75.1% 59.8%, was primarily due to an increase in the insurance assessment rate resulting from changes in certain financial ratios used in the calculation and an overall increase in our assessment base, which is calculated as average total assets less average tangible equity.

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Other. This category includes operating and administrative expenses, such as stock option expense, expenses related to repossession of assets, small hardware and software purchases, expense of the value of stock appreciation rights, losses incurred on problem assets, losses on sale of other real estate owned and other assets, other real estate owned expense and write-downs, business development expenses (i.e., travel and entertainment, charitable contributions and club memberships), insurance and security expenses. Other noninterest expense increased $177,000, decreased $314,000, or 8.0% 7.9%, from $2.2 million $4.0 million for the six nine months ended June 30, 2022 September 30, 2022 to $2.4 million $3.6 million for the six nine months ended June 30, 2023 September 30, 2023 primarily due in part to a $54,000 increase in contributions and a $59,000 increase in meals and entertainment expense $487,000 write-down of an SBA receivable balance during the six months ended June 30, 2023. third quarter of 2022 which was not applicable in 2023.

Income Tax Expense

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

For the six nine months ended June 30, 2023 September 30, 2023 and 2022, income tax expense totaled $4.4 million $5.8 million and $4.7 million $7.1 million, respectively. The decrease in income tax expense was primarily due to a decrease in net earnings before taxes of $4.0 million $9.5 million. Our effective tax rates for the six nine months ended June 30, 2023 September 30, 2023 and 2022 were 19.60% 19.34% and 17.96% 17.91%, respectively.

Discussion and Analysis of Results of Operations for the Three Months Ended June 30, 2023 September 30, 2023 and 2022

Results of Operations

The following discussion and analysis of our results of operations compares our results of operations for the three months ended June 30, 2023 September 30, 2023 with the three months ended June 30, 2022 September 30, 2022. The results of operations for the three months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2023.

Net earnings attributable to Guaranty Bancshares Inc. were $9.6 million $6.3 million for the three months ended June 30, 2023 September 30, 2023, as compared to $10.8 million $10.9 million for the three months ended June 30, 2022 September 30, 2022. Basic earnings attributable to Guaranty Bancshares, Inc. per share were $0.82 $0.54 for the three months ended June 30, 2023 September 30, 2023 compared to $0.90 $0.92 during the same period in 2022.

The following table presents key earnings data for the periods indicated:

	Quarter Ended June 30,		Quarter Ended September 30,	
(dollars in thousands, except per share data)	**2023**	**2022**	**2023**	**2022**
Net earnings attributable to Guaranty Bancshares, Inc.	$ 9,581	$ 10,784	$ 6,297	$ 10,903
Net earnings attributable to Guaranty Bancshares, Inc. per common share				
-basic	0.82	0.90	0.54	0.92
-diluted	0.81	0.89	0.54	0.91
Net interest margin(1)	3.21 %	3.57 %	3.06 %	3.56 %
Net interest rate spread(2)	2.22 %	3.37 %	1.94 %	3.22 %
Return on average assets	1.17 %	1.35 %	0.78 %	1.30 %
Return on average equity	12.87 %	14.85 %	8.43 %	14.87 %
Average equity to average total assets	9.13 %	9.08 %	9.22 %	8.71 %
Cash dividend payout ratio	28.05 %	24.44 %	42.59 %	23.91 %
(1) Net interest margin is equal to net interest income divided by average interest-earning assets.	(1) Net interest margin is equal to net interest income divided by average interest-earning assets.		(1) Net interest margin is equal to net interest income divided by average interest-earning assets.	
(2) Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	(2) Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.		(2) Net interest rate spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	

Net Interest Income

Net interest income, before the provision for credit losses, in the second third quarter of 2023 and 2022 was $24.7 million $23.3 million and $26.9 million $28.3 million, respectively, a decrease of $2.1 million $5.0 million, or 8.0% 17.7%. The decrease in net interest income resulted from an increase in interest expense of $11.8 million $12.3 million, or 518.4% 295.2%, compared to the prior year quarter, which was partially offset by an increase in interest income of $9.6 million $7.3 million, or 33.0% 22.6%, from the same quarter in the prior year. The increase in interest expense was due primarily to an $8.3 million $10.6 million increase in deposit interest and a $3.2 million $1.4 million increase in FHLB advance interest, each resulting from rising higher interest rates between the two periods. The increase in interest income was primarily due to an increase in loan interest of $9.0 million $7.3 million, or 36.6% 26.6%, and an increase in interest income on fed funds sold and

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interest-bearing deposits in other banks of $701,000, $499,000, or 667.6% 257.2%, during the current quarter compared to the prior year quarter.

Net interest margin, on a taxable equivalent basis, for the second third quarter of 2023 and 2022 was 3.19% 3.02% and 3.61% 3.59%, respectively.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis

The following table presents an analysis of net interest income and net interest spread for the periods indicated, including average outstanding balances for each major category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average rate earned or paid on such assets or liabilities, respectively.

The table also sets forth the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the three months ended June 30, 2023 September 30, 2023 and 2022, the amount of interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

	Quarter Ended June 30,		**Quarter Ended September 30,**	
	2023	**2022**	**2023**	**2022**

(dollars in thousands)	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate
ASSETS												
Interest-earning assets:												
Total loans(1)	$ 2,363,158	$ 33,591	5.70 %	$ 2,068,379	$ 24,587	4.77 %	$ 2,332,171	$ 34,765	5.91 %	$ 2,191,411	$ 27,455	4.97 %
Securities available for sale	175,447	1,205	2.75	267,823	1,473	2.21	181,946	1,346	2.93	196,875	1,239	2.50
Securities held to maturity	455,626	2,831	2.49	596,013	2,666	1.79	432,687	2,710	2.48	707,601	3,416	1.92
Nonmarketable equity securities	28,931	301	4.17	14,128	289	8.20	25,429	304	4.74	21,382	172	3.19

Interest-bearing deposits in other banks	62,165	806	5.20	74,047	105	0.57	52,424	693	5.24	32,233	194	2.39
Total interest-earning assets	3,085,327	38,734	5.04	3,020,390	29,120	3.87	3,024,657	39,818	5.22	3,149,502	32,476	4.09
Allowance for credit losses	(31,909)			(29,056)			(31,574)			(28,777)		
Noninterest-earning assets	219,532			218,106			220,406			216,623		
Total assets	$ 3,272,950			$ 3,209,440			$ 3,213,489			$ 3,337,348		
LIABILITIES AND EQUITY												
Interest-bearing liabilities:												

Interest-bearing deposits	$ 1,653,237	$ 9,946	2.41 %	$ 1,694,363	$ 1,623	0.38 %	$ 1,726,218	$ 13,069	3.00 %	$ 1,650,314	$ 2,455	0.59 %
Advances from FHLB and fed funds purchased	262,088	3,349	5.13	47,016	190	1.62	194,115	2,588	5.29	202,832	1,211	2.37
Line of credit	7,352	64	3.49	—	—	—	5,011	204	16.15	—	—	—
Subordinated debt	48,192	535	4.45	52,326	453	3.47	47,730	534	4.44	51,087	509	3.95
Securities sold under agreements to repurchase	24,823	137	2.21	9,045	3	0.13	22,718	121	2.11	6,844	4	0.23
Total interest-bearing liabilities	1,995,692	14,031	2.82	1,802,750	2,269	0.50	1,995,792	16,516	3.28	1,911,077	4,179	0.87
Noninterest-bearing liabilities:												

Noninterest-bearing deposits	948,083		1,090,288		888,772		1,109,205	
Accrued interest and other liabilities	30,480		25,090		32,716		26,260	
Total noninterest-bearing liabilities	978,563		1,115,378		921,488		1,135,465	
Equity	298,695		291,312		296,209		290,806	
Total liabilities and equity	$ 3,272,950		$ 3,209,440		$ 3,213,489		$ 3,337,348	
Net interest rate spread(2)		2.22 %		3.37 %		1.94 %		3.22 %

Net interest income	2 4, 7 0 $ 3	26, 85 $ 1	2 3, 3 0 $ 2	28 ,2 $ 97
Net interest margin(3)	3. 2 1 %	3.5 7 %	3. 0 6 %	3. 56 %
Net interest margin, fully taxable equivalent(4)	3. 1 9 %	3.6 1 %	3. 0 2 %	3. 59 %
(1) Includes average outstanding balances of loans held for sale of $1.4 million and $2.6 million for the quarter ended June 30, 2023 and 2022, respectively.				
(1) Includes average outstanding balances of loans held for sale of $1.1 million and $2.1 million for the quarter ended September 30, 2023 and 2022, respectively.			(1) Includes average outstanding balances of loans held for sale of $1.1 million and $2.1 million for the quarter ended September 30, 2023 and 2022, respectively.	
(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.		(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.	

(3) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.	(3) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.	(3) Net interest margin is equal to net interest income divided by average interest-earning assets, annualized.
(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.	(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.	(4) Net interest margin on a taxable equivalent basis is equal to net interest income adjusted for nontaxable income divided by average interest-earning assets, annualized, using a marginal tax rate of 21%.

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

	For the Three Months Ended June 30, 2023 vs. 2022			For the Three Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in		Total Increase	Due to Change in		Total Increase
(in thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)

Interest-earning assets:						
Total loans	$ 7,030	$ 1,974	$ 9,004	$ 1,763	$ 5,547	$ 7,310
Securities available for sale	(509)	241	(268)	(94)	201	107
Securities held to maturity	548	(383)	165	(1,330)	624	(706)
Nonmarketable equity securities	303	(291)	12	33	99	132
Interest-earning deposits in other banks	(17)	718	701	122	377	499
Total increase in interest income	$ 7,355	$ 2,259	$ 9,614	$ 494	$ 6,848	$ 7,342
Interest-bearing liabilities:						
Interest-bearing deposits	$ (39)	$ 8,362	$ 8,323	$ 113	$ 10,501	$ 10,614
Advances from FHLB	869	2,290	3,159	(52)	1,429	1,377
Line of credit	—	64	64	204	—	204
Subordinated debt	(36)	118	82	(33)	58	25
Securities sold under agreements to repurchase	5	129	134	9	108	117
Total increase in interest expense	799	10,963	11,762	241	12,096	12,337
Increase (decrease) in net interest income	$ 6,556	$ (8,704)	$ (2,148)	$ 253	$ (5,248)	$ (4,995)

Provision for Credit Losses

During the first and second quarters of 2023, we We recorded no provision for credit losses. losses during the third quarter of 2023, and a $600,000 provision in the third quarter of 2022. During the fourth quarter of 2022, we recorded a $2.8 million provision to incorporate economic forecasts for a recession an economic downturn and possible borrower stressors into our CECL model. The factors that were adjusted in the fourth quarter of 2022 are still relevant, however additional certain minor adjustments to certain qualitative factors were made in the subsequent quarters to reflect current quarter to incorporate industry-level concerns with respect to CRE valuations and "higher for longer" interest projections that could impact borrower cash flows and repayment ability. These qualitative factor adjustments were offset by a decline in the total loan portfolio balance during the quarter, resulting in no adjustment to the ACL during the quarter. credit quality trends. As of June 30, 2023 and December 31, 2022 September 30, 2023, our allowance for credit losses as a percentage of total loans was 1.36% and 1.34%, respectively. .

Noninterest Income

The following table presents components of noninterest income for the three months ended June 30, 2023 September 30, 2023 and 2022 and the period-over-period variations in the categories of noninterest income:

(in thousands)	Quarter Ended June 30, 2023	Quarter Ended June 30, 2022	Increase (Decrease) 2023 vs. 2022	Quarter Ended September 30, 2023	Quarter Ended September 30, 2022	Increase (Decrease) 2023 vs. 2022
Noninterest income:						
Service charges	$ 1,056	$ 1,070	$ (14)	$ 1,131	$ 1,146	$ (15)
Loss on sales of investment securities	(322)	—	(322)			
Gain on sale of loans	473	882	(409)	218	338	(120)
Fiduciary and custodial income	630	638	(8)	637	576	61
Bank-owned life insurance income	211	207	4	267	215	52
Merchant and debit card fees	2,121	2,061	60	1,752	1,738	14
Loan processing fee income	142	232	(90)	128	192	(64)
Mortgage fee income	50	102	(52)	46	75	(29)
Other noninterest income	3,512	889	2,623	760	1,523	(763)
Total noninterest income	$ 7,873	$ 6,081	$ 1,792	$ 4,939	$ 5,803	$ (864)

Total noninterest income increased $1.8 million, decreased $864,000, or 29.5% 14.9%, for the three months ended June 30, 2023 September 30, 2023 compared to the same period in 2022. Material changes in the components of noninterest income are discussed below.

Net Realized Loss on Securities Transactions. We sell securities from time-to-time, which results in gains or losses being recognized in the income statement as noninterest income. As part of a securities restructuring, we sold $14.0 million in securities during the quarter ended June 30, 2023, for a net loss of $322,000. We did not sell any securities in the same period of the prior year.

Gain on Sale of Loans. We sold 51 35 mortgage loans for $12.6 million $8.9 million during the three months ended June 30, 2023 September 30, 2023 compared to 71 50 mortgage loans for $19.5 million $14.6 million during the three months ended June 30, 2022 September 30, 2022. Gain on sale of loans was $473,000 $218,000 for the three months ended June 30, 2023 September 30, 2023, a decrease of $409,000, $120,000, or 46.4% 35.5%, compared to $882,000 $338,000 for the same period in 2022. The total gain on loans sold during the quarter ended June 30, 2023 September 30, 2023 consisted

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45.

of a gain of $340,000 $190,000 in mortgage loans and a gain of $133,000 $28,000 in SBA 7(a) loans sold, compared to $655,000 and $227,000 $338,000 of mortgage and no SBA loans sold, respectively, during the quarter ended June 30, 2022 September 30, 2022.

Merchant Fiduciary and Debit Card Fees. Custodial Income. We earn interchange have trust powers and provide fiduciary and custodial services through our trust and wealth management division. Fiduciary income related to activity of our customers' merchant debit card usage. Debit card interchange income was $2.1 million for the quarter ended June 30, 2023 increased $61,000, or 10.6%, compared to $2.1 million for the same period in 2022, an 2022. The revenue increase resulted primarily from 32 new accounts that opened in 2023 and generated additional income during the quarter. Furthermore, revenue for our services fluctuates by month with the market value for all publicly traded assets, which are primarily held in irrevocable trusts and investment management accounts that carry higher fees. Additionally, our custody-only assets are carried in a tiered percentage rate fee schedule charged against market value.

Bank-Owned Life Insurance Income. We invest in bank-owned life insurance due to its attractive nontaxable return and protection against the loss of $60,000, our key employees. We record income based on the growth of the cash surrender value of these policies as well as the annual yield net of fees and charges, including mortality charges. Income from bank-owned life insurance increased by $52,000, or 2.9% 24.2%, during the quarter ended September 30, 2023 compared to the quarter ended September 30, 2022. The increase was in income is primarily due to an annual service provider bonus additional policies purchased on the lives of $299,000 received in June of 2023, which was an increase of $23,000 from the same quarter existing officers of the prior year. Company.

Loan Processing Fee Income. Revenue earned from collection of loan processing fees was $142,000 $128,000 for the quarter ended June 30, 2023 September 30, 2023, compared to $232,000 $192,000 for the same period in 2022, a decrease of $90,000, $64,000, or 38.8% 33.3%. The decrease is primarily due to a decline in the volume of newly originated, renewed or extended loans during the period.

Mortgage Fee Income. Mortgage fee income consists of lender processing fees such as underwriting fees, administrative fees and funding fees that are collected from mortgage loans that the Bank intends to sell on the secondary market. Mortgage fee income decreased from $102,000 $75,000 to $50,000 $46,000 for the quarters ended June 30, 2023 September 30, 2023 and 2022, respectively. The decrease of $52,000, $29,000, or 51.0% 38.7%, from June 30, 2022 September 30, 2022 was primarily due to a lower volume of mortgage purchases and refinances during the quarter ended June 30, 2023 September 30, 2023.

Other. This category includes a variety of other income producing activities, including mortgage loan origination fees, wire transfer fees, loan administration fees, and other fee income. Other noninterest income increased $2.6 million, decreased $763,000, or 295.1% 50.1%, compared to the same period in 2022. The increase decrease in other noninterest income was due primarily to a one-time gain on the sale of nonmarketable correspondent bank stock an airplane asset of $2.8 million. $894,000 during the third quarter of 2022 which was not present in the current quarter.

Noninterest Expense

For the three months ended June 30, 2023 September 30, 2023, noninterest expense totaled $20.5 million, an increase of $777,000, $277,000, or 3.9% 1.4%, compared to $19.7 million $20.2 million for the three months ended June 30, 2022 September 30, 2022. The following table presents, for the periods indicated, the major categories of noninterest expense:

	Quarter Ended June 30,		Increase (Decrease)	Quarter Ended September 30,		Increase (Decrease)
(in thousands)	2023	2022	2023 vs. 2022	2023	2022	2023 vs. 2022
Employee compensation and benefits	$ 11,939	$ 11,730	$ 209	$ 11,944	$ 11,851	$ 93
Non-staff expenses:						
Occupancy expenses	2,754	2,848	(94)	2,960	2,800	160
Legal and professional fees	985	773	212	902	503	399
Software and technology	1,531	1,339	192	1,490	1,409	81
Amortization	149	178	(29)	147	166	(19)

Director and committee fees	201	219	(18)	192	213	(21)
Advertising and promotions	269	320	(51)	288	378	(90)
ATM and debit card expense	739	674	65	803	723	80
Telecommunication expense	171	187	(16)	178	184	(6)
FDIC insurance assessment fees	522	237	285	363	272	91
Other noninterest expense	1,211	1,189	22	1,247	1,738	(491)
Total noninterest expense	20,47 $ 1	19,69 $ 4	$ 777	$ 20,514	$ 20,237	$ 277

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

Employee Compensation and Benefits. Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $11.9 million for the three months ended June 30, 2023 September 30, 2023, an increase of $209,000, $93,000, or 1.8% 0.8%, compared to $11.7 million $11.9 million for the same period in 2022. The increase resulted primarily from higher salary expense and employee benefits partially offset by decreased bonus expense during the quarter ended June 30, 2023 September 30, 2023.

Occupancy Expense. Occupancy expenses are mainly composed of depreciation expense on fixed assets and lease expense related to ASC 842 accounting. Occupancy expenses decreased $94,000, increased $160,000, or 3.3% 5.7%, compared to the same quarter of the prior year. The decrease increase was primarily due to a $67,000 decrease an $80,000 increase in depreciation lease expense and a $33,000 decrease $76,000 increase in lease maintenance and service expense during the quarter ended June 30, 2023 September 30, 2023.

Legal and Professional Fees. Legal and professional fees, which include audit, loan review and regulatory assessments other than FDIC insurance assessment fees, were $985,000 $902,000 and $773,000 $503,000 for the quarters ended June 30, 2023 September 30, 2023 and 2022, respectively, an increase of $212,000, $399,000, or 27.4% 79.3%. The increase was primarily due to recruiting and additional proxy-related fees during the quarter ended June 30, 2023 September 30, 2023.

Software and Technology Fees. Software and technology fees consist of fees paid to third parties for support of software and technology products. Software support fee expense was $1.5 million for the three months ended June 30, 2023, compared to $1.3 million for the same period in 2022, an increase of $192,000, or 14.3%. The increase is due to additional technology investments and an increase in the cost of our core processing software resulting from a new asset tier threshold compared to the same quarter of the prior year.

Amortization. Amortization costs include amortization of software and core deposit intangibles from prior acquisitions. Amortization costs were $149,000 for the three months ended June 30, 2023, a decrease of $29,000, or 16.3%, compared to $178,000 for the same period in 2022. The primary reason for the decrease in amortization was due to a decline in amortization expense on software from $65,000 to $36,000 during the three months ended June 30, 2022 and 2022, respectively.

Advertising and Promotions. Advertising and promotion-related expenses were $269,000 $288,000 and $320,000 $378,000 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, a decrease of $51,000, $90,000, or 15.9% 23.8%. The decrease was primarily due to decreased vendor costs in the current period compared to the same period in the prior year.

ATM and Debit Card Expense. ATM and debit card expenses were $739,000 $803,000 for the three months ended June 30, 2023 September 30, 2023, an increase of $65,000, $80,000, or 9.6% 11.1%, compared to $674,000 $723,000 for the same period in 2022 as a result of increased ATM and debit card usage by our customers.

FDIC Insurance Assessment Fees. FDIC insurance assessment fees were $522,000 $363,000 for the three months ended June 30, 2023 September 30, 2023, compared to $237,000 $272,000 for the same period in 2022. The increase of $285,000, $91,000, or 120.3% 33.5%, was primarily due to an increase in the assessment rate resulting from changes in financial ratios used in the calculation as well a higher assessment base, which is calculated as average total assets, less average tangible equity.

Other. This category includes operating and administrative expenses, such as stock option expense, expenses related to repossession of assets, small hardware and software purchases, expense of the value of stock appreciation rights, losses incurred on problem assets, losses on sale of other real estate owned and other assets, other real estate owned expense and write-downs, business development expenses (i.e., travel and entertainment, charitable contributions and club memberships), insurance and security expenses. Other noninterest expense decreased $491,000, or 28.3%, primarily due to a write-down in the second quarter of 2022 of $487,000 related to an SBA loan related receivable that was subsequently resolved.

Income Tax Expense

For the three months ended June 30, 2023 September 30, 2023 and 2022, income tax expense totaled $2.5 million. $1.4 million and $2.4 million, respectively. The effective tax rates for the three months ended June 30, 2023 September 30, 2023 and 2022 were 20.89% 18.60% and 18.67% 17.82%, respectively. The effective tax rates differ from the statutory federal tax rate of 21% for the three months ended June 30, 2023 September 30, 2023 and 2022, largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank-owned life insurance.

Discussion and Analysis of Financial Condition as of June 30, 2023 September 30, 2023

Assets

Our total assets decreased $145.3 million $121.1 million, or 4.3% 3.6%, from $3.35 billion as of December 31, 2022 to $3.21 billion $3.23 billion as of June 30, 2023 September 30, 2023. The decline was primarily due to a $94.0 million $111.0 million, or 13.5% 15.9%, decrease in total investment securities and a decrease in gross loans of $44.3 million $59.9 million, or 1.9% 2.5%, during the period.

Loan Portfolio

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

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Our loan portfolio is the largest category of our earning assets. As of June 30, 2023 September 30, 2023 and December 31, 2022 total loans held for investment were $2.33 billion $2.32 billion, a decrease of $44 million $60 million between periods. Additionally, $795,000 $2.5 million and $3.2 million in loans were classified as held for sale as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

(Continued)

Total loans, excluding those held for sale, as a percentage of deposits, were 89.7% 87.2% and 88.7% as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Total loans, excluding those held for sale, as a percentage of total assets, were 72.8% 71.8% and 71.0% as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The following table summarizes our loan portfolio by type of loan and dollar change and percentage change from December 31, 2022 to June 30, 2023 September 30, 2023:

(in thousands)	**As of June 30, 2023**	**As of December 31, 2022**	**Increase (Decrease)**	**Percent Change**	**As of September 30, 2023**	**As of December 31, 2022**	**Increase (Decrease)**	**Percent Change**
Commercial and industrial	$ 295,864	$ 314,067	$ (18,203)	(5.80 %)	$ 292,410	$ 314,067	$ (21,657)	(6.90 %)
Real estate:								
Construction and development	345,127	377,135	(32,008)	(8.49 %)	317,484	377,135	(59,651)	(15.82 %)
Commercial real estate	891,883	887,587	4,296	0.48 %	901,321	887,587	13,734	1.55 %
Farmland	187,105	185,817	1,288	0.69 %	188,614	185,817	2,797	1.51 %
1-4 family residential	496,340	493,061	3,279	0.67 %	504,002	493,061	10,941	2.22 %
Multi-family residential	44,385	45,147	(762)	(1.69 %)	42,720	45,147	(2,427)	(5.38 %)
Consumer and overdrafts	59,750	61,676	(1,926)	(3.12 %)	58,622	61,676	(3,054)	(4.95 %)
Agricultural	13,447	13,686	(239)	(1.75 %)	13,076	13,686	(610)	(4.46 %)

Total loans held for investment	$ 2,333,901	$ 2,378,176	$ (44,275)	(1.86%)	$ 2,318,249	$ 2,378,176	$ (59,927)	(2.52%)
Total loans held for sale	$ 795	$ 3,156	$ (2,361)	(74.81%)	$ 2,506	$ 3,156	$ (650)	(20.60%)

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of June 30, 2023 September 30, 2023 are summarized in the following table:

	As of June 30, 2023					**As of September 30, 2023**				
(in thousands)	**One Year or Less**	**After One Through Five Years**	**After Five Through Fifteen Years**	**After Fifteen Years**	**Total**	**One Year or Less**	**After One Through Five Years**	**After Five Through Fifteen Years**	**After Fifteen Years**	**Total**
Commercial and industrial	$ 96,200	$ 136,070	$ 61,213	$ 2,381	$ 295,864	$ 97,999	$ 131,844	$ 60,112	$ 2,455	$ 292,410
Real estate:										
Construction and development	178,093	51,585	73,644	41,805	345,127	163,263	37,901	75,178	41,142	317,484
Commercial real estate	54,323	235,923	296,597	305,040	891,883	46,754	234,984	316,940	302,643	901,321

Farmland	27,584	73,559	45,680	40,282	187,105	34,590	67,403	43,496	43,125	188,614
1-4 family residential	25,628	36,567	179,816	254,329	496,340	30,596	33,423	181,124	258,859	504,002
Multi-family residential	1,351	20,957	16,509	5,568	44,385	1,355	20,901	15,338	5,126	42,720
Consumer	15,637	40,259	1,750	2,104	59,750	14,072	40,727	1,859	1,964	58,622
Agricultural	8,378	4,666	403	—	13,447	8,423	4,286	367	—	13,076
Total loans	$ 407,194	$ 599,586	$ 675,612	$ 651,509	$ 2,333,901	$ 397,052	$ 571,469	$ 694,414	$ 655,314	$ 2,318,249
Amounts with fixed rates	$ 225,280	$ 472,851	$ 43,623	$ 36,275	$ 778,029	$ 231,875	$ 450,578	$ 41,747	$ 37,207	$ 761,407
Amounts with adjustable rates	$ 181,914	$ 126,735	$ 631,989	$ 615,234	$ 1,555,872	$ 165,177	$ 120,891	$ 652,667	$ 618,107	$ 1,556,842

Nonperforming Assets

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

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan

(Continued)

portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

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48.

Nonperforming assets as a percentage of total loans were 0.15% 0.13% at June 30, 2023 September 30, 2023, compared to 0.46% at December 31, 2022. The Bank's nonperforming assets consist primarily of nonaccrual loans. The decrease in nonperforming assets is primarily due to the resolution of several nonperforming assets during the second quarter, four of which had outstanding principal balances of $6.7 million and were Small Business Administration (SBA) 7(a), partially guaranteed (75%) loans, acquired in the June 2018 acquisition of Westbound Bank. An additional nonperforming loan with an outstanding balance of $1.4 million was resolved in the second quarter and paid off. Each of these nonperforming assets were resolved with minimal incurred losses.

The following table presents information regarding nonperforming assets and loans as of:

(dollars in thousands)	**June 30, 2023**	**December 31, 2022**	**September 30, 2023**	**December 31, 2022**
Nonaccrual loans	$ 3,550	$ 10,848	$ 2,712	$ 10,848
Accruing loans 90 or more days past due	—	—	—	—
Total nonperforming loans	3,550	10,848	2,712	10,848
Other real estate owned:				
Residential real estate	—	38	—	38
Total other real estate owned	—	38	—	38
Repossessed assets owned			250	—
Total other assets owned	—	38	250	38

Total nonperforming assets	$ 3,550	$ 10,886	$ 2,962	$ 10,886
Ratio of nonaccrual loans to total loans(1)	0.15 %	0.46 %	0.12 %	0.46 %
Ratio of nonperforming loans to total loans(1)	0.15 %	0.46 %	0.12 %	0.46 %
Ratio of nonperforming assets to total loans(1)	0.15 %	0.46 %	0.13 %	0.46 %
Ratio of nonperforming assets to total assets	0.11 %	0.32 %	0.09 %	0.32 %

(1) Excludes loans held for sale of $795,000 and $3.2 million as of June 30, 2023 and December 31, 2022, respectively.

(1) Excludes loans held for sale of $2.5 million and $3.2 million as of September 30, 2023 and December 31, 2022, respectively.

(1) Excludes loans held for sale of $2.5 million and $3.2 million as of September 30, 2023 and December 31, 2022, respectively.

The following table presents nonaccrual loans by category as of:

(in thousands)	**June 30, 2023**	**December 31, 2022**	**September 30, 2023**	**December 31, 2022**
Commercial and industrial	$ 326	$ 115	$ 273	$ 115
Real estate:				
Construction and development	73	1,435	117	1,435
Commercial real estate	272	7,271	32	7,271
Farmland	175	109	174	109
1-4 family residential	2,541	1,691	1,840	1,691
Consumer and overdrafts	132	170	238	170
Agricultural	31	57	38	57
Total	$ 3,550	$ 10,848	$ 2,712	$ 10,848

Potential Problem Loans

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

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

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

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borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

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49.

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

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

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

June 30, 2023	September 30, 2023

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Nonaccrual	Total	Pass	Special Mention	Substandard	Doubtful	Loss	Nonaccrual	Total
Commercial and industrial	$ 293,481	$ 1,242	$ 815	$ —	$ —	$ 326	$ 295,864	$ 289,996	$ 1,198	$ 943	$ —	$ —	$ 273	$ 292,410
Real estate:														
Construction and development	344,861	—	193	—	—	73	345,127	316,963	—	404	—	—	117	317,484
Commercial real estate	883,189	2,678	5,744	—	—	272	891,883	864,959	9,646	26,684	—	—	32	901,321
Farmland	186,744	99	87	—	—	175	187,105	188,259	98	83	—	—	174	188,614

1-4 family residential	493,753	46	—	—	—	2,541	496,340	501,889	273	—	—	—	1,840	504,002
Multi-family residential	44,385	—	—	—	—	—	44,385	42,720	—	—	—	—	—	42,720
Consumer and overdrafts	59,568	50	—	—	—	132	59,750	58,300	84	—	—	—	238	58,622
Agricultural	13,391	—	25	—	—	31	13,447	13,013	—	25	—	—	38	13,076
Total	$ 2,319,372	$ 4,115	$ 6,864	$ —	$ —	$ 3,550	$ 2,333,901	$ 2,276,099	$ 11,299	$ 28,139	$ —	$ —	$ 2,712	$ 2,318,249

December 31. 2022

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

Loans risk rated as substandard increased during the quarter from $8.1 million as of June 30, 2023 to $29.5 million as of September 30, 2023, an increase of $21.4 million. Despite the increase, substandard loans continued to represent a modest 1.3% of total loans at quarter-end. The increase results primarily from two commercial real estate loans, with outstanding balances of $14.5 million and $6.9 million, respectively. The larger credit is currently performing, is not past due, and is well-collateralized in the desirable Austin, Texas market with an LTV of 69%. Management believes this credit will be favorably resolved with minimal to no loss by year-end. The second, smaller loan is an amortizing commercial real estate loan in which we hold a priority first lien position. The project is being developed under an SBA 504 program, with a different lender managing the project's construction phase and financing the second lien debenture note. This loan is also performing, is not past due and is well-collateralized with an LTV of 46%. These two downgrades resulted from general economic stress factors, and appropriate credit reserves were captured in our CECL model.

Allowance for Credit Losses

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

For available for sale debt securities in an unrealized loss position, the Company evaluates the securities at each measurement date to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an ACL on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings through provision for credit loss expense. As of June 30, 2023 September 30, 2023, the Company determined that all available for sale securities that experienced a decline in fair value below the amortized costs basis were due to noncredit-related factors, therefore no related ACL was recorded and there was no related provision expense recognized during the six nine months ended June 30, 2023 September 30, 2023.

For held to maturity debt securities, the Company evaluates expected credit losses on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is

adjusted for current conditions and reasonable and supportable forecasts. With regard to U.S. Treasury and residential mortgage-backed securities issued by the U.S. governments, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities. With regard to municipal securities, management considers 1) issuer bond ratings, 2) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, 3) internal forecasts and 4) whether or not such securities are guaranteed by the Texas Permanent School Fund or pre-refunded by the issuers. As of June 30, 2023 September 30, 2023, the Company determined there were no credit related concerns that warrant an ACL for the held to maturity portfolio.

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

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

- for commercial and industrial loans, the debt service coverage ratio (income from the business in excess of operati expenses compared to loan repayment requirements), the operating results of the commercial, industrial professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks a volatility of income and operating results typical for businesses in that category and the value, nature a marketability of collateral;

- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio, operating results the owner in the case of owner-occupied properties, the loan to value ratio, the age and condition of the collateral a the volatility of income, property value and future operating results typical of properties of that type;
- for 1-4 family residential mortgage loans, the borrower’s ability to repay the loan, including a consideration of t debt-to-income ratio and employment and income stability, the loan-to-value ratio, and the age, condition a marketability of the collateral; and
- for construction and development loans, the perceived feasibility of the project including the ability to sell develop lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality a nature of contracts for presale or prelease, if any, experience and ability of the developer and loan to value ratio.

As of June 30, 2023 September 30, 2023, the allowance for credit losses totaled $31.8 million $31.1 million, or 1.36% 1.34%, of total loans, excluding those held for sale. As of December 31, 2022, the allowance for credit losses totaled $32.0 million, or 1.34%, of total loans, excluding those held for sale. During the fourth quarter of 2022, we recorded a $2.8 million provision to incorporate economic forecasts for a recession an economic downturn and possible borrower stressors into our CECL model. The factors that were adjusted in the fourth quarter of 2022 are still relevant, however additional certain minor adjustments to certain qualitative factors were made in the subsequent quarters to reflect current quarter to incorporate industry-level concerns with respect to CRE valuations and "higher for longer" interest projections that could impact borrower cash flows and repayment ability. These qualitative factor adjustments were offset by a decline in the total loan portfolio balance during the quarter, resulting in no adjustment to the ACL during the period.credit quality trends.

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

	As of and For The Six Months Ended June 30,		As of and For The Year Ended December 31,	As of and For The Nine Months Ended September 30,		As of and For The Year Ended December 31,
(dollars in thousands)	**2023**	**2022**	**2022**	**2023**	**2022**	**2022**

Average loans outstanding(1)	$ 2,375,533	$ 2,003,053	$ 2,126,810	$ 2,359,880	$ 2,066,529	$ 2,126,810
Gross loans outstanding at end of period(2)	2,333,901	2,138,376	2,378,176	2,318,249	2,266,065	2,378,176
Allowance for credit losses at beginning of the period	31,974	30,433	30,433	31,974	30,433	30,433
Reversal of provision for credit losses	—	(1,250)	2,150	—	(650)	2,150
Charge offs:						
Commercial and industrial	20	154	192	392	192	192
Commercial real estate	87	—	—	266	—	—
Consumer	72	36	322	72	313	322
Agriculture	3	—	—	3	—	—
Overdrafts	136	138	335	229	241	335
Total charge-offs	318	328	849	962	746	849
Recoveries:						
Commercial and industrial	12	45	72	19	62	72
Real estate:						
Commercial real estate	—	1	1	—	1	1
1-4 family residential	—	30	30	—	30	30
Consumer	58	23	55	65	40	55
Agriculture	2	—	—	2	—	—
Overdrafts	31	43	82	42	65	82
Total recoveries	103	142	240	128	198	240
Net charge-offs	215	186	609	834	548	609
Allowance for credit losses at end of period	$ 31,759	$ 28,997	$ 31,974	$ 31,140	$ 29,235	$ 31,974
Ratio of allowance to end of period loans(2)	1.36 %	1.36 %	1.34 %	1.34 %	1.29 %	1.34 %
Ratio of net charge-offs to average loans(1)	0.01 %	0.01 %	0.03 %	0.04 %	0.03 %	0.03 %

Total nonaccrual loans	$ 3,550	$ 9,848	$ 10,848	$ 2,712	$ 9,330	$ 10,848
Ratio of allowance to nonaccrual loans	894.6 %	294.4 %	294.7 %	1148.2 %	313.3 %	294.7 %

(1) Includes average outstanding balances of loans held for sale of $1.5 million, $2.9 million and $2.4 million for the six months ended June 30, 2023 and 2022, and for the year ended December 31, 2022, respectively.

(2) Excludes loans held for sale of $795,000, $2.8 million and $3.2 million for the six months ended June 30, 2023 and 2022, and for the year ended December 31, 2022, respectively.

(1) Includes average outstanding balances of loans held for sale of $1.4 million, $2.6 million and $2.4 million for the nine months ended September 30, 2023 and 2022, and for the year ended December 31, 2022, respectively.

(2) Excludes loans held for sale of $2.5 million, $2.7 million and $3.2 million for the nine months ended September 30, 2023 and 2022, and for the year ended December 31, 2022, respectively.

(1) Includes average outstanding balances of loans held for sale of $1.4 million, $2.6 million and $2.4 million for the nine months ended September 30, 2023 and 2022, and for the year ended December 31, 2022, respectively.

(2) Excludes loans held for sale of $2.5 million, $2.7 million and $3.2 million for the nine months ended September 30, 2023 and 2022, and for the year ended December 31, 2022, respectively.

The ratio of allowance for credit losses to nonperforming loans increased from 294.7% at December 31, 2022 to 894.6% 1148.2% at June 30, 2023 September 30, 2023. Nonperforming loans decreased to $3.6 million $2.7 million at June 30, 2023 September 30, 2023, compared to $10.8 million at December 31, 2022.

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

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Commercial and industrial	—	0.04 %	0.13 %	0.04 %
Real estate:				
Commercial real estate	0.01 %	—	0.03 %	—
1-4 family residential	—	(0.01 %)	—	(0.01 %)

Consumer	0.02 %	0.02 %	0.01 %	0.50 %
Agricultural	0.01 %	—	0.01 %	—
Overdrafts	26.65 %	22.41 %	47.70 %	40.18 %
Net charge-offs to total loans	0.01 %	0.01 %	0.04 %	0.03 %

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

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

	As of June 30, 2023		As of December 31, 2022		As of September 30, 2023		As of December 31, 2022	
(in thousands)	**Amount**	**Percent to Total Loans**	**Amount**	**Percent to Total Loans**	**Amount**	**Percent to Total Loans**	**Amount**	**Percent to Total Loans**
Commercial and industrial	$ 4,272	13.45 %	$ 4,382	13.70 %	$ 3,823	12.28 %	$ 4,382	13.70 %
Real estate:								

Construction and development	4,419	13.91 %	4,889	15.29 %	3,632	11.66 %	4,889	15.29 %
Commercial real estate	12,707	40.01 %	12,658	39.59 %	13,093	42.05 %	12,658	39.59 %
Farmland	2,105	6.63 %	2,008	6.28 %	2,119	6.80 %	2,008	6.28 %
1-4 family residential	6,699	21.09 %	6,617	20.69 %	6,778	21.77 %	6,617	20.69 %
Multi-family residential	490	1.54 %	490	1.53 %	471	1.51 %	490	1.53 %
Total real estate	26,420	83.18 %	26,662	83.38 %	26,093	83.79 %	26,662	83.38 %
Consumer and overdrafts	922	2.90 %	781	2.44 %	1,083	3.48 %	781	2.44 %
Agricultural	145	0.47 %	149	0.48 %	141	0.45 %	149	0.48 %
Total allowance for credit losses	$ 31,759	100.00 %	$ 31,974	100.00 %	$ 31,140	100.00 %	$ 31,974	100.00 %

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of June 30, 2023 September 30, 2023, the carrying amount of our investment securities totaled $603.9 million $587.0 million, a decrease of $94.0 million $111.0 million, or 13.5% 15.9%, compared to $697.9 million as of December 31, 2022. Investment securities represented 18.8% 18.2% and 20.8% of total assets as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

As of June 30, 2023 September 30, 2023, securities available for sale totaled $166.6 million $178.6 million and securities held to maturity totaled $437.3 million $408.3 million. As of December 31, 2022, securities available for sale totaled $188.9 million and securities held to maturity totaled $509.0 million.

The carrying values of our investment securities classified as available for sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in equity. As of June 30, 2023 September 30, 2023, the Company determined that all available for sale securities that experienced a decline in fair value below their amortized cost basis were impacted by noncredit-related factors and that securities held to maturity have not experienced credit deterioration; therefore, the Company carried no ACL with respect to our securities portfolio at June 30, 2023 September 30, 2023.

From time to time, we have reclassified certain securities from available for sale to held to maturity. Such transfers are made at fair value at the date of transfer. The net unrealized holding gains or losses at the date of transfer are retained in accumulated other comprehensive income and in the carrying value of the held to maturity securities and are amortized over the remaining life of the security. The net unamortized, unrealized loss remaining on transferred securities included in accumulated other comprehensive loss in the accompanying balance sheets totaled $6.4 million $6.8 million at June 30, 2023 September 30, 2023, compared to a net unamortized, unrealized loss of $5.9 million at December 31, 2022. This amount will be amortized out of accumulated other comprehensive loss over the remaining life of the underlying securities as an adjustment of the yield on those securities.

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

	As of June 30, 2023				**As of September 30, 2023**			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government agencies	$ 9,216	$ —	$ 1,235	$ 7,981	$ 9,254	$ —	$ 1,357	$ 7,897
Treasury securities	89,131	—	2,128	87,003	69,307	—	1,725	67,582
Corporate bonds	29,923	—	3,133	26,790	29,902	—	3,353	26,549
Municipal securities	176,596	570	8,149	169,017	171,314	146	9,568	161,892
Mortgage-backed securities	262,880	—	32,169	230,711	273,655	19	38,933	234,741

Collateralized mortgage obligations	57,505	1	9,677	47,829	58,249	—	10,575	47,674
Total	$ 625,251	$ 571	$ 56,491	$ 569,331	$ 611,681	$ 165	$ 65,511	$ 546,335

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

We do not hold any Fannie Mae or Freddie Mac preferred stock, collateralized debt obligations, structured investment vehicles or second lien elements in our investment portfolio. As of June 30, 2023 September 30, 2023 and December 31, 2022, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages, non-U.S. agency mortgage-backed securities or corporate collateralized mortgage obligations.

The following tables set forth the fair value of available for sale securities and the amortized cost of held to maturity securities, expected maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our securities portfolio as of the dates indicated.

As of June 30, 2023					As of September 30, 2023				
Within One Year	After One Year but Within Five Years	After Five Years but Within Ten Years	After Ten Years	Total	Within One Year	After One Year but Within Five Years	After Five Years but Within Ten Years	After Ten Years	Total

(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
U.S. government agencies	$ —	—	$ 9,216	1.35%	$ —	—	$ —	—	$ 9,216	1.35%	$ —	—	$ 9,254	1.35%	$ —	—	$ —	—	$ 9,254	1.35%
Treasury securities	59,868	1.89%	29,263	2.92%	—	—	—	—	89,131	2.23%	39,944	2.21%	29,363	2.92%	—	—	—	—	69,307	2.51%
Corporate bonds	—	—	9,104	3.38%	17,686	4.00%	—	—	26,790	3.80%	1,967	3.31%	7,145	3.40%	17,437	4.00%	—	—	26,549	3.80%
Municipal securities	11,649	3.35%	41,495	2.86%	63,529	2.97%	60,042	3.22%	176,715	3.05%	8,588	3.66%	42,669	2.89%	69,353	3.06%	50,746	3.17%	171,356	3.09%

Mortgage-backed securities	—	—	47,873	1.82%	170,705	2.35%	27,867	3.31%	246,445	2.36%	—	—	41,669	1.76%	184,930	2.66%	27,773	3.06%	254,372	2.55%
Collateralized mortgage obligations	457	2.99%	19,427	2.76%	37,412	1.47%	(1,705)	2.51%	55,591	1.93%	1,180	2.57%	22,135	3.24%	35,243	1.38%	(2,444)	2.51%	56,114	2.12%
Total	$ 71,974	2.13%	$ 156,378	2.46%	$ 289,332	2.47%	$ 86,204	3.24%	$ 603,888	2.54%	$ 51,679	2.50%	$ 152,235	2.54%	$ 306,963	2.68%	$ 76,075	3.12%	$ 586,952	2.69%

	As of December 31, 2022									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
U.S. government agencies	$ —	—	$ —	—	$ 9,141	1.35%	$ —	—	$ 9,141	1.35%
Treasury securities	64,798	1.46%	68,937	2.51%	—	—	—	—	133,735	2.00%
Corporate bonds	—	—	9,690	3.41%	18,097	4.00%	—	—	27,787	3.80%

Municipal securities	19,151	3.48%	46,087	3.18%	56,844	3.21%	80,240	3.44%	202,322	3.32%
Mortgage-backed securities	3,042	2.43%	80,292	1.91%	170,487	2.51%	9,213	1.93%	263,034	2.31%
Collateralized mortgage obligations	626	3.82%	25,772	2.79%	32,107	1.47%	3,411	1.09%	61,916	1.98%
Total	$ 87,617	1.95%	$ 230,778	2.49%	$ 286,676	2.57%	$ 92,864	3.15%	$ 697,935	2.54%

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and collateralized mortgage obligations are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly pay downs on mortgage-backed securities typically cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing

interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and, consequently, the average life of this security is typically lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 5.33 5.57 years with an estimated effective duration of 4.24 4.39 years as of June 30, 2023 September 30, 2023.

As of June 30, 2023 September 30, 2023 and December 31, 2022, respectively, we did not own securities of any one issuer, other than the U.S. government and its agencies, for which aggregate adjusted cost exceeded 10.0% of equity.

The average yield of our securities portfolio was 2.69% and 2.54% as of June 30, 2023 September 30, 2023 and December 31, 2022. , respectively. Average yield remained flat went up 15 basis points primarily due primarily to an 18 a 51 basis point increase in yield on treasury securities that was and a 24 basis point increase in yield on mortgage-backed securities, which were partially offset by a 16 23 basis point decrease in yield on municipal securities. As of June 30, 2023 September 30, 2023, the fair value of available for sale and amortized cost of held to maturity mortgage-backed securities and municipal securities comprised 40.8% 43.3% and 29.3% 29.2% of the portfolio, respectively. As of December 31, 2022, mortgage-backed securities and municipal securities comprised 37.7% and 29.0% of the portfolio, respectively.

Deposits

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

Average total deposits for the six nine months ended June 30, 2023 September 30, 2023 were $2.62 billion $2.61 billion, a decrease of $136.1 million $139.5 million, or 1.9% 0.1%, compared to $2.75 billion for the year ended December 31, 2022. The average rate paid on total interest-bearing deposits was 2.17% 2.46% and 0.58% for the six nine months ended June 30, 2023 September 30, 2023 and year ended December 31, 2022, respectively. The increase in average rates between periods was driven primarily by a cumulative 75 100 basis point increase in market rates made by the Federal Reserve during the first half nine months of 2023, and a 275 125 cumulative basis point increase during the latter half last quarter of the prior year.

The following table presents the average balance of, and rate paid on, deposits for the periods indicated:

	Six Months Ended June 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
(dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
NOW and interest-bearing demand accounts	$ 287,631	0.96 %	$ 414,839	0.30 %	$ 270,055	1.01 %	$ 383,149	0.36 %
Savings accounts	137,167	0.75 %	134,974	0.14 %	134,914	0.75 %	140,461	0.20 %
Money market accounts	730,664	2.45 %	835,554	0.30 %	710,049	2.63 %	832,662	0.41 %
Certificates and other time deposits	483,541	2.75 %	324,790	0.56 %	553,376	3.06 %	328,453	0.62 %
Total interest-bearing deposits	1,639,003	2.17 %	1,710,157	0.34 %	1,668,394	2.46 %	1,684,725	0.42 %
Noninterest-bearing demand accounts	948,083	0 %	1,027,429	0 %	944,870	0 %	1,075,941	0 %
Total deposits	$ 2,587,086	1.35 %	$ 2,737,586	0.21 %	$ 2,613,264	1.51 %	$ 2,760,666	0.26 %

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

(dollars in thousands)	**For the Six Months Ended June 30, 2023**	**For the Year Ended December 31, 2022**	**Increase (Decrease) ($)**	**Increase (Decrease) (%)**	**For the Nine Months Ended September 30, 2023**	**For the Year Ended December 31, 2022**	**Increase (Decrease) ($)**	**Increase (Decrease) (%)**
NOW and interest-bearing demand accounts	$ 287,631	$ 364,941	$ (77,310)	(21.18%)	$ 270,055	$ 364,941	$ (94,886)	(26.00%)
Savings accounts	137,167	141,484	(4,317)	(3.05%)	134,914	141,484	(6,570)	(4.64%)
Money market accounts	730,664	831,833	(101,169)	(12.16%)	710,049	831,833	(121,784)	(14.64%)
Certificates and other time deposits	483,541	332,029	151,512	45.63%	553,376	332,029	221,347	66.66%
Total interest-bearing deposits	1,639,003	1,670,287	(31,284)	(1.87%)	1,668,394	1,670,287	(1,893)	(0.11%)
Noninterest-bearing demand accounts	977,738	1,082,513	(104,775)	(9.68%)	944,870	1,082,513	(137,643)	(12.72%)
Total deposits	$ 2,616,741	$ 2,752,800	$ (136,059)	(4.94%)	$ 2,613,264	$ 2,752,800	$ (139,536)	(5.07%)

The ratio of average noninterest-bearing deposits to average total deposits for the six nine months ended June 30, 2023 September 30, 2023 and year ended December 31, 2022 was 37.4% 36.2% and 39.3%, respectively.

Total deposits as of June 30, 2023 September 30, 2023 were $2.60 billion $2.66 billion, a decrease of $78.3 million $22.9 million, or 2.9% 0.9%, compared to $2.68 billion as of December 31, 2022.

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Noninterest-bearing deposits as of June 30, 2023 were $915.5 million compared to $1.05 billion as of December 31, 2022, a decrease of $136.7 million, or 13.0%.

Noninterest-bearing deposits as of September 30, 2023 were $903.4 million compared to $1.05 billion as of December 31, 2022, a decrease of $148.8 million, or 14.1%.

Total interest-bearing deposits as of June 30, 2023 September 30, 2023 and December 31, 2022 were $1.69 billion $1.75 billion, which represented a slight increase of $58.3 million $125.9 million, or 3.6% 7.7%.

The aggregate amount of certificates and other time deposits in denominations greater than $250,000 as of June 30, 2023 September 30, 2023 and December 31, 2022 was $235.2 million $269.5 million and $130.0 million, respectively.

The amount of uninsured certificates of deposit will differ from the total amount of certificates of deposit greater than $250,000 due to various factors, including joint account ownership. The following table sets forth the amount of uninsured certificates of deposit greater than $250,000 by time remaining until maturity as of: of September 30, 2023.

(dollars in thousands)	**June 30, 2023**		**September 30, 2023**	
Under 3 months	$	24,703	$	69,010
3 to 6 months		65,377		66,532
6 to 12 months		98,956		68,739
Over 12 months		1,717		5,314
Total	$	190,753	$	209,595

Borrowings

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

Federal Home Loan Bank (FHLB) Advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of June 30, 2023 September 30, 2023 and December 31, 2022, total borrowing capacity of $910.8 million $911.9 million and $755.0 million, respectively, was available under this arrangement. Our outstanding FHLB advances mature within 1.2 years. one year. As of June 30, 2023 September 30, 2023, approximately $2.01 billion $1.96 billion in real estate loans were pledged as collateral for our FHLB borrowings. We utilize these borrowings to meet liquidity needs and to hedge interest rate risk.

The following table presents our FHLB borrowings by maturity and weighted average rate as of June 30, 2023 September 30, 2023:

(dollars in thousands)	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
Less than 90 days	$ 185,000	5.13 %	$ 165,000	5.38 %
90 days to less than one year	—	—	10,000	4.38 %
One to three years	10,000	4.38 %		
Total	$ 195,000	5.09 %	$ 175,000	5.32 %

Federal Reserve Bank of Dallas. The Federal Reserve Bank of Dallas has an available borrower in custody arrangement, which allows us to borrow on a collateralized basis. Certain commercial and industrial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. As of June 30, 2023 September 30, 2023 and December 31, 2022, $239.9 million $235.2 million and $227.6 million, respectively, were available under this arrangement. As of June 30, 2023 September 30, 2023 and December 31, 2022, approximately $303.1 million $295.9 million and $289.5 million, respectively, in consumer and commercial and industrial loans were pledged as collateral. As of June 30, 2023 September 30, 2023 and December 31, 2022, no borrowings were outstanding under this arrangement.

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

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

(Continued)

With certain exceptions, the amount of the principal and any accrued and unpaid interest on the debentures are subordinated in right of payment to the prior payment in full of all of our senior indebtedness. The terms of the debentures are such that they qualify as Tier 1 capital under the Federal Reserve's regulatory capital guidelines applicable to bank

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holding companies. Interest on the Trust III Debentures is payable at a variable rate per annum, reset quarterly, equal to 3-month LIBOR plus 1.67%. Interest on the DCB Trust I Debentures is payable at a variable rate per annum, reset quarterly, equal to 3-month LIBOR plus 1.80%. The interest is deferrable on a cumulative basis for up to five consecutive years following a suspension of dividend payments on all other capital stock. No principal payments are due until maturity for each of the debentures.

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

On March 4, 2022, the Company completed a private placement of $35.0 million aggregate principal amount of its fixed-to-floating rate subordinated note due April 1, 2032. The subordinated note initially bears a fixed interest rate of 3.625% per year, due semi-annually in arrears on April 1 and October 1. Commencing on April 1, 2027, the interest rate on the subordinated note will reset each quarter at a floating interest rate equal to the then-current three month term SOFR plus 192 basis points. The Company may at its option redeem in whole or in part the subordinated note on or after March 4, 2027 without a premium. The subordinated note is treated as Tier 2 Capital for regulatory purposes (subject to reductions in the amount includable as Tier 2 capital in the final five years prior to maturity), and is presented net of $498,000 $465,000 in related unamortized debt issuance costs on the consolidated balance sheets.

On May 1, 2020, the Company issued $10.0 million in debentures to directors and other related parties. The debentures have stated maturity dates between November 1, 2020 and November 1, 2024, and bear interest at fixed annual rates between 1.00% and 4.00%. The Company pays interest semi-annually on May 1st and November 1st in arrears during the term of the debentures. Various portions of these debentures have matured since issuance and $6.0 million remains outstanding as of June 30, 2023 September 30, 2023. The debentures are redeemable by the Company at its option, in whole in or part, at any time on or before the due date of any debenture. The redemption price is equal to 100% of the face amount of the debenture redeemed, plus all accrued but unpaid interest.

Other Borrowings. We have historically used a line of credit with a correspondent bank as a source of funding for working capital needs, the payment of dividends when there is a temporary timing difference in cash flows, and repurchases of equity securities. In March 2017, we entered into an unsecured revolving line of credit for $25.0 million, and we renewed that line of credit in March 2023. The line of credit bears interest at the prime rate (8.25% (8.50% as of June 30, 2023 September 30, 2023) subject to a floor of 3.50%, with quarterly interest payments, and matures in March 2024. As of June 30, 2023 September 30, 2023, there was a $12.0 million $2.0 million outstanding balance on the line of credit.

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the six nine months ended June 30, 2023 September 30, 2023 and the year ended December 31, 2022, liquidity needs were primarily met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Although access to purchased funds from correspondent banks and overnight or longer term advances from the FHLB and the Federal Reserve Bank of Dallas are available, and have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. As of June 30, 2023 September 30, 2023 and December 31, 2022, we maintained two federal funds lines of credit with commercial banks that provide for the availability to borrow up to an aggregate $55.0 million in federal funds. There were no funds under these lines of credit outstanding as of June 30, 2023 September 30, 2023 and December 31, 2022. In addition to these federal funds lines of credit, our $25.0 million revolving line of credit discussed above in "*Other Borrowings"* provides an additional source of liquidity.

Contingent liquidity sources and availability as of June 30, 2023 September 30, 2023 are provided below. Although we do not plan to access the Federal Reserve's Bank Term Funding Program (BTFP), we have $274.7 million $267.8 million of borrowing capacity based

on the value of unpledged, par value securities available as collateral for this line. The table below shows our total lines of credit, current borrowings as of June 30, 2023 September 30, 2023 and total amounts available for future borrowings, if necessary.

	June 30, 2023		Total Available for Future Liquidity	September 30, 2023		Total Available for Future Liquidity
(dollars in thousands)	Line of Credit	Borrowings		Line of Credit	Borrowings	
FHLB advances	$ 1,105,778	$ 195,000	$ 910,778	$ 1,086,881	$ 175,000	$ 911,881
Federal Reserve discount window	239,936	—	239,936	235,153	—	235,153
Federal funds lines of credit	55,000	—	55,000	55,000	—	55,000
Correspondent bank line of credit	25,000	12,000	13,000	25,000	2,000	23,000

Federal Reserve Bank Term Funding Program	274,683	—	274,683	267,752	—	267,752
Total liquidity lines			$ 1,493,397			$ 1,492,786

The following table illustrates, during the periods presented, the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the period indicated. Average assets were $3.30 billion $3.27 billion for the six nine months ended June 30, 2023 September 30, 2023 and $3.26 billion for the year ended December 31, 2022.

	Six Months Ended June 30, 2023	**Year Ended December 31, 2022**	**Nine Months Ended September 30, 2023**	**Year Ended December 31, 2022**
Sources of Funds:				
Deposits:				
Noninterest-bearing	29.64 %	33.20 %	28.90 %	33.20 %
Interest-bearing	49.68 %	51.23 %	51.04 %	51.23 %
Advances from FHLB	8.67 %	4.07 %	7.80 %	4.07 %
Line of credit	0.11 %	0.00 %	0.13 %	0.00 %
Subordinated debt	1.48 %	1.44 %	1.48 %	1.44 %
Securities sold under agreements to repurchase	0.54 %	0.26 %	0.60 %	0.26 %
Accrued interest and other liabilities	0.87 %	0.79 %	0.91 %	0.79 %
Equity	9.01 %	9.01 %	9.14 %	9.01 %
Total	100.00 %	100.00 %	100.00 %	100.00 %
Uses of Funds:				
Loans	71.04 %	64.33 %	71.22 %	64.33 %
Securities available for sale	5.46 %	8.83 %	5.53 %	8.83 %
Securities held to maturity	14.52 %	15.89 %	14.18 %	15.89 %
Nonmarketable equity securities	0.87 %	0.58 %	0.85 %	0.58 %
Federal funds sold	1.30 %	3.26 %	1.34 %	3.26 %

Interest-bearing deposits in other banks	0.17 %	0.47 %	0.19 %	0.47 %
Other noninterest-earning assets	6.64 %	6.64 %	6.69 %	6.64 %
Total	100.00 %	100.00 %	100.00 %	100.00 %
Average noninterest-bearing deposits to average deposits	37.36 %	39.32 %	36.16 %	39.32 %
Average loans to average deposits	90.78 %	77.26 %	90.30 %	77.26 %

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans, including average loans held for sale, increased $372.5 million $293.4 million, or 18.6% 14.2%, for the six nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022, while our average deposits decreased $144.5 million $147.4 million, or 5.2% 5.3%, for the same time period. We predominantly invest excess deposits in overnight deposits with our correspondent banks, federal funds sold, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth.

As of June 30, 2023 September 30, 2023, we had $431.0 million $362.3 million in outstanding commitments to extend credit and $7.1 million $8.4 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2022, we had $474.7 million in outstanding commitments to extend credit and $8.3 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of June 30, 2023 September 30, 2023 and December 31, 2022, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of June 30, 2023 September 30, 2023, we had cash and cash equivalents of $97.4 million $130.2 million, compared to $106.5 million as of December 31, 2022. The decrease increase was primarily due to a decrease increase in federal funds sold of $2.3 million $26.0 million, which is used for liquidity purposes.

Capital Resources

Total equity increased to $297.4 million$296.8 million as of June 30, 2023September 30, 2023, compared to $295.6 million as of December 31, 2022, an increase of $1.9 million$1.2 million, or 0.6%0.4%. The increase from December 31, 2022 was due to net earnings attributable to Guaranty Bancshares, Inc. of $17.9 million$24.2 million, offset by the repurchase of Company stock of $8.9 million$10.5 million, the payment of dividends of $5.4 million$8.1 million and an increase in accumulated other comprehensive loss of $2.2 million$5.3 million due to fluctuations in the fair value of available for sale securities during the first half of the year.

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to certain regulatory capital requirements at the bank holding company and bank levels. As of June 30, 2023September 30, 2023 and December 31, 2022, we were in compliance with all applicable regulatory capital requirements at the bank and bank holding company levels, and the Bank was classified as "well capitalized," for purposes of the prompt corrective action regulations. As we deploy our capital, our regulatory capital levels may decrease depending on our level of earnings and provisions for credit losses. However, we expect to closely monitor our loan portfolio, operating expenses and overall capital levels in order to remain in compliance with all regulatory capital standards applicable to us.

The following table presents our regulatory capital ratios as of:

	June 30, 2023		**December 31, 2022**		**September 30, 2023**		**December 31, 2022**	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Guaranty Bancshares, Inc. (consolidated)								
Total capital (to risk-weighted assets)	$ 362,203	14.90 %	$ 358,702	14.37 %	$ 364,878	14.93 %	$ 358,702	14.37 %
Tier 1 capital (to risk-weighted assets)	297,306	12.23 %	292,966	11.74 %	299,796	12.27 %	292,966	11.74 %
Tier 1 capital (to average assets)	297,306	9.11 %	292,966	8.77 %	299,796	9.34 %	292,966	8.77 %
Common equity tier 1 capital (to risk-weighted assets)	290,089	11.94 %	285,749	11.45 %	292,579	11.98 %	285,749	11.45 %
Guaranty Bank & Trust, N.A.								

Total capital (to risk weighted assets)	$ 379,964	15.65 %	$ 361,125	14.48 %	$ 372,346	15.25 %	$ 361,125	14.48 %
Tier 1 capital (to risk weighted assets)	349,593	14.40 %	329,933	13.23 %	341,818	14.00 %	329,933	13.23 %
Tier 1 capital (to average assets)	349,593	10.74 %	329,933	9.89 %	341,818	10.68 %	329,933	9.89 %
Common equity tier 1 capital (to risk-weighted assets)	349,593	14.40 %	329,933	13.23 %	341,818	14.00 %	329,933	13.23 %

Contractual Obligations

The following table summarizes contractual obligations and other commitments to make future payments as of June 30, 2023 September 30, 2023, which consist of future cash payments associated with our contractual obligations.

(in thousands)	**As of June 30, 2023**					**As of September 30, 2023**				
	1 year or less	**More than 1 year but less than 3 years**	**3 years or more but less than 5 years**	**5 years or more**	**Total**	**1 year or less**	**More than 1 year but less than 3 years**	**3 years or more but less than 5 years**	**5 years or more**	**Total**
Time deposits	$ 546,215	$ 29,328	$ 6,527	$ —	$ 582,070	$ 667,103	$ 40,629	$ 5,582	$ —	$ 713,314
Advances from FHLB	185,000	10,000	—	—	195,000	175,000	—	—	—	175,000
Subordinated debt	3,500	4,000	—	35,000	42,500	4,000	2,000	—	35,000	41,000
Operating leases	2,006	3,766	3,181	4,135	13,088	2,017	3,722	3,156	3,748	12,643
Total	$ 736,721	$ 47,094	$ 9,708	$ 39,135	$ 832,658	$ 848,120	$ 46,351	$ 8,738	$ 38,748	$ 941,957

Off-Balance Sheet Items

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

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of June 30, 2023 September 30, 2023 are summarized below. Since commitments associated with letters of credit

(Continued)

credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	As of June 30, 2023					As of September 30, 2023				
(in thousands)	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
Standby and commercial letters of credit	$ 5,158	$ 983	$ 33	$ 884	$ 7,058	$ 5,313	$ 2,182	$ 27	$ 874	$ 8,396
Commitments to extend credit	253,646	68,546	20,016	88,761	430,969	227,271	59,193	10,011	65,792	362,267

Total	258 ,80 $ 4	 69, $ 529	20, 04 $ 9	89, 64 $ 5	43 8,0 $ 27	23 2,5 $ 84	61, 37 $ 5	10, 03 $ 8	66, 66 $ 6	37 0,6 $ 63

Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. Our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to our customers. Management evaluated the likelihood of funding the standby and commercial letters of credit as of June 30, 2023 September 30, 2023, and determined the likelihood to be improbable. Therefore, no ACL was recorded for standby and commercial letters of credit as of June 30, 2023 September 30, 2023.

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

Loan agreements executed in connection with construction loans and commercial lines of credit have standard conditions which must be met prior to the Company being required to provide additional funding, including conditions precedent that typically include: (i) no event of default or potential default has occurred; (ii) that no material adverse events have taken place that would materially affect the borrower or the value of the collateral, (iii) that the borrower remains in compliance with all loan obligations and covenants and has made no misrepresentations; (iv) that the collateral has not been damaged or impaired; (v) that the project remains on budget and in compliance with all laws and regulations; and (vi) that all management agreements, lease agreements and franchise agreements that affect the value of the collateral remain in force. If the conditions precedent have not been met, the Company retains the option to cease current draws and/or future funding. As a result of these conditions within our loan agreements, management believes the credit risk of these off balance sheet items is minimal and we recorded no ACL with respect to these loan agreements as of June 30, 2023 September 30, 2023.

Interest Rate Sensitivity and Market Risk

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

Inflation in the U.S. remains high, primarily as a result of lingering effects from the COVID-19 pandemic and related governmental policies, as well as other geo-political factors. However, unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature, which means that interest rates have a more significant impact on our performance than the effects of general levels of inflation.

To combat record levels of inflation, the Federal Reserve approved its first interest rate increase in the current cycle in March 2022, and has since raised interest rates by 500 525 basis points through June 30, 2023 September 30, 2023. Members of the Federal Open Markets Committee have signaled expectations for they may further increase the federal funds rate increases that could result in by an additional 25 basis point, or more, increase in the federal funds rate points during the remainder of 2023. If the Federal Reserve does ultimately continue to increase interest rates, we expect those increases to have a negative impact on our net income in the short term due to timing differences in asset and liability repricing, but ultimately a net positive impact on our net income, despite likely absolute increases in our operating expenses due to inflation.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes.

(Continued)

These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

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

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

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

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

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

	June 30, 2023		**December 31, 2022**		**September 30, 2023**		**December 31, 2022**	
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**
+300	(2.42 %)	(30.74 %)	0.43 %	(18.35 %)	(2.47 %)	(29.83 %)	0.43 %	(18.35 %)
+200	(1.79 %)	(19.41 %)	0.17 %	(10.87 %)	(1.78 %)	(18.76 %)	0.17 %	(10.87 %)
+100	(1.30 %)	(9.73 %)	(0.21 %)	(5.17 %)	(1.29 %)	(9.32 %)	(0.21 %)	(5.17 %)

Base	—	—	—	—	—	—	—	—
-100	(0.59%)	5.54%	0.34%	1.48%	(0.96%)	4.68%	0.34%	1.48%
-200	0.22%	9.44%	4.16%	(0.70%)	(0.43%)	7.87%	4.16%	(0.70%)

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

(Continued)

Impact of Inflation

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

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

Non-GAAP Financial Measures

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

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

The following tables reconcile, as of and for the dates set forth below, net earnings, a GAAP measure, and net core earnings, a non-GAAP measure that excludes provisions for credit losses and income tax and net PPP income. the following financial measures:

Net Unrealized Loss on Securities, Tax Effected, as % of Total Equity

(dollars in thousands)	June 30, 2023	September 30, 2023
Total equity(1)	$ 297,427	$ 296,784
Less: net unrealized loss on HTM securities, tax effected	(27,300)	(32,087)
Total equity, including net unrealized loss on AFS and HTM securities	$ 270,127	$ 264,697
Net unrealized loss on AFS securities, tax effected	16,877	19,536
Net unrealized loss on HTM securities, tax effected	27,300	32,087
Net unrealized loss on AFS and HTM securities, tax effected	$ 44,177	$ 51,623
Net unrealized loss on securities as % of total equity(1)	14.9 %	17.4 %
Total equity before impact of unrealized losses	$ 314,304	$ 316,320
Net unrealized loss on securities as % of total equity before impact of unrealized losses	14.1 %	16.3 %
Total average assets	$ 3,272,950	$ 3,213,489
Total equity to average assets	9.1 %	9.2 %
Total equity, adjusted for tax effected net unrealized loss, to average assets	8.3 %	8.2 %

(1) Includes the net unrealized loss on AFS securities, tax effected, of $16,877.

(1) Includes the net unrealized loss on AFS securities, tax effected, of $19,536.

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Cost of Total Deposits

(dollars in thousands)	Quarter Ended September 30, 2023	Quarter Ended June 30, 2023	Quarter Ended September 30, 2022
Total average interest-bearing deposits	$ 1,726,218	$ 1,653,237	$ 1,650,314
Adjustments:			
Noninterest-bearing deposits	888,772	948,083	1,109,205
Total average deposits	$ 2,614,990	$ 2,601,320	$ 2,759,519
Total deposit-related interest expense	$ 13,069	$ 9,946	$ 2,455
Average cost of interest-bearing deposits	3.00 %	2.41 %	0.59 %
Average cost of total deposits	1.98	1.53	0.35

Cautionary Notice Regarding Forward-Looking Statements

This Report, our other filings with the SEC, and other press releases, documents, reports and announcements that we make, issue or publish may contain statements that we believe are “forward-looking statements” within the meaning of section 27A of the Securities Act and section 21E of the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance, including our future revenues, income, expenses, provision for taxes, effective tax rate, earnings per share and cash flows, our future capital expenditures and dividends, our future financial condition and changes therein, including changes in our loan portfolio and allowance for credit losses, our future capital structure or changes therein, the plan and objectives of management for future operations,

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our future or proposed acquisitions, the future or expected effect of acquisitions on our operations, results of the operations and financial condition, our future economic performance and the statements of the assumptions underlying any such statement. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

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

- our ability to prudently manage our growth and execute our strategy;
- risks associated with our acquisition and de novo branching strategy;
- business and economic conditions generally and in the financial services industry, nationally and within our prima Texas markets;
- concentration of our business within our geographic areas of operation in Texas;
- deterioration of our asset quality and higher loan charge-offs;
- changes in the value of collateral securing our loans;
- inaccuracies in the assumptions and estimate we make in establishing the allowance for credit losses reserve a other estimates;
- changes in management personnel and our ability to attract, motivate and retain qualified personnel;
- liquidity risks associated with our business;
- interest rate risk associated with our business that could decrease net interest income;
- our ability to maintain important deposit customer relationships and our reputation;
- operational risks associated with our business;
- volatility and direction of market interest rates;
- change in regulatory requirements to maintain minimum capital levels;
- increased competition in the financial services industry, particularly from regional and national institutions;
- institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trac monetary and fiscal matters;
- further government intervention in the U.S. financial system;

(Continued)

- changes in the scope and cost of FDIC insurance and other coverage;
- natural disasters and adverse weather, acts of terrorism (including cyberattacks), an outbreak of hostilities or pub health outbreaks (such as COVID-19), or other international or domestic calamities, and other matters beyond c control;
- risks that the financial institutions we may acquire or de novo branches we may open will not be integrat successfully, or the integrations may be more time consuming or costly than expected;
- technology related changes are difficult to make or are more expensive than expected; and
- the other factors that are described under the caption “Risk Factors” or referenced in this report, our Annual Report Form 10-K for the year ended December 31, 2022, and other risks included in the Company’s filings with the SEC.

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

(Continued)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company manages market risk, which, as a financial institution is primarily interest rate volatility, through the Asset-Liability Committee of the Bank, in accordance with policies approved by its board of directors. The Company uses an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Interest Rate Sensitivity and Market Risk” herein for a discussion of how we manage market risk.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures:

As of the end of the period covered by this Report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were effective as of the end of the period covered by this Report.

Changes in internal control over financial reporting:

There were no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2023 September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

In evaluating an investment in the Company’s common stock, investors should consider carefully, among other things, the risk factors previously disclosed under the caption “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, and other risks included in the Company’s filings with the SEC. The Company’s business could be harmed by any of these risks. The trading price of the Company’s common stock could decline due to any of these risks, and you may lose all or part of your investment. The following risk has been added to supplement the Company’s risk factors disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Recent volatility in the banking sector may result in new legislation, regulations or policy changes that could subject the Company and the Bank to increased government regulation and supervision.

The recent collapses of Silicon Valley Bank and Signature Bank have led to interventions by the FDIC, the Federal Reserve, and the U.S. Treasury Secretary in order to safeguard the depositors of these establishments. In light of these events, Congress and federal banking authorities have initiated assessments to pinpoint the causes of these failures,

proposing various explanations such as insufficient regulation and oversight, as well as the institutions' inability to effectively manage interest rate and liquidity risks. Ongoing analysis of these developments might result in government-driven measures aimed at averting similar bank failures in the future, which could include changes to risk-based capital regulations. Federal banking authorities may also reconsider relevant liquidity risk management standards.

While it is impossible to definitively predict which measures lawmakers and regulatory bodies might adopt, or the specifics and extent of any such measures, any of the aforementioned potential changes could, among other consequences, impose additional costs on us, restrict the range of financial services and products the Bank is able to offer, and curtail the future expansion of both the Company and the Bank. These factors could substantially and negatively impact the Company's business, operational results, or financial standing.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

The table below contains information regarding all shares repurchased by the Company during the periods indicated.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April, 2023	134,738	$ 25.50	134,738	645,165
May, 2023	119,884	23.71	119,884	525,281
June, 2023	67,979	26.88	67,979	457,302
Total	322,601	$ 25.13	322,601	

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs

July, 2023	45,840	$ 27.28	45,840	411,462
August, 2023	—	—	—	411,462
September, 2023	15,848	27.66	15,848	395,614
Total	61,688	$ 27.38	61,688	

Item 3. Defaults Upon Senior Securities

None.

(Continued)

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

(c) During the three months ended June 30, 2023 September 30, 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

(Continued)

65.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Formation of Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed May 1, 2017).
3.2	Amended and Restated Bylaws of Guaranty Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed April 6, 2017).

4.1 Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed with the SEC on April 6, 2017).

The other instruments defining the rights of the long-term debt securities of Guaranty Bancshares, Inc. and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. Guaranty Bancshares, Inc. hereby agrees to furnish copies of these instruments to the SEC upon request.

31.1* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1** Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2** Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)*

* Filed with this Quarterly Report on Form 10-Q

** Furnished with this Quarterly Report on Form 10-Q

(Continued)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GUARANTY BANCSHARES, INC.

(Registrant)

Date: August 4, 2023 November 3, 2023	/s/ Tyson T. Abston
	Tyson T. Abston
	Chairman of the Board & Chief Executive Officer
Date: August 4, 2023 November 3, 2023	/s/ Clifton A. Payne
	Clifton A. Payne
	Chief Financial Officer & Director

EXHIBIT 31.1

CERTIFICATION

I, Tyson T. Abston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Guaranty Bancshares, Inc. for the six nine months ended June 3 2023 September 30, 2023;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a mater fact necessary to make the statements made, in light of the circumstances under which such statements were made, misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, t periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls a procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to designed under our supervision, to ensure that material information relating to the registrant, including consolidated subsidiaries, is made known to us by others within those entities, particularly during the period which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporti and the preparation of financial statements for external purposes in accordance with generally accept accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report c conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period cover by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred duri the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) tl has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financ reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control ov financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or perso performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financ reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize a report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role the registrant's internal control over financial reporting.

Date: August 4, 2023 November 3, 2023

/s/ Tyson T. Abston

Tyson T. Abston

Chairman of the Board & Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Clifton A. Payne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Guaranty Bancshares, Inc. for the six nine months ended June 3 2023 September 30, 2023;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a mater fact necessary to make the statements made, in light of the circumstances under which such statements were made, r misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, t periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls a procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to designed under our supervision, to ensure that material information relating to the registrant, including consolidated subsidiaries, is made known to us by others within those entities, particularly during the period which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporti and the preparation of financial statements for external purposes in accordance with generally accept accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report c conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period cover by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred duri the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) tl has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financ reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control ov financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or perso performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financ reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize a report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role the registrant's internal control over financial reporting.

Date: August 4, 2023 November 3, 2023

/s/ Clifton A. Payne

Chief Financial Officer & Director

Clifton A. Payne

EXHIBIT 32.1

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Guaranty Bancshares, Inc. (the "Company") for the six nine months ended June 30, 2023 September 30, 2023 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Tyson T. Abston, Chairman of the Board & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 19 as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and resu of operations of the Company.

/s/ Tyson T. Abston

Tyson T. Abston

Chairman of the Board & Chief Executive Officer

Date: August 4, 2023 November 3, 2023

EXHIBIT 32.2

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Guaranty Bancshares, Inc. (the "Company") for the six nine months ended June 30, 2023 September 30, 2023 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Clifton A. Payne, Chief Financial Officer & Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 193 as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and resu of operations of the Company.

/s/ Clifton A. Payne

Clifton A. Payne

Chief Financial Officer & Director

Date: August 4, 2023 November 3, 2023

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