GUARANTY FINANCIAL CORP /VA/
Form 10KSB
April 02, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

Commission file number 0-25905

GUARANTY FINANCIAL CORPORATION
(Name of Small Business Issuer in its Charter)

Virginia	54-1786496
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)
1658 State Farm Boulevard Charlottesville, Virginia	22911
(Address of Principal Executive Offices)	(Zip Code)

(804) 970-1100
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	n/a

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $1.25 per share
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 past 90 days.
Yes __X__ No _____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's gross income for its most recent fiscal year was $23,797,240.

The aggregate market value of the voting stock held by non-affiliates computed by reference to the closing sales price of such stock as of March 20, 2001 was approximately $11,728,721. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

The number of outstanding shares of Common Stock as of March 20, 2001 was 1,961,727.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2001 Annual Meeting of Shareholders - Part III (to be filed)

TABLE OF CONTENTS

PART I

PART I

Item 1. Description of Business.

General

Guaranty Financial Corporation ("Guaranty") is a Virginia corporation which was organized in 1995 for the purpose of becoming the holding company of Guaranty Bank (the "Bank"). The Bank is a Virginia state chartered bank which began business in February 1981 and is headquartered in Charlottesville, Virginia.

The principal asset of Guaranty is the outstanding stock of the Bank, a wholly owned subsidiary. Guaranty presently has no separate operations and its business primarily consists of the business of the Bank. Guaranty's Common Stock is quoted on The Nasdaq National Market under the symbol "GSLC".

The Bank is a community bank that provides a broad range of commercial and retail banking services. Guaranty's principal business activities are attracting checking and savings deposits from local businesses and the general public through its retail banking offices and originating, servicing, investing in and selling loans. Of Guaranty's $204.0 million of gross loans outstanding at December 31, 2000, 29.1% represented construction and land loans, 29.0% represented commercial business loans, and 26.9% represented residential first mortgages. Guaranty also lends funds to retail banking customers by means of home equity, installment loans, and multi-family dwellings. In addition, Guaranty offers consumer loans and government-insured and conventional small business loans. Guaranty invests in certain United States government and agency obligations and other investments permitted by applicable laws and regulations.

Guaranty's main office is located at 1658 State Farm Boulevard, Charlottesville, Virginia 22911 and the telephone number is (804) 970-1100.

Market Area

Guaranty is headquartered in Charlottesville, Virginia. Charlottesville and its surrounding area had a collective population of approximately 120,000 in 2000 according to census figures. It is located in central Virginia 110 miles southwest of Washington, D.C. and 70 miles west of Richmond, Virginia, and includes the University of Virginia, the area's largest employer. Guaranty operates nine full service retail branches, which serve Charlottesville, Albemarle County, Fluvanna County, Henrico County and Harrisonburg, Virginia.

Competition

Guaranty faces strong competition for loans and deposits. Competition for loans comes primarily from commercial banks and mortgage bankers who also make loans in the Bank's market area. The Bank competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

Guaranty faces substantial competition for deposits from commercial banks, money market and mutual funds, credit unions and other investment vehicles. The ability of Guaranty to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of depositors as to rate of return, liquidity, risk and other factors. Guaranty competes for these deposits by offering a variety of deposit products at competitive rates and convenient business hours.

4

Many of our competitors have substantially greater financial resources than those available to Guaranty. Certain of these institutions have significantly higher lending limits than Guaranty. In addition, there can be no assurance that other financial institutions, with substantially greater resources than Guaranty, will not establish operations in Guaranty's service area.

Credit Policies

The principal risk associated with each of the categories of loans in Guaranty's portfolio is the creditworthiness of its borrowers. Within each category, such risk is increased or decreased, depending on prevailing economic conditions. In an effort to manage the risk, Guaranty's policy gives loan amount approval limits to individual loan officers based on their position and level of experience. The risk associated with real estate mortgage loans, commercial and consumer loans varies, based on employment levels, consumer confidence, fluctuations in the value of real estate and other conditions that affect the ability of borrowers to repay indebtedness. The risk associated with real estate construction loans varies, based on the supply and demand for the type of real estate under construction.

Guaranty has written policies and procedures to help manage credit risk. Guaranty utilizes a loan review process that includes formulation of portfolio management strategy, guidelines for underwriting standards and risk assessment, procedures for ongoing identification and management of credit deterioration, and regular portfolio reviews to establish loss exposure and to ascertain compliance with Guaranty's policies.

Guaranty uses a Management Loan Committee and a Directors Loan Committee to approve loans. The Management Loan Committee, which consists of the President and three additional senior officers, meets weekly to review all loan applications from borrowers having total credit exposure to the Bank in excess of $750,000 in the aggregate or in excess of $250,000 on an unsecured basis. A Directors Loan Committee, which currently consists of five directors (three directors constitute a quorum, of whom any two may act), approves loans from borrowers having total credit exposure to the Bank in excess of $1,500,000 in the aggregate or in excess of $500,000 on an unsecured basis that have been previously approved by the Management Loan Committee. Guaranty's Chief Credit Officer is responsible for reporting to the Directors Loan Committee monthly on the activities of the Management Loan Committee and on the status of various delinquent and non-performing loans. The Directors Loan Committee also reviews lending policies proposed by Management.

Residential loan originations come primarily from walk-in customers, real estate brokers and builders. Commercial real estate loan originations are obtained through broker referrals, direct solicitation of developers and continued business from customers. All completed loan applications are reviewed by Guaranty's salaried loan officers. As part of the application process, information is obtained concerning the income, financial condition, employment and credit history of the applicant. If commercial real estate is involved, information is also obtained concerning cash flow available for debt service. Loan applications are submitted to the underwriting department for review. Loan quality is analyzed based on the Bank's experience and credit underwriting guidelines as well as the guidelines issued by the Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and other purchasers of loans, depending on the type of loan involved. The non-conforming one-to-four-family adjustable-rate mortgage loans that Guaranty originates are not readily salable in the secondary market because they do not meet all of the secondary marketing guidelines. Real estate collateral is appraised by independent fee appraisers who have been pre-approved by the Board of Directors. All conforming loans including HUD/FHA, VA and applicable VHDA loans are underwritten by mortgage loan administration according to the Bank's loan authority schedule.

In the normal course of business, Guaranty makes various commitments and incurs certain contingent liabilities which are disclosed but not reflected in its annual financial statements including commitments to extend credit. At December 31, 2000, commitments to extend credit totaled $49.7 million.

Construction Lending

Guaranty makes local construction loans, primarily residential, and land acquisition and development loans. The construction loans are secured by residential houses under construction and the underlying land for which the loan was obtained. At December 31, 2000, construction, land and land development loans outstanding were $59.4 million, or 29.1%, of gross loans. Approximately 90% of these loans are concentrated in the Richmond and Charlottesville, Virginia markets. The average life of a construction loan is approximately nine months and they reprice monthly to meet the market, typically prime plus one percent. Because the interest rate charged on these loans floats with the market, they help Guaranty in managing its interest rate risk. Construction lending entails significant additional risks, compared with residential mortgage lending. Construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Another risk involved in construction lending is attributable to the fact that loan funds are advanced upon the security of the land or home under construction, which value is estimated prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and related loan-to-value ratios. To mitigate the risks associated with construction lending, Guaranty generally limits loan amounts to 80.0% of appraised value, in addition to analyzing the creditworthiness of its borrowers. Guaranty also obtains a first lien on the property as security for its construction loans and typically requires personal guarantees from the borrower's principal owners.

Commercial Business Loans

Commercial business loans generally have a higher degree of risk than residential mortgage loans, but have higher yields. To manage these risks, Guaranty generally obtains appropriate collateral and personal guarantees from the borrower's principal owners and monitors the financial condition of its business borrowers. Residential mortgage loans generally are made on the basis of the borrower's ability to make repayment from his employment and other income and are secured by real estate whose value tends to be readily ascertainable. In contrast, commercial business loans typically are made on the basis of the borrower's ability to make repayment from cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial business loans is substantially dependent on the success of the business itself. Furthermore, the collateral for commercial business loans may depreciate over time and generally cannot be appraised with as much precision as residential real estate. Guaranty has a loan review and monitoring process to regularly assess the repayment ability of commercial borrowers. At December 31, 2000, commercial loans totaled $59.1 million, or 29.0% of the total loan portfolio.

Commercial Real Estate Lending

Commercial real estate loans are secured by various types of commercial real estate in Guaranty's market area, including multi-family residential buildings, commercial buildings and offices, small shopping centers and churches. At December 31, 2000, commercial real estate loans aggregated $3.4 million or 1.7% of Guaranty's gross loans.

In its underwriting of commercial real estate, Guaranty may lend, under federal regulation, up to 85% of the secured property's appraised value, although Guaranty's loan to original appraised value ratio

on such properties is 80% or less in many cases. Commercial real estate lending entails significant additional risk, compared with residential mortgage lending. Commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the payment experience on loans secured by income producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or in the economy generally. Guaranty's commercial real estate loan underwriting criteria require an examination of debt service coverage ratios, the borrower's creditworthiness and prior credit history and reputation, and Guaranty typically requires personal guarantees or endorsements of the borrowers' principal owners. Guaranty also carefully evaluates the location of the security property.

One-to-Four-Family Residential Real Estate Lending

Residential lending activity may be generated by Guaranty's loan originator solicitation, referrals by real estate professionals, and existing or new bank customers. Loan applications are taken by a Bank loan originator. As part of the application process, information is gathered concerning income, employment and credit history of the applicant. Loan quality is analyzed based on guidelines issued by the applicable investor, such as the Federal Home Loan Mortgage Corporation (FHLMC), Veterans Administration (VA), the Department of Housing and Urban Development (HUD). The non-conforming one-to-four family adjustable rate mortgage (ARM) loans originated by Guaranty do not generally meet secondary market investor guidelines. However, these loans are underwritten using Guaranty's underwriting guidelines. The assessment of residential collateral is provided by independent fee appraisers who have been approved by the Bank's Board of Directors. Loans applications are reviewed and approved in primarily two ways, by either the underwriting department, or in the case of limited risk as defined by the automated underwriting system along with assigned characteristics, it is possible for the origination team, consisting of the originator and processor, to approve the transaction.

Security for the majority of Guaranty's residential lending is in the form of owner occupied one-to-four family dwellings. Conventional mortgages are originated up to allowable loan-to-value guidelines issued by the investor. Maximum allowable loans insured by the Veterans Administration (VA) and the Department of Housing and Urban Development (HUD) are originated according to their applicable guidelines. Loans are also underwritten, funded, and serviced by the Virginia Housing Development Authority specific to their defined guidelines. The Loan Prospector automated underwriting system is capable of rating conforming, VA, and FHA loans.

Typically, investor quality loans are originated with the intent to sell. In order to meet community needs and retain a competitive edge, the bank occasionally originates non-conforming fixed rate loans. These loans are typically unconventional or jumbo in nature. No current investor relationship exists for selling these products. At December 31, 2000, $20.4 million, or 10.0%, of Guaranty's loan portfolio consisted of fixed rate mortgage loans.

Guaranty also originates a non-conforming adjustable rate product with a higher entry level rate and margin than that of the conforming adjustable rate products. This non-conforming loan provides yet another outlet for loans not meeting investor guidelines. As with the fixed rate non-conforming product, the Bank has no current investor relationship for selling this ARM product. Interest rates on adjustable rate products offered by the Bank are tied to the One Year United States Treasury bill. Guaranty's ARM products contain interest rate caps at adjustment periods and rate ceilings based on a cap over and above the original interest rate. Guaranty originates the conforming one-year adjustable rate mortgages below the index rate to compete with local competitors. At December 31, 2000, $34.5 million, or 16.9%, of the Bank's loan portfolio consisted of adjustable rate mortgages.

All residential mortgage loans originated by Guaranty contain a "due-on-sale" clause providing that Guaranty may declare the unpaid principal balance due and payable upon sale or transfer of the mortgaged premises, unless certain investor provisions should apply. "Due-on-sale" definitions will vary from investor to investor, so Guaranty's policy is to adhere to the mortgage loan investor's guidelines, or in the case of our own loans, adhere to the defined terms in the security instruments.

In connection with residential real estate loans, Guaranty requires title insurance, hazard insurance and if required, flood insurance. Flood determination letters with life of loan tracking are obtained on all federally related transactions with improvements serving as security for the transaction.

Guaranty does require escrows for real estate taxes and insurance.

Consumer Lending

Guaranty offers various secured and unsecured consumer loans, including unsecured personal loans and lines of credit, automobile loans, deposit account loans, installment and demand loans, credit cards, and home equity lines of credit and loans. At December 31, 2000, Guaranty had consumer loans of $27.0 million or 13.2% of gross loans. Such loans are generally made to customers with which Guaranty has a pre-existing relationship. Guaranty originates all of its consumer loans in its geographic market area and intends to continue this practice. Most of the consumer loans are tied to the prime lending rate and reprice monthly.

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured, such as lines of credit, or secured by rapidly depreciable assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. Such loans may also give rise to claims and defenses by a consumer borrower against an assignee of collateral securing the loan such as Guaranty, and a borrower may be able to assert against such assignee claims and defenses which it has against the seller of the underlying collateral. Guaranty adds general provisions to its loan loss allowance monthly as the loans are originated. Consumer loan delinquencies often increase over time as the loans age.

The underwriting standards employed by Guaranty for consumer loans include a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes an analysis of the value of the security in relation to the proposed loan amount.

Employees

At December 31, 2000, Guaranty had 99 full-time and eight part-time employees. None of Guaranty's employees are represented by any collective bargaining unit.

Supervision and Regulation

General. As a bank holding company, Guaranty is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve Board. The BHCA also generally limits the activities of a bank holding company to that of banking, managing or controlling banks, or any other activity which is determined to be so closely related to banking or to managing or controlling banks that an exception is allowed for those activities.

As a state-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the Virginia State Corporation Commission's Bureau of Financial Institutions. It also subject to regulation, supervision and examination by the Federal Reserve Board. State and federal law also governs the activities in which the Bank engages, the investments that it makes and the aggregate amount of loans that may be granted to one borrower. Various consumer and compliance laws and regulations also affect the Bank's operations.

The earnings of Guaranty's subsidiaries, and therefore the earnings of Guaranty, are affected by general economic conditions, management policies, changes in state and federal legislation and actions of various regulatory authorities, including those referred to above. The following description summarizes the significant state and federal and state laws to which Guaranty and the Bank are subject. To the extent that statutory or regulatory provisions or proposals are described, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions or proposals.

Payment of Dividends. Guaranty is a legal entity separate and distinct from its banking and other subsidiaries. The majority of Guaranty's revenues will result from dividends paid to Guaranty by the Bank. The Bank is subject to laws and regulations that limit the amount of dividends that it can pay. In addition, both Guaranty and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that banking organizations should generally pay dividends only if the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. Guaranty does not expect that any of these laws, regulations or policies will materially affect the ability of the Bank to pay dividends. During the year ended December 31, 2000, the Bank declared $666,283 in dividends payable to Guaranty.

In October 2000, Guaranty and the Bank entered into a written agreement with the Federal Reserve Bank of Richmond (the "FRB-Richmond") and the Bureau of Financial Institutions that provided for certain restrictions on the declaration and payment of dividends by either Guaranty or the Bank. Additional information on this agreement is set forth in "Item 5. Market for Common Equity and Related Stockholder Matters" below.

Insurance of Accounts, Assessments and Regulation by the Federal Deposit Insurance Corporation (the "FDIC"). The deposits of the Bank are insured by the FDIC up to the limits set forth under applicable law. The deposits of the Bank are subject to the deposit insurance assessments of the Bank Insurance Fund ("BIF") of the FDIC.

The FDIC has implemented a risk-based deposit insurance assessment system under which the assessment rate for an insured institution may vary according to regulatory capital levels of the institution and other factors (including supervisory evaluations). Depository institutions insured by the BIF that are "well capitalized" and that present few or no supervisory concerns, are required to pay only the statutory minimum assessment of $2,000 annually for deposit insurance, while all other banks are required to pay premiums ranging from .03% to .27% of domestic deposits. Because of the weaknesses that led to the written agreement with the Federal Reserve and the Bureau of Financial Institutions, the Bank's deposit insurance assessment was .10% of deposits per year in 2000 and is .03% of deposits per year in 2001. These rate schedules are subject to future adjustments by the FDIC. In addition, the FDIC has authority to impose special assessments from time to time. However, because the legislation enacted in 1996 requires that both Savings Association Insurance Fund insured and BIF-insured deposits pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation, the FDIC is assessing BIF-insured deposits an additional 1.30 basis points per $100 of deposits to cover those obligations.

The FDIC is authorized to prohibit any BIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the respective insurance fund. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances that could result in termination of any Bank's deposit insurance.

Capital. The Federal Reserve Board has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, Guaranty and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles ("Tier 1 capital"). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance ("Tier 2 capital," which, together with Tier 1 capital, composes "total capital").

In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations must maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to 3% to 5%, subject to federal bank regulatory evaluation of an organization's overall safety and soundness.

The risk-based capital standards of the Federal Reserve Board explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a banking organization's capital adequacy.

Other Safety and Soundness Regulations. There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event that the depository institution is insolvent or is in

danger of becoming insolvent. For example, under the requirements of the Federal Reserve Board with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so otherwise. In addition, the "cross-guarantee" provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the insolvency of commonly controlled insured depository institutions or for any assistance provided by the FDIC to commonly controlled insured depository institutions in danger of failure. The FDIC may decline to enforce the cross-guarantee provision if it determines that a waiver is in the best interests of the deposit insurance funds. The FDIC's claim for reimbursement under the cross guarantee provisions is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and nonaffiliated holders of subordinated debt of the commonly controlled insured depository institutions.

The federal banking agencies also have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, as defined by the law. As of December 31, 2000, Guaranty and the Bank were classified as well capitalized.

State banking regulators also have broad enforcement powers over the Bank, including the power to impose fines and other civil and criminal penalties, and to appoint a conservator.

Interstate Banking and Branching. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Effective June 1, 1997, a bank headquartered in one state was authorized to merge with a bank headquartered in another state, as long as neither of the states had opted out of such interstate merger authority prior to such date. After a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law.

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Act of 1999 (the "Act") was signed into law on November 12, 1999. The Act covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. Most of the Act's provisions require the federal bank regulatory agencies and other regulatory bodies to adopt regulations to implement the Act, and for that reason an assessment of the full impact on Guaranty of the Act must await completion of that regulatory process.

The Act repeals sections 20 and 32 of the Glass-Stegall Act, thus permitting unrestricted affiliations between banks and securities firms. The Act also permits bank holding companies to elect to become financial holding companies. A financial holding company may engage in or acquire companies that engage in a broad range of financial services, including securities activities such as underwriting, dealing, brokerage, investment and merchant banking, and insurance underwriting, sales and brokerage activities. In order to become a financial holding company, the bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a satisfactory Community Reinvestment Act rating.

The Act provides that the states continue to have the authority to regulate insurance activities, but prohibits the states in most instances from preventing or significantly interfering with the ability of a bank, directly or through an affiliate, to engage insurance sales, solicitations or cross-marketing activities. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the

states may continue to adopt and enforce rules that specifically regulate bank insurance activities in certain areas identified in the Act. The Act directs the federal bank regulatory agencies to adopt insurance consumer protection regulations that apply to sales practices, solicitations, advertising and disclosures.

The Act adopts a system of functional regulation under which the Federal Reserve Board is confirmed as the umbrella regulator for financial holding companies, but financial holding company affiliates are to be principally regulated by functional regulators such as the FDIC for state nonmember bank affiliates, the Securities and Exchange Commission for securities affiliates and state insurance regulators for insurance affiliates. The Act repeals the broad exemption of banks from the definitions of "broker" and "dealer" for purposes of the Securities Exchange Act of 1934, as amended, but identifies a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a "broker", and a set of activities in which a bank may engage without being deemed a "dealer". The Act also makes conforming changes in the definitions of "broker" and "dealer" for purposes of the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended.

The Act contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. The Act provides that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. An institution may not disclose to a non-affiliated third party, other than to a consumer reporting agency, customer account numbers or other similar account identifiers for marketing purposes. The Act also provides that the states may adopt customer privacy protections that are more strict than those contained in the Act. The Act also makes a criminal offense, except in limited circumstances, obtaining or attempting to obtain customer information of a financial nature by fraudulent or deceptive means.

Forward Looking Statements

Certain statements in this annual report are forward-looking and may be identified by the use of words such as "believe", "expect", "anticipate", "should", "planned", "estimated", and "potential". These statements are based on the Corporation's current expectations. A variety of factors could cause the Corporation's actual results and experience to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, and results of the Corporation's business include interest rate movements, competition from both financial and non-financial institutions, the timing and occurrence (or nonoccurence) of transactions and events that may be subject to circumstances beyond the Corporation's control, and general economic conditions.

12

Item 2. Description of Property.

As of March 1, 2001, Guaranty conducted its business from its main office in Charlottesville, Virginia and eight branch offices. The following table provides certain information with respect to these properties:

Location	Date Facility Opened	Lease Arrangements
Main Office:		
1658 State Farm Boulevard Charlottesville, Virginia	1996	Owned by Guaranty
Branch Offices:		
Downtown Mall 520 East Main Street Charlottesville, Virginia	1992	Lease expires in 2002, subject t Guaranty's right to renew for thre additional five-year terms
Barracks Road 1924 Arlington Boulevard Charlottesville, Virginia	1994	Lease expires in 2004, subject t Guaranty's right to renew for tw additional five-year terms
West Main 2211 West Main Street Charlottesville, Virginia	1998	Lease expires in 2003, subject t Guaranty's right to renew for tw additional five-year terms
Route 29 North & Rio Road 1700 Seminole Trail Charlottesville, Virginia	1996	Owned by Guaranty
Harrisonburg 1925 Reservoir Street Harrisonburg, Virginia	1997	Owned by Guaranty
Lake Monticello	1998	Owned by Guaranty

Route 53 & Turkey Sag Road Lake Monticello, Virginia		
Henrico County 3498 Lauderdale Drive Richmond, Virginia	1999	Owned by Guaranty
Forest Lakes 3290 Worth Crossing Charlottesville, Virginia	2001	Owned by Guaranty

13

Item 3. Legal Proceedings.

In the course of its operations, Guaranty is a party to various legal proceedings. Based upon information currently available, management believes that such legal proceedings, in the aggregate, will not have a material adverse effect on Guaranty's business, financial position, or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of Guaranty.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Guaranty's Common Stock has been listed on the Nasdaq National Market under the symbol "GSLC" since June 1997. The following table sets forth, for the quarters indicated, the high and low sales prices for Guaranty's Common Stock and per share dividends for the periods indicated.

Market Price and Dividends

	Sales Price ($)		
	High	Low	Dividends ($)
Fiscal Year Ended December 31, 1999:			
1st quarter	13.625	11.250	.06
2nd quarter	11.875	10.375	.06
3rd quarter	11.750	10.125	.06
4th quarter	10.750	8.000	.06
Fiscal Year Ended December 31, 2000:			
1st quarter	10.750	7.813	.06
2nd quarter	8.625	7.500	.06
3rd quarter	8.063	6.750	--
4th quarter	7.125	4.375	--

In October 2000, both Guaranty and the Bank entered into a written agreement with the FRB-Richmond and the Bureau of Financial Institutions. Among the restrictions included in the written agreement is a requirement that any dividends paid or declared by either Guaranty or the Bank be approved by both the FRB-Richmond and the Bureau of Financial Institutions. Following the initiation of the written agreement, Guaranty's Board of Directors decided to suspend dividend payments on Guaranty's Common Stock. The timing, amount and payment of future dividends on Guaranty's Common Stock is at the discretion of Guaranty's Board of Directors subject to the written approval by both the FRB-Richmond and the Bureau of Financial Institutions and will depend upon the earnings of Guaranty and its subsidiaries, principally the Bank, the financial condition of Guaranty and other factors, including general economic conditions and applicable governmental regulations and policies.

Guaranty is a legal entity separate and distinct from its subsidiaries, and its revenues depend primarily on the payment of dividends from the Bank. As previously stated, the Bank is currently prohibited from paying dividends to Guaranty without the prior written consent of both the FRB-Richmond and the Bureau of Financial Institutions.

As of March 1, 2001, Guaranty had approximately 1,200 shareholders of record.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following commentary discusses major components of Guaranty's business and presents an overview of its consolidated financial position and results of operations at December 31, 2000 and 1999 and for the years ended December 31, 2000, 1999 and 1998. This discussion should be reviewed in conjunction with the consolidated financial statements and accompanying notes and other statistical information presented elsewhere in this annual report.

Overview

Guaranty is headquartered in Charlottesville, Virginia and conducts almost all of it operations through its subsidiary, Guaranty Bank. Guaranty Bank is a community bank serving the Charlottesville, Harrisonburg and western Richmond suburban markets. Guaranty Bank opened its ninth branch location in early 2001. Guaranty is currently negotiating to sell its one branch in western suburban Richmond.

In October 2000, Guaranty and its subsidiary, Guaranty Bank, entered into a written agreement with the FRB-Richmond and the Bureau of Financial Institutions with respect to various operating policies and procedures. As a result of the agreement, the Bank revised its asset/liability management, liquidity, risk management, loan administration and capital adequacy policies. In addition, both Guaranty and the Bank are restricted from paying or declaring dividends without prior regulatory approval. Guaranty has suspended dividends to its common shareholders. Guaranty is also prohibited from incurring any debt at the holding company level. Guaranty does not have sufficient resources to make interest payments on its subordinated debentures held by Guaranty Capital Trust I unless the regulators approve dividend payments by the Bank to Guaranty. Thus far, state and federal regulators have approved dividend payments from the Bank to Guaranty sufficient to make such interest payments. No other terms of the agreement are expected to restrict Guaranty's operating plans for 2001.

Guaranty's performance for 2000 reflected improvement in net earnings with a reduction in total assets. This combination resulted in the strengthening of both Guaranty's and the Bank's regulatory capital ratios. The reduction in total assets is indicative of Guaranty's emphasis changing from growth to profit management.

Net Income

Net income for the year ended December 31, 2000, was $607,000 or $.31 per diluted share. The increased earnings in 2000 were the result of increased net interest income and deposit fees which exceeded increases in operating expenses and additional provisions for possible loan losses. Additionally, net income in 2000 was not impacted by the losses on the sale of investments which negatively impacted the 1999 earnings.

Net income for the year ended December 31, 1999 was $4,400, a 99.5% decrease when compared to 1998 earnings of $1,016,000 ($.68 per diluted share). These decreased earnings were primarily a result

of the sale of approximately $13 million in long-term corporate bonds that resulted in a net after tax loss of $857,000. This action was taken to reduce market rate risk in Guaranty's balance sheet and improve net interest margin in the future. Also, during 1999, Guaranty increased its loan loss provision by approximately $300,000.

Net income for the year ended December 31, 1998 was $1,016,000 ($.68 per share), a 13.3% increase when compared to 1997 earnings of $898,000 ($.61 per share). These increased earnings were primarily a result of increased net interest margin growth and expansion of the existing branch network, and the addition and expansion of the commercial and construction loan departments. These increased revenues were partially offset by the one-time expenses related to the conversion to a state chartered bank.

Net Interest Income

Net interest income is the major component of Guaranty's earnings and is equal to the amount by which interest income exceeds interest expense. Earning assets consist primarily of loans and securities, while deposits and borrowings represent the major portion of interest bearing liabilities. Changes in the volume and mix of assets and liabilities, as well as changes in the yields and rates paid, determine changes in net interest income. The net interest margin is calculated by dividing net interest income by average earning assets.

Net interest income was $9.8 million for the year ended December 31, 2000, 26.5% greater than the $7.7 million reported for the year ended December 31, 1999. The improvement in net interest income reflects higher loan and investment yields, higher average balances and an increasing gap between the amount of earning assets and the amount of interest bearing liabilities. The net interest margin increase continues to reflect the bank shifting its asset base into both commercial and consumer loans and away from more conservatively priced residential mortgage loans. The net interest margin for the year ended December 31, 2000, increased by 56 basis points to 3.99% as compared to the prior year end. The increase was due to a .97% increase in the yield on earning assets which exceeded the .54% increase in the cost of interest bearing liabilities. Declines in the prime rate in early 2001 will cause the yield on interest earning assets to fall faster than the cost of interest bearing liabilities. The net result will be a lower net interest margin in 2001.

Net interest income was $7.7 million for the year ended December 31, 1999, 36.8% greater than the $5.7 million reported for the year ended December 31, 1998. This improvement in the net interest income was primarily due to an increase in the volume of prime based residential construction lending including builder lines of credit, commercial loan increases, and an increase in income from securities held for sale, coupled with the decline in the average cost of interest bearing liabilities. Average loans increased 40.4% for the year ended December 31, 1999. The interest income from investments increased 53.0% during the year ended December 31, 1999. Net interest margin decreased 30 basis points to 3.43% at December 31, 1999 which was caused by a reduction in the average yield on loans, and fee income associated with commercial and construction lending.

16

The following table sets forth average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, stockholders' equity and the related income, expense and corresponding weighted average yields and costs.

17

	Year Ended December 3		
(Dollars in thousands)	2000		1999
	Interest	Average	Interest

	Average balance	income/ expense	yield/ rate	Average balance	income/ expense
Assets					
Interest earning assets:					
Securities	$25,065	$1,786	7.13%	$32,278	$2,157
Loans	213,353	20,103	9.42%	184,340	15,765
Interest bearing deposits in other banks	6,668	469	7.03%	8,928	450
Total interest-earning assets/total interest income	245,086	22,358	9.12%	225,546	18,372
Noninterest earning assets:					
Cash and due from banks	6,599			5,484	
Premises and equipment	9,454			8,399	
Other assets	4,876			5,256	
Less allowance for loan losses	(1,798)			(1,122)	
Total noninterest earning assets	19,131			18,017	
Total Assets	$264,217			$243,563	
Liabilities and stockholders' equity					
Interest bearing liabilities:					
Interest bearing deposits:					
Demand/MMDA accounts	$42,034	$1,328	3.16%	$44,906	$1,571
Savings	10,922	245	2.24%	10,968	253
Certificates of deposit	149,787	8,949	5.97%	126,015	6,541
Total interest bearing deposits	202,743	10,522	5.19%	181,889	8,365
FHLB advances and other borrowings	28,791	1,950	6.77%	34,955	1969
Bonds payable	881	105	11.92%	1,468	305
Total interest bearing liabilities/total interest expense	232,415	12,577	5.41%	218,312	10,639
Non interest bearing liabilities:					
Demand deposits	14,409			10,232	
Other liabilities	1,991			3,583	
Total liabilities	248,815			232,127	
Stockholders' equity	15,402			11,436	
Total liabilities and stockholders' equity	$264,217			$243,563	
Interest spread (1)			3.71%		
Net interest income/net interest margin (2)		$9,781	3.99%		$7,733

(1) Interest spread is the average yield earned on earning assets, less the average rate incurred on interest bearing liabilities.
(2) Net interest margin is net interest income, expressed as a percentage of average earning assets.

The following table describes the impact on Guaranty's interest income resulting from changes in average balances and average rates for the periods indicated. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	Year Ended December 31, 2000 compared to Year Ended December 31, 1999 Change Due To:			Year Ended Decembe compared Year Ended Decembe Change Due	
(Dollars in thousands)	Rate	Volume	Increase (Decrease)	Rate	Volume
Interest income:					
Securities	$145	($516)	($371)	($63)	$930
Loans	1,604	2,734	4,338	(737)	5,271
Interest bearing deposits in other banks	178	(159)	19	(9)	(80)
Total interests income	1,927	2,059	3,986	(809)	6,121
Interest expense:					
Interest bearing deposits:					
Demand/MMDA accounts	(153)	(90)	(243)	10	699
Savings	(8)	-	(8)	(56)	55
Certificates of deposit	983	1,425	2,408	(206)	1,679
Total interest bearing deposits	822	1,335	2,157	(252)	2,433
FHLB advances and other	398	(417)	(19)	(117)	1,187
Bonds payable	(130)	(70)	(200)	120	(140)
Total interest expense	1,090	848	1,938	(249)	3,480
Net interest income	$837	1,211	$2,048	($560)	2,641

Interest Sensitivity

An important element of both earnings performance and liquidity is the management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest-sensitive assets and interest-sensitive liabilities maturing or repricing within a specific time interval. The gap can be managed by repricing assets or liabilities, by selling investments, by replacing an asset or liability prior to maturity, or by adjusting the interest rate during the life of an asset or liability. Matching the amounts of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net income of changes in market interest rates. Guaranty evaluates interest rate risk and then formulates guidelines regarding asset generation and pricing, funding sources and pricing, and off-balance sheet commitments in order to decrease sensitivity risk. These guidelines are based upon management's outlook regarding future interest rate movements, the state of the regional and national economy, and other financial and business risk factors.

At December 31, 2000, Guaranty had $41.1 million more liabilities than assets that reprice within one year and therefore was in an liability-sensitive position. A liability-sensitive position or a negative gap will tend to positively impact net earnings in a period of falling interest rates and negatively impact net earnings in a period of rising interest rates. This liability-sensitive position is the result of investments in securities with a maturity of over five years coupled with fixed rate borrowing and certificates of deposit reaching maturity in one year or less and short term borrowings used to fund loans also maturing in one year or less.

19

Guaranty has an Asset/Liability Committee ("ALCO"), which meets to discuss deposit pricing, changes in borrowed money, investment and trading activity, loan sale activities, liquidity levels and the overall interest sensitivity. The actions of this committee are reported to the Board of Directors monthly. The daily monitoring of interest rate risk, investment and trading activity, along with any other significant transactions are managed by the President with input from other ALCO members.

The following table presents the amounts of Guaranty's interest sensitive assets and liabilities that mature or reprice in the periods indicated.

	December 31, 2000 Maturing or Repricing In:		
(Dollars in thousands)	3 Months or less	4-12 Months	1-5 Years
Interest-sensitive assets:			
Loans	$ 94,248	$ 37,166	$ 42,633
Investments and mortgage-backed securities(1)	-	1,800	950
Deposits at other institutions	5,921	-	-
Total interest-sensitive assets	100,169	38,966	43,583
Cumulative interest-sensitive assets	100,169	139,135	182,718
Interest-sensitive liabilities:			
NOW accounts (2)	-	-	-
Money market deposit accounts	18,894	-	-
Savings accounts	10,319	-	-
Certificates of deposit	39,280	97,689	9,982
Borrowed money	14,000	-	-
Convertible preferred securities	-	-	-
Bonds payable	23	72	144
Total interest-sensitive liabilities	82,516	97,761	10,126
Cumulative interest-sensitive liabilities	$ 82,516	$180,277	$190,403
Period gap	$ 17,653	$(58,795)	$ 33,457
Cumulative gap	$ 17,653	$(41,142)	$ (7,685)

Ratio of cumulative interest-sensitive assets to interest-sensitive liabilities	121.39%	77.18%	95.96%
Ratio of cumulative gap to total assets	6.95%	-16.20%	-3.03%

(1) Includes Federal Home Loan Bank stock.
(2) Guaranty has found that NOW accounts are generally not sensitive to changes in interest rates and therefore has placed such deposits in the "over 5 years" category.

Of Guaranty's commercial and construction loans with a maturity of more than one year, approximately $4.7 million have fixed interest rates and $5.7 million have variable interest rates.

20

Investments

Total available for sale investment securities decreased 19.3% to $17.9 million at December 31, 2000, from $22.2 million at December 31, 1999. The overall decrease was primarily a result of management's efforts to reduce market rate risk in Guaranty's balance sheet.

The following table shows the amortized cost and fair market value of investment securities at the dates indicated.

	December 31, 2000		1999	
	Cost	Market	Cost	Market
(Dollars in thousands)				
Held-to-maturity				
Mortgage-backed securities	$ 950	$ 970	$ 1,086	$ 1,103
Other	250	250	250	250
Total held-to-maturity	1,200	1,220	1,336	1,353
Available for sale				
Corporate bonds	19,354	17,508	19,416	17,097
U.S. Government Obligations	-	-	-	-
Mortgage-backed securities	-	-	4,898	4,780
Total available for sale	19,354	17,508	24,314	21,877
Trading				
U.S. Government Obligations	-	-	-	-
Total Trading	-	-	-	-

Other				
Federal Reserve Bank & Other Stocks	422	422	320	320
Federal Home Loan Bank Stock	1,550	1,550	1,500	1,500
Total	$ 22,526	$ 20,700	$ 27,470	$ 25,050

The following table sets forth the composition of Guaranty's investment portfolio at the dates indicated.

	December 31,				
	2000		1999		199
	Book Value	% of Total	Book Value	% of Total	Book Value
(Dollars in thousands)					
Investment securities:					
FHLMC mortgage-backed securities	$ 950	4.59%	$ 1,086	4.34%	$ 2,094
FNMA mortgage-backed securities	0	-	4,781	19.10	-
Corporate bonds	17,508	84.66	17,096	68.29	26,581
Treasury and agency notes	250	1.21	250	1.00	1,250
Other	422	2.04	320	1.28	328
Subtotal	19,130	92.50	23,533	94.01	30,253
Other:					
FHLB stock	1,550	7.50	1,500	5.99	1,300
Total Investment securities	$ 20,680	100.00%	$ 25,033	100.00%	$ 31,553

Loans

Net loans consist of total loans minus undisbursed loan funds, deferred loan fees and the allowance for loan losses. Net loans declined by 1.9% to $201.6 million at December 31, 2000, as Guaranty controlled its growth to increase its regulatory capital ratios. Net loans were $205.3 million at December 31, 1999, an increase of 26.4% over December 31, 1998. Net loans were $162.4 million at December 31, 1998, an increase of 62.9% over net loans at December 31, 1997.

The average balance of total loans as a percentage of average assets was 80.7%, and 75.7% for the years ended December 31, 2000 and 1999, respectively.

22

The following table sets forth the composition of Guaranty's loan portfolio in dollars at the dates indicated.

Loan Portfolio

	December 31,				
	2000	1999	1998	1997	199
(Dollars in thousands)					
Mortgage Loans:					
Residential	$ 54,911	$ 54,912	$ 61,945	$ 66,035	$ 67,
Commercial	3,434	3,838	3,926	16,641	8,
Construction and land loans	59,363	70,009	52,530	18,263	5,
Total real estate	117,708	128,759	118,401	100,939	80,
Commercial business loans	59,120	53,505	25,635	-	
Consumer loans	27,158	24,422	19,141	6,705	4,
Total loans receivable	203,986	206,686	163,177	107,644	84,
Adjustments:					
Undistributed loans in process	-	-	-	6,752	2,
Deferred fees (costs)	(27)	40	113	282	
Allowance for losses	2,397	1,303	1,002	935	
Total net items	2,370	1,343	1,115	7,969	3,
Total loans receivable, net	$201,616	$205,343	$162,062	$ 99,675	$ 81,

The growth of our loan portfolio and the change in its composition reflects our growth strategy and the conversion of Guaranty Bank from a savings association to a commercial bank. At June 30, 1996, we had no commercial business loans. Construction loans accounted for only 10.0% of gross loans, while residential mortgage loans represented 75.2% of gross loans. In contrast, at December 31, 2000, commercial business loans, construction loans and residential mortgage loans, respectively represented 29.3%, 28.9%, and 13.2% of gross loans.

The following tables show the composition of Guaranty's loan portfolio by fixed and adjustable rate at the dates indicated.

Fixed Rate and Adjustable Rate Loans by Amount

	December 31,			
	2000	1999	1998	1997
(Dollars in thousands)				
Fixed-Rate Loans:				
Real Estate				
Residential	$ 20,403	$ 18,277	$ 20,206	$ 26,514
Commercial	-	1,155	3,623	-
Construction and land loans	-	-	-	37
Total real estate	20,403	19,432	23,829	26,551
Commercial business loans	12,891	21,681	4,178	-
Consumer loans	3,832	2,825	242	3,099
Total fixed-rate loans	37,126	43,938	28,249	29,650
Adjustable-Rate Loans:				
Real Estate				
Residential	34,508	44,519	46,163	39,521
Commercial	3,434	11,140	9,670	16,641
Construction and land loans	59,138	66,181	60,088	18,226
Total real estate	97,080	121,840	115,921	74,388
Commercial business loans	47,053	30,880	19,514	-
Consumer loans	23,123	14,366	9,388	3,606
Total adjustable-rate loans	167,256	167,086	144,823	77,994
Total loans receivable	204,382	211,024	173,072	107,644
Less:				
Undisbursed loans in process	395	4,382	9,588	6,752
Deferred loan fees	(27)	40	113	282
Allowances for losses	2,397	1,203	1,002	935
Total net items	2,765	5,625	10,703	7,969
Total loans receivable, net	$201,617	$205,399	$162,369	$ 99,675

Contractual principal repayments of loans do not necessarily reflect the actual term of Guaranty's loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and enforcement of due-on-sale clauses, which gives Guaranty the right to declare a loan immediately due and payable in the event, among other things, the borrower sells the real property subject to the mortgage and the loan is not repaid. In addition, certain borrowers increase their equity in the security property by making payments in excess of those required under the terms of the mortgage.

Asset Quality

Asset quality is an important factor in the successful operation of a financial institution. Banking regulations require insured institutions to classify their own assets and to establish prudent general allowances for losses for assets classified as "substandard" or "doubtful." For the portion of assets classified as "loss," an institution is required to either establish specific allowances of 100% of the amount classified or charge such amounts off its books.

Assets which do not currently expose Guaranty to sufficient risk to warrant classification in one of the aforementioned categories but posses potential weaknesses are required to be designated "special mention" by management. On the basis of management's review of its assets, at December 31, 2000, Guaranty had classified $7.1 million of its assets as substandard, and $3,000 as doubtful or loss. Not all of Guaranty's assets that have been classified are included in the table of non-performing assets set forth below. Several of these loans are classified because of previous credit problems but are performing.

Unless well secured and in the process of collection, Guaranty places loans on a nonaccrual status after being delinquent greater than 90 days, or earlier in situations in which the loans have developed inherent problems that indicate payment of principal and interest may not be made in full. Whenever the accrual of interest is stopped, previously accrued but uncollected interest income is reversed. Thereafter, interest is recognized only as cash is received. The loan is reinstated to an accrual basis after it has been brought current as to principal and interest under the contractual terms of the loan.

The following table reflects the composition of nonperforming assets at the dates indicated.

	December 31,				
	2000	1999	1998	1997	1996
(Dollars in thousands)					
Nonaccrual loans	238	$1,310	$1,686	$1,436	$1,670
Restructured loans	-	-	-	-	11
Total non-performing loans	238	1,310	1,686	1,436	1,681
Foreclosed assets	1,301	843	488	65	51

Total non-performing assets	$1,539	$2,153	$2,174	$1,501	$1,732
Loans past due 90 or more days and accruing interest	$1,587	$ 93	$ 106	$ 189	$ -
Non-performing loans to total loans, at period end	0.12%	0.62%	0.97%	1.42%	1.98%
Non-performing assets to period end total loans and foreclosed assets	0.76%	1.02%	1.25%	1.49%	2.04%

Delinquent and problem loans

When a borrower fails to make a required payment on a loan, Guaranty attempts to cure the delinquency by contacting the borrower. A notice is mailed to the borrower after a payment is 15 days past due and again when the loan is 30 days past due. For most loans, if the delinquency is not cured within 60 days, Guaranty issues a notice of intent to foreclose on the property and if the delinquency is not cured within 90 days, Guaranty may institute foreclosure action. In most cases, deficiencies are cured promptly.

Allowance for losses on loans and real estate

Guaranty provides valuation allowances for anticipated losses on loans and real estate when its management determines that a significant decline in the value of the collateral has occurred, and if the value of the collateral is less than the amount of the unpaid principal of the related loan plus estimated costs of acquisition and sale. In addition, Guaranty also provides reserves based on the dollar amount and type of collateral securing its loans, in order to protect against unanticipated losses. A loss experience

percentage is established for each loan type and is reviewed quarterly. Quarterly the loss percentage is applied to the portfolio, by product type, to determine the minimum amount of reserves required. Although management believes that it uses the best information available to make such determinations, future adjustments to reserves may be necessary, and net income could be significantly affected, if circumstances differ substantially from assumptions used in making the initial determinations.

An analysis of the allowance for loan losses, including charge-off activity, is presented below for the periods indicated.

	Year Ended December 31,			
	2000	1999	1998	1997
(Dollars in thousands)				
Balance at beginning of period	$1,203	$1,002	$935	$870
Provision charged to operations	1,505	486	184	122
Charge-offs:				
Real estate	229	122	120	57
Consumer	72	-	-	-

Commercial	34	165	-	-
Recoveries:				
Real estate	20	-	3	-
Consumer	2	2	-	-
Commercial	1	-	-	-
Net Charge-offs	312	285	117	57
Balance, end of period	$2,396	$1,203	$1,002	$935
Allowance for loan losses to period end total loans	1.19%	0.57%	0.58%	0.93%
Allowance for loan losses to nonaccrual loans	1006.72%	91.83%	59.43%	67.20%
Net charge-offs to average loans	0.15%	0.15%	0.10%	0.06%

Provision for loan losses

For the years ended December 31, 2000, 1999 and 1998, the provision for loan losses was $1.5 million, $486,000, and $184,200, respectively. The provision for loan losses has increased during these time periods due to Guaranty's continued movement towards commercial business, and construction and land development lending which carries a higher risk of loss than traditional mortgage lending. The increase in the provision for loan losses in 2000 was to increase Guaranty's allowance for possible loan losses to an amount consistent with its peer institutions. The increase was not attributable to any specific asset quality problems.

Guaranty monitors its loan loss allowance monthly and makes provisions as necessary. Management believes that the level of Guaranty's loan loss allowance is adequate for its loan portfolio size and mix.

26

A breakdown of the general allowance for loan losses in dollars and loans in each category to total loans in percentages is provided in the following tables. Because all of these factors are subject to change, the breakdown is not necessarily predictive of future loan losses in the indicated categories.

December 31,	2000		1999		1998	
	Allowance	Ratio of Loans to Total Gross Loans	Allowance	Ratio of Loans to Total Gross Loans	Allowance	Ratio of Loans to Total Gross Loans
(Dollars in thousands)						
Residential real estate	$ 109	26.9%	$ 78	29.8%	$ 101	38.4%
Commercial real estate	-	1.7	109	5.8	144	7.7
Construction and land	1,056	29.1	383	31.4	384	34.7
Commercial business	861	29.0	466	24.9	258	13.7
Consumer and other loans	137	13.3	167	8.1	115	5.6

Unallocated	233	-	-	-	-	-
Total	$ 2,396	100.0%	$ 1,203	100.0%	$ 1,002	100.0%

December 31,

	1997		1996	
	Allowance	Ratio of Loans to Total Gross Loans	Allowance	Ratio of Loans to Total Gross Loans
(Dollars in thousands)				
Residential real estate	$ 477	61.4%	$ 327	75.2%
Commercial real estate	212	15.5	194	8.7
Construction and land	52	17.0	70	10.0
Commercial business	-	-	-	-
Consumer and other loans	43	6.2	40	6.1
Unallocated	151	-	157	-
Total	$ 935	100.0%	$ 788	100.0%

27

Non-Interest Income

Guaranty's non-interest income consists primarily of loan fees and servicing income, net gains on sale of loans and securities, and fees and service charges on deposit accounts. The following table presents information on the sources and amounts of non-interest income.

	Year Ended December 31,		
	2000	1999	1998
Non Interest Income			
(Dollars in thousands)			
Servicing income (loss)			
Gross servicing income	$ 197	$ 560	$ 452
Amortization expense	(138)	(563)	(169)

Net servicing income (loss)	59	(3)	283
Gain (loss)on sale of loans and securities	137	(870)	1,063
Service charges on checking	718	578	424
Late charges and other consumer fees	238	105	69
Annuity and investment sales	195	140	61
Other	93	175	66
Total	$ 1,440	$ 125	$ 1,966

Non-interest income increased by $1.3 million to $1.4 million for the year ended December 31, 2000. The increase in non-interest income for the current year was due to the elimination of the losses on securities sales. For the year ended December 31, 1999, non-interest income was $125,000 compared to $2.0 million for the year ended December 31, 1998. This decrease was a result of gains on sales of securities in 1998 of $1.4 million while a pretax loss of approximately $1.2 million occurred during 1999 due to the sale of approximately $13 million of available for sale securities. This loss was partially offset by a market value recovery recognized on the servicing asset of approximately $341,000 as well as increases in income from service charges on checking accounts and other related fees. For the year ended December 31, 1998, non-interest income was $2.0 million compared to $1.9 million for the year ended December 31, 1997. During 1998 there were increased fees with the addition of the commercial loan department and service charges on commercial checking accounts which carry higher fees and an increase in fees on other checking accounts. These increases were offset by a market value impairment recognized on the servicing asset for $342,000.

Loans and securities sales were a result of the continued strategy of selling newly originated fixed rate mortgage loans in the secondary market, restructuring of the balance sheet to reduce interest rate risk relating to fixed rate mortgages, and to provide liquidity to fund anticipated loan closings.

During 1999 Guaranty sold the majority of its servicing portfolio, with the transfer of the loans occurring in February 2000, for approximately $2.8 million resulting in a loss of approximately $31,000, as part of its balance sheet restructuring. Guaranty's mortgage loan servicing rights ("MSR's") accumulated as a by-product of its mortgage lending business. Generally, the value of servicing rights moves inversely with the value of interest bearing securities as market interest rates change. Guaranty has found that the value of servicing rights is extremely sensitive to changes in market interest rates, but tends to fall faster as interest rates decline than interest rates rise. Increases and decreases in the value of servicing rights are treated as income or expense. Because Guaranty cannot control or predict changes in the value of servicing rights or the rate of amortization as loans prepay, it decided to sell the mortgage loan servicing business.

Historically, mortgage loan servicing was a significant business for Guaranty. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, holding escrow funds for payment of taxes and insurance, making required inspections of the mortgaged premises, contacting delinquent mortgagors, supervising foreclosures in the event of unremitted defaults and generally administering the loans for the investors to whom they have been sold. MSRs are intangible assets that represent the rights to service mortgage loans and in turn to receive the service fee income associated with the mortgage loans. MSRs are amortized against income over the estimated average lives of the loans serviced. If loans are prepaid at rates faster than those originally assumed, adjustments may be required to the unamortized balance, which could result in charges to current earnings. Conversely, slower prepayments rates could result in increases in mortgage loan servicing income in future periods. Impairment of MSRs is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For the purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The amount of impairment recognized is the amount by which capitalized MSRs for a stratum exceed their fair value. At December 31, 2000 and 1999 MSRs totaled $1.0 million and $568,000, respectively. Impairment on these rights was $55,000 and $1,000 for the years ended December 31, 2000 and 1999, respectively. See "Financial Statements - Summary of Accounting Policies." At December 31, 2000 and 1999, loans serviced for others totaled $92.0 million and $241.9 million, respectively. Approximately $189,000,000 of loans serviced for others at December 31, 1999 were sold to a third party with transfer of the loans having occurred in February 2000.

Guaranty sells fixed rate residential production on an individual loan basis and securitizes loans through the creation of Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Governmental National Mortgage Association ("GMNA") mortgage-backed securities. During the years ended December 31, 2000 and 1999, Guaranty sold $39.9 million and $80.0 million, respectively, of loans and securitized loans.

Prior to 2000, Guaranty has traded treasury securities in an effort to take advantage of short term movements in market interest rates. Guaranty did not buy or sell any trading account securities in 2000. Sales of trading account securities totaled $ 30.8 million during the year ended December 31, 1999. Guaranty experienced losses of $304,000 and $302,000, respectively on such sales for the years ended December 31, 1999 and 1998.

Loan fees, net of loan underwriting and closing costs, are deferred and amortized into income over the estimated remaining lives of the loans to which they relate. Guaranty had deferred fees, net of direct underwriting costs, of $40,000 and $113,000 at December 31, 1999 and 1998, respectively.

Non-Interest Expenses

Non-interest expenses increased by approximately $1.4 million to $8.8 million for the year ended December 31, 2000. The increase was in all categories and reflected the continued growth of Guaranty. For the year ended December 31, 1999, non-interest expenses were $7.4 million, compared to $5.8 million for the year ended December 31, 1998. The $1.6 million increase was due to an increase in personnel, occupancy costs, and data processing associated with the overall growth of the Bank including the opening of an eighth branch during the year. For the year ended December 31, 1998, non-interest expenses were $5.8 million compared to $3.8 million for the year ended December 31, 1997. This increase was due primarily to increased costs associated with the expanded branch network and the new commercial loan department.

	Year Ended December 31,		
Non Interest Expense	2000	1999	1998
(Dollars in thousands)			

Personnel	$ 4,227	$ 3,998	$ 3,089
Occupancy	1,353	918	783
Data processing	926	762	585
Marketing and professional fees	740	471	513
Other	1,549	1,216	823
Total	$ 8,795	$ 7,365	$ 5,793

Income Taxes

Income tax expense for the years ended December 31, 2000, 1999 and 1998, was $313,000, $2,300 and $624,000, respectively. The decreases and increases are a direct result of earnings levels for the respective year ends. The effective income tax rate for each year is substantially the same.

Sources of Funds

Deposits

Deposits have traditionally been the principal source of Guaranty's funds for use in lending and for other general business purposes. In addition to deposits, Guaranty derives funds from loan repayments, cash flows generated from operations, which includes interest credited to deposit accounts, repurchase agreements entered into with commercial banks and FHLB of Atlanta advances. Contractual loan payments are a relatively stable source of funds, while deposit inflows and outflows and related cost of such funds have varied widely. Borrowings may be used to compensate for reductions in deposits or deposit-inflows at less than projected levels and have been used on a longer-term basis to support expanded lending activities.

Guaranty attracts both short-term and long-term deposits from the general public by offering a wide assortment of accounts and rates. Guaranty offers statement savings accounts, various checking accounts, various money market accounts, fixed-rate certificates with varying maturities, individual retirement accounts and has expanded to provide products and services for small businesses and brokered deposits. Guaranty's principal use of deposits is to originate loans and fund purchases of investment securities.

At December 31, 2000, deposits were $216.7 million, an 8.6% increase from $199.6 million at December 31, 1999. The deposit growth is a reflection of management's emphasis on core deposit growth, aggressive pricing and increased marketing. In order to reduce the overall cost of funds and reduce the Corporation's reliance on high cost time deposits and short term borrowings as a funding source, management continues to direct extensive marketing efforts towards attracting lower cost transaction accounts. However, there is no assurance that these efforts will be successful, or if successful, will reduce the Corporations reliance on time deposits and short term borrowings.

30

The following table sets forth the dollar amount of deposits in the various types of deposit programs offered by Guaranty at the dates indicated.

December 31,	2000	1999	1998

(Dollars in thousands)			
Statement savings accounts	$ 10,311	$ 11,203	$ 9,863
Demand deposit accounts	40,571	30,206	23,433
Money market accounts	18,894	27,878	22,319
30-to-180-day certificates	4,613	3,250	825
Seven to eleven month certificates	37,027	-	-
One-to five-year fixed-rate certificates	98,540	119,350	106,953
Eighteen-month prime rate certificates	6,771	7,708	9,412
Total	$216,727	$199,595	$172,805

The following table contains information pertaining to the average amount of and the average rate paid on each of the following deposit categories for the periods indicated.

Year Ended December 31,	2000		1999		1998	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
(Dollars in thousands)						
Noninterest bearing demand deposits	$14,409	0.00%	$10,232	0.00%	$ 5,338	0.00%
Interest bearing demand deposits	42,034	3.16%	44,906	3.50%	24,936	3.46%
Savings deposits	10,922	2.24%	10,968	2.31%	8,551	2.97%
Time deposits	149,787	5.97%	126,015	5.19%	93,615	5.41%
Total deposits	$217,152	4.84%	$192,121	4.35%	$132,440	4.67%

The variety of deposit accounts offered by Guaranty has allowed it to be competitive in obtaining funds and has allowed it to respond with flexibility to, although not to eliminate, the threat of disintermediation (the flow of funds away from depository institutions such as banking institutions into direct investment vehicles such as government and corporate securities). The ability of Guaranty to attract and maintain deposits, has been, and will continue to be, significantly affected by market conditions.

31

The following table sets forth the deposit flows of Guaranty during the periods indicated.

Year Ended December 31,	2000	1999	1998
(Dollars in thousands)			
Opening balance	$199,595	$172,805	$112,947

Net deposits	6,610	18,425	53,673
Interest credited	10,522	8,365	6,185
Ending balance	$216,727	$199,595	$172,805
Net increase	$ 17,132	$ 26,790	$ 59,858
Percent increase	8.58%	15.50%	53.00%

The following table indicates the amount of Guaranty's certificates of deposit by time remaining until maturity as of December 31, 2000.

	Maturity				
	3 Months or less	Over 3 to 6 months	Over 6 to 12 months	Over 12 months	T
(Dollars in thousands)					
Certificates of deposit less than $100,000	$ 35,246	$ 20,627	$ 57,390	$ 6,941	$ 1
Certificates of deposit of $100,000 or more	8,326	6,184	10,618	1,619	
Total certificates of deposit	$ 43,572	$ 26,811	$ 68,008	$ 8,560	$ 1

Borrowings

As a member of the FHLB of Atlanta, Guaranty is required to own capital stock in the FHLB of Atlanta and is authorized to apply for advances from the FHLB of Atlanta. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB of Atlanta may prescribe the acceptable uses to which these advances may be put, as well as on the size of the advances and repayment provisions. The advances are collateralized by Guaranty's investment in Federal Home Loan Bank stock and certain mortgage loans. See the Notes to Consolidated Financial Statements for information regarding the maturities and rate structure of Guaranty's FHLB advances. At December 31, 2000, Guaranty had $14.0 million outstanding to the FHLB compared to $20 million and $21 million outstanding at the end of the prior two years.

Guaranty's borrowings also include securities sold under agreements to repurchase, with mortgage-backed securities or other securities pledged as collateral. The proceeds are used by Guaranty for general corporate purposes. At December 31, 2000, Guaranty did not have any amount outstanding in securities sold under agreement to repurchase, as compared to $16.6 million at the end of the prior year.

Guaranty uses borrowings to supplement deposits when they are available at a lower overall cost to Guaranty or they can be invested at a positive rate of return.

The following table sets forth the maximum month-end balances, average balances and weighted average rates, of FHLB advances and securities sold under agreements to repurchase for the periods indicated.

Year Ended December 31,	2000	1999	1998
(Dollars in thousands)			
Maximum Balance:			
FHLB Advances	$31,000	$30,000	$26,000
Securities sold under agreements to repurchase	16,684	16,650	6,856

	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
FHLB Advances	$18,637	6.51%	$26,226	4.88%	$9,748	5.57%
Securities sold under agreements to repurchase	4,137	6.59%	9,387	5.10%	2,336	5.00%

The following table sets forth the balances of Guaranty's short-term borrowings at the dates indicated.

December 31,	2000	1999	1998
(Dollars in thousands)			
FHLB advances	$14,000	$20,000	$21,000
Securities sold under agreements to repurchase	-	16,650	1,008
Total short-term borrowings	14,000	$36,650	$22,008
Weighted average interest rate of short-term FHLB advances	6.35%	5.57%	5.57%
Weighted average interest rate of securities sold under agreements to repurchase	-	6.14%	5.00%

See notes to the Consolidated Financial Statements.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through the sale of existing assets or the acquisition of additional funds through asset and liability management. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is provided. As a result of Guaranty's management of liquid assets and the ability to generate liquidity through increasing deposits, management believes that

Guaranty maintains overall liquidity that is sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

Guaranty's primary sources of funds are deposits, borrowings, and amortization, prepayments and maturities of outstanding loans and investments, and loan sales. While scheduled payments from the

amortization of loans and securities are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Excess funds are invested in overnight deposits to fund cash requirements experienced in the normal course of business. Guaranty has been able to generate sufficient cash through its deposits as well as borrowings.

At December 31, 2000, cash and cash equivalents were approximately $15.6 million. Financing activities reduced cash and cash equivalents by approximately $6.1 million during 2000. This amount represents the combination of the net decrease in advances from the FHLB of $6.0 million, a decrease of $16.7 million in securities sold under agreements to repurchase and the growth in deposits of $17.1 million. Approximately $353,000 in dividends to common shareholders were paid during 2000. Daily operating activities of the company provided $3.4 million in cash and cash equivalents. Investing activities provided an additional $5.6 million in cash and cash equivalents which consisted mainly of the sale of $4.8 million in securities and a net decrease in the loan portfolio of $2.6 million. This additional cash flow was used to invest in office properties and equipment (primarily for the new Forest Lakes branch) of $1.3 million, and $453,000 in originated mortgage servicing rights.

Cash and cash equivalents were approximately $12.6 million at December 31, 1999. Financing activities provided $42.9 million primarily as a result of net proceeds from the sale of common stock of $3.7 million, a net increase in deposits of $26.8 million and an increase in securities sold under agreements to repurchase of $15.6 million. Approximately $4.1 million was provided by operating activities which was primarily a result of an increase in non-cash items, such as a $1.2 million loss on sale of available for sale securities, $486,000 in provision for loan loss and depreciation and amortization of $633,000 along with the cash items such as prepayments by borrowers for taxes and insurance of $366,000 and other liabilities of $628,000. In addition, investing activities absorbed approximately $44.9 million which was primarily a result of a net increase in loans of approximately $43.8 million.

Guaranty uses its sources of funds primarily to meet operating needs, to pay deposit withdrawals and fund loan commitments. At December 31, 2000 and 1999 total approved loan commitments were $6.2 million and $4.4 million respectively. In addition, at December 31, 2000 and 1999 and 1998, commitments under unused lines of credit were $49.7 million, $61.7 million and $52.3 million, respectively. Certificates of deposit scheduled to mature in one year or less at December 31, 2000, 1999 and 1998 totaled $138.4 million, $112.8 million, $91.5 million, respectively. Management believes that a significant portion of maturing deposits will remain with Guaranty.

Management intends to fund anticipated loan closings and operating needs during 2001 through cash on hand, proceeds from the sale of loans and securities, cash generated from operations and anticipated increases in deposits. Current and anticipated marketing programs will be primarily targeted at the attraction of lower cost transaction accounts. Concurrent with the strategies employed to attract these accounts, management plans to gradually reduce the rate paid on time deposits in comparison to the competition. However, the pricing of time deposits will be balanced against upcoming maturities to ensure that liquidity is not adversely impacted by a large run off of time deposits.

Capital represents funds, earned or obtained, over which financial institutions can exercise greater control in comparison with deposits and borrowed funds. The adequacy of Guaranty's capital is reviewed by management on an ongoing basis with reference to size, composition and quality of Guaranty's resources and consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that will support anticipated asset growth and absorb any potential losses. In an effort to increase the capital base during 1999, Guaranty completed a secondary offering of common stock. The proceeds of $3.7 million, less issuance costs of approximately $447,000 were added to the Bank's additional paid in capital. During 1998, Guaranty's wholly-owned subsidiary Guaranty Capital

Trust I issued $6.9 million of 7.0% cumulative convertible trust preferred securities. The proceeds, less issuance costs of approximately $276,000 were added to the Bank's additional paid in capital.

Guaranty and the Bank are subject to regulatory capital requirements of the Federal Reserve. At December 31, 2000, Guaranty exceeded all such regulatory capital as shown in the following table.

	December 31, 2000	
	Guaranty Financial Corporation	Guaranty Bank
(Dollars in thousands)		
Tier 1 Capital:		
Common stock	$ 2,452	$ 2,000
Capital surplus	8,953	9,742
Cumulative preferred securities (2)	5,419	-
Retained earnings	4,851	10,217
Disallowed intangible assets	102	102
Total Tier 1 Capital	21,573	21,857
Tier 2 Capital:		
Allowance for loan losses (1)	2,396	2,396
Cumulative preferred securities	594	-
Total Tier 2 Capital	2,990	2,396
Total Risk Based Capital	$ 24,563	$ 24,253
Risk Weighted Assets	$216,439	$218,065
Capital Ratios:		
Tier 1 Risk-based	9.97%	10.02%
Total Risk-based	11.35%	11.12%

Tier 1 Capital to average adjusted total assets	8.50%	8.62%

(1) Limited to 1.25% of risk weighted assets.
(2) Limited to 1/3 of core capital.

Impact of Inflation and Changing Prices and Seasonality

The financial statements in this document have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation.

Accounting Rules

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain

derivative instruments embedded in other contracts, and for hedging activities. SFAS 133, which was subsequently amended by SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain requirements are met, a derivative may be specifically designated as a hedge and an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness if the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. SFAS 133, as amended, was effective for all quarters of fiscal years beginning after June 15, 2000, and required application prospectively. The adoption of SFAS 133, as amended, did not have a material impact on the consolidated financial statements.

In March 2000, the FASB issued interpretation No. 44 ("FIN 44"), Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25. FIN 44 clarifies the application of APB No. 25 for (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequences of various modifications to the previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 2, 2000 but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The Corporation believes that adoption of FIN 44 will not have a material effect on the Corporation's financial statements but may impact the accounting for grants or awards in future periods.

Subisdiary Activities

Guaranty has two subsidiaries, the Bank and Guaranty Capital Trust I (the "Trust"). The Trust was formed on April 29, 1998 and is the holder of the trust preferred securities, which were sold for $6,900,000. See Notes to the Consolidated Financial Statements for information regarding the terms of the securities. The Bank has two wholly owned subsidiaries, GMSC, Inc. ("GMSC") and Guaranty Investments Corporation ("GICO"). GMSC is a financing subsidiary through which Guaranty formed a Real Estate Mortgage Investment Conduit ("REMIC"). Guaranty sells non-deposit investment products through GICO. GICO had a net income of $42,500 and $2,400 for the years ended December 31, 2000 and 1999, respectively, and a net loss of $15,800 for the year ended December 31, 1998.

In 1987, Guaranty formed GMSC and entered into a REMIC in order to create liquidity. Guaranty utilized the REMIC to pool $19.9 million of fixed rate mortgages into mortgage backed securities, which were used as collateral for bonds sold to private investors. The bonds bore a coupon of 8% and were sold at a discount and costs of issuance of approximately $3.3 million. The bonds' discount and issuance costs are amortized against income as mortgages underlying the bonds repay. For the years ended December 31, 2000, 1999 and 1998, amortization expense was $21,000, $156,000 and $101,000 respectively. The amortization of the REMIC expenses is treated as interest expense.

Item 7. Financial Statements.

The following financial statements are filed as a part of this report following Item 13 below:

Report of Independent Certified Public Accountants
Consolidated Balance Sheets as of December 31, 2000 and 1999
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2000, 1999 and 1998

36

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998
Summary of Accounting Policies
Notes to Consolidated Financial Statements

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Information set forth under the headings "Election of Directors," "Executive Officers Who Are Not Directors," and "Section 16(a) Beneficial Ownership Reporting Compliance" in Guaranty's definitive Proxy Statement for its 2001 Annual Meeting of Shareholders, which Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of Guaranty's 2000 fiscal year (the "2001 Proxy Statement"), is hereby incorporated by reference.

Item 10. Executive Compensation

Information set forth under the headings "Executive Compensation -- Summary of Cash and Certain Other Compensation," "-- Stock Option Grants," "-- Option Exercises and Holdings," "-- Directors' Fees," and "-- Employment Agreements" in the 2001 Proxy Statement is hereby incorporated by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Information set forth under the headings "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 2001 Proxy Statement is incorporated by reference.

Item 12. Certain Relationships and Related Transactions

Information set forth under the heading "Transactions with Management" in the 2001 Proxy Statement is hereby incorporated by reference.

Item 13. Exhibits and Reports on Form 8-K

The following documents are attached hereto or incorporated herein by reference as Exhibits:

(a) Exhibits

3.1 Amended and Restated Articles of Incorporation of Guaranty (restated in electronic format), attached as Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1997, incorporated herein by reference.

3.2 Bylaws of Guaranty, attached as Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1997, incorporated herein by reference.

10.1 Guaranty Financial Corporation 1991 Incentive Plan (as amended), attached as Exhibit A to Guaranty's definitive Proxy Statement for the 1998 Annual Meeting of Shareholders, incorporated herein by reference.

21 Subsidiaries of Guaranty.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December

31, 2000.

Guaranty Financial Corporation
and Subsidiaries

Consolidated Financial Statements
As of December 31, 2000 and 1999 and
For the Years Ended December 31, 2000, 1999 and 1998

Guaranty Financial Corporation
and Subsidiaries

Contents

[LETTERHEAD OF BDO SEIDMAN, LLP]

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders
Guaranty Financial Corporation
Charlottesville, Virginia

We have audited the consolidated balance sheets of Guaranty Financial

Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Guaranty Financial Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with generally accepted accounting principles.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

Richmond, Virginia
January 19, 2001

3

December 31,	2000	1999
Assets		
Cash and cash equivalents (including interest bearing deposits of approximately $5,158,000 and $4,659,000)	$ 15,550,212	$ 12,634,518
Investment securities (Note 1)		
Held-to-maturity	1,199,609	1,335,625
Available for sale	17,930,719	22,196,717
Trading	-	-
Investment in Federal Home Loan Bank stock, at cost (Note 8)	1,550,000	1,500,000
Loans receivable, net (Notes 2 and 10)	201,616,735	205,399,169
Accrued interest receivable	2,078,691	1,742,936
Real estate owned	1,301,277	842,981
Office properties and equipment, net (Note 3)	9,877,175	9,331,484

Mortgage servicing rights (Note 2)	1,020,982	567,697
Other assets (Note 9)	1,896,977	3,788,163
	$254,022,377	$259,339,290

Guaranty Financial Corporation
and Subsidiaries

Consolidated Balance Sheets

December 31,	2000	1999
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 4)	$216,727,197	$199,594,671
Advances from Federal Home Loan Bank (Note 8)	14,000,000	20,000,000
Securities sold under agreement to repurchase (Notes 1 and 7)	-	16,650,250
Bonds payable (Notes 1 and 6)	792,153	902,513
Accrued interest payable	393,787	257,879
Prepayments by borrowers for taxes and insurance	263,973	493,725
Other liabilities	794,597	1,098,681
Total liabilities	232,971,707	238,997,719
Commitments and Contingencies (Notes 11, 12, 14 and 16)		

Convertible preferred securities (Notes 12 and 13)	6,012,500	6,075,000
Stockholders' Equity (Notes 13 and 14)		
Preferred stock, par value $1 per share, 500,000 shares authorized, none issued	-	-
Common stock, par value $1.25 per share, 4,000,000 shares authorized, 1,961,727 shares issued and outstanding	2,452,159	2,452,159
Additional paid-in capital	8,953,230	8,943,119
Accumulated other comprehensive loss	(1,218,309)	(1,608,089)
Retained earnings - substantially restricted	4,851,090	4,479,382
Total stockholders' equity	15,038,170	14,266,571
	$254,022,377	$259,339,290

See accompanying summary of accounting policies and notes to consolidated financial statement

4

Guaranty Financial Corporation
and Subsidiaries

Consolidated Statements of Operations

Year Ended December 31,	2000	1999	19
Interest income			
Loans	$20,102,511	$15,764,851	$11,230,8
Investment securities	2,254,749	2,607,285	1,829,4
Total interest income	22,357,260	18,372,136	13,060,2
Interest expense			
Deposits	10,522,255	8,365,324	6,184,5
Borrowings	2,054,883	2,273,678	1,224,4
Total interest expense	12,577,138	10,639,002	7,408,9
Net interest income	9,780,122	7,733,134	5,651,2
Provision for loan losses (Note 2)	1,505,000	486,000	184,2
Net interest income after provision for loan losses	8,275,122	7,247,134	5,467,0

Other income			
Loan and deposit fees and servicing income	775,743	517,585	656,2
Net gain (loss) on sale of loans and securities	136,704	(870,376)	1,062,6
Other	527,533	477,794	247,2
Total other income	1,439,980	125,003	1,966,2
Other expense			
Personnel	4,226,707	3,998,107	3,089,2
Occupancy (Note 11)	1,352,678	918,099	783,4
Data processing (Note 11)	925,751	762,159	585,2
Other	2,289,747	1,687,039	1,334,8
Total other expenses	8,794,883	7,365,404	5,792,8

contin

Guaranty Financial Corporation
and Subsidiaries

Consolidated Statements of Operations
(continued)

Year Ended December 31,	2000	1999	19
Income before income taxes	$920,219	$6,733	$1,640,4
Provision for income taxes (Note 9)	313,103	2,300	624,2
Net income	$607,116	$4,433	$1,016,2
Basic and Diluted Earnings Per Share	$ .31	$ -	$.

See accompanying summary of accounting policies and notes to consolidated finanical statem

6

Guaranty Financial Corporation
and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Year Ended December 31,	2000	1999	19
Net income	$607,116	$ 4,433	$1,016,2
Other comprehensive income (loss)			
Unrealized gains on securities			
Unrealized holding gains (losses) arising during period	514,370	(2,385,032)	(19,8
Less: reclassification adjustment for gains (losses) included in net income	(76,206)	187,262	(82,2
Other comprehensive income (loss), before tax	590,576	(2,572,294)	62,3
Income tax (expense) benefit related to items of other comprehensive income (loss)	(200,796)	874,580	(23,6
Other comprehensive income (loss) net of tax	389,780	(1,697,714)	38,6
Comprehensive income (loss)	$996,896	$(1,693,281)	$1,054,9

See accompanying summary of accounting policies and notes to consolidated finanical statem

Guaranty Financial Corporation
and Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retaine Earning
Balance, December 31, 1997	$1,876,729	$5,724,954	$ 50,971	$4,207,
Cash dividend	-	-	-	(360,
Other comprehensive income	-	-	38,654	
Stock options exercised (Note 14)	2,500	21,500	-	
Repurchase of common stock	(2,070)	(21,930)	-	
Net income	-	-	-	1,016,
Balance, December 31, 1998	1,877,159	5,724,524	89,625	4,862,
Cash dividend	-	-	-	(388,
Other comprehensive loss	-	-	(1,697,714)	
Repurchase of trust preferred securities (Note 12)	-	101,027	-	
Issuance of common stock (Note 13)	575,000	3,117,568	-	
Net income	-	-	-	4,
Balance, December 31, 1999	2,452,159	8,943,119	(1,608,089)	4,479,
Cash dividend	-	-	-	(235,
Other comprehensive income	-	-	389,780	
Repurchase of trust preferred securities (Note 12)	-	10,111	-	
Net income	-	-	-	607,
Balance, December 31, 2000	$2,452,159	$8,953,230	$(1,218,309)	$4,851,

See accompanying summary of accounting policies and notes to consolidated

8

Guaranty Financial Corporation
and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	2000	1999
Operating activities		
Net income	$ 607,116	$ 4,433
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities		
Provision for loan losses	1,505,000	486,000
Depreciation and amortization	721,954	632,665
Amortization of deferred loan fees	(63,298)	(43,797)
Net amortization of premiums and accretion of discounts	(92,757)	111,133
Gain on sale of loans	(338,318)	(319,689)
Originations of loan held for sale	(40,142,264)	(79,669,584)
Proceeds from sale of loans	39,803,946	79,989,273
Loss (gain) on sale of held to maturity and securities available for sale	76,206	1,212,750
Loss on disposal of office properties and equipment	27,554	5,657
Loss on sale of trading account securities	-	303,968
Purchases of trading account securities	-	(30,061,752)
Sales of trading account securities	-	30,757,784
Changes in		
Accrued interest receivable	(335,755)	(92,060)
Other assets	1,865,189	(66,672)
Accrued interest payable	135,908	133,053
Income taxes	36,108	(242,649)
Prepayments by borrowers for taxes and insurance	(229,752)	365,592
Other liabilities	(186,381)	628,542
Net cash provided (absorbed) by operating activities	3,390,456	4,134,647

Year Ended December 31,	2000	1999
Investing activities		
Net decrease (increase) in loans	$ 2,559,072	$(43,826,795)
Repayments on held to maturity securities	383,340	1,049,891
Purchase of held to maturity securities	(250,000)	-
Purchase of securities available for sale	-	(53,120,948)
Proceeds from sales of securities available for sale	4,798,122	54,923,087
Sale of FHLB stock	500,000	1,100,000
Purchase of FHLB stock	(550,000)	(1,300,000)
Purchase of other stock	(102,500)	-
Origination of mortgage servicing rights	(453,285)	(806,650)
Purchase of office properties and equipment	(1,295,199)	(2,919,824)
Net cash provided (absorbed) by investing activities	5,589,550	(44,901,239)
Financing activities		
Net increase in deposits	17,132,526	26,789,387
Repayment of Federal Home Loan Bank advances	(62,000,000)	(30,000,000)
Proceeds from Federal Home Loan Bank advances	56,000,000	29,000,000
Payments on bonds payable, including unapplied payments	(130,977)	(1,036,063)
Increase (decrease) in securities sold under agreements to repurchase	(16,650,250)	15,641,500
Proceeds from issuance of convertible preferred securities	-	-
Repurchase of convertible preferred securities	(62,500)	(825,000)
Proceeds from issuance of common stock, net	-	3,692,568
Dividends paid	(353,111)	(388,014)
Net cash provided (absorbed) by financing activities	(6,064,312)	42,874,378

Year Ended December 31,	2000	1999
Increase in cash and cash equivalents	$ 2,915,694	$ 2,107,786
Cash and cash equivalents, beginning of year	12,634,518	10,526,732
Cash and cash equivalents, end of year	$15,550,212	$12,634,518

See accompanying summary of accounting policies and notes to consolidated fi

Nature of Business and Regulatory Environment

Guaranty Financial Corporation (the "Parent Corporation") is a bank holding Corporation whose principal assets are its wholly-owned subsidiaries, Guaranty Bank (the "Bank") and Guaranty Capital Trust I (the "Trust"). The Bank provides a full range of banking services to individual and corporate customers. In these financial statements, the consolidated group is referred to collectively as the "Corporation".

The Federal Deposit Insurance Corporation ("FDIC") is the federal deposit insurance administrator for both banks and savings associations. The FDIC has specific authority to prescribe and enforce such regulations and issue such orders as it deems necessary to prevent actions or practices by financial institutions that pose a serious threat to the Bank Insurance Fund ("BIF").

Principles of Consolidation

The consolidated financial statements include the accounts of Guaranty Financial Corporation, its wholly-owned subsidiaries, Guaranty Capital Trust I and Guaranty Bank, and the Bank's wholly-owned subsidiaries, GMSC, Inc. and Guaranty Investment Corp. All material intercompany accounts and transactions have been eliminated in the consolidation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 those estimates.

Reclassifications

Certain reclassifications have been made in the prior year consolidated financial statements and notes to conform to the December 31, 2000 presentation.

Investment Securities

Investments in securities are classified as either held-to-maturity, trading, or available for sale, according to management's intent and ability.

Investments in debt securities classified as held-to-maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts using the level yield method. Management has a positive intent and ability to hold these securities to maturity and, accordingly, adjustments are not made for temporary declines in their market value below amortized cost. Investment in Federal Home Loan Bank stock is stated at cost.

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Investment Securities (continued)

Investments in debt and equity securities classified as available-for-sale are stated at market value with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of tax effect, until realized.

Investments in debt and equity securities classified as trading are stated at market value. Unrealized holding gains and losses for trading securities are included in the statement of operations.

Gains and losses on the sale of securities are determined using the specific identification method.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income.

The Corporation had approximately $2,193,000, $630,000 and $1,080,000 of loans held for sale at December 31, 2000, 1999 and 1998, respectively. The estimated market value of these loans exceeded their carrying cost.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Loans receivable consists primarily of long-term real estate loans secured by first deeds of trust on single family residences, other residential property, commercial property, construction and land located primarily in the state of Virginia. Interest income on mortgage loans is recorded when earned and is recognized based on the level yield method. The Corporation provides an allowance for accrued interest deemed to be uncollectible, which is netted against accrued interest receivable in the consolidated balance sheets.

The Corporation defers loan origination and commitment fees, net of certain direct loan origination costs, and the net deferred fees are amortized into interest income over the lives of the related loans as yield adjustments. Any unamortized net fees on loans fully repaid or sold are recognized as income in the year of repayment or sale.

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Sale of Loans and Participation in Loans

The Corporation is able to generate funds by selling loans and participations in loans to the Federal Home Loan Mortgage Corporation ("FHLMC") and to other insured investors. Under participation servicing agreements, the Corporation continues to service the loans and the participant is paid its share of principal and interest collections.

The Corporation allocates the cost of acquiring or originating mortgage loans between the mortgage servicing rights and the loans, based on their relative fair values, if the bank sells or securitizes the loans and retains the mortgage servicing rights. The Corporation assesses its capitalized mortgage servicing rights for impairment based on the fair value of those rights.

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value. At December 31, 2000 and 1999 an impairment of approximately $55,000 and $1,000 was recognized on those rights, respectively.

Allowance for Possible Loan Losses

The allowance for loan losses is maintained at a level considered by management to be adequate to absorb future loan losses currently inherent in the loan portfolio. Management's assessment of the adequacy of the allowance is based upon type and volume of the loan portfolio, past loan loss experience, existing and anticipated economic conditions, and other factors which deserve current recognition in estimating future loan losses. Additions to the allowance are charged to operations. Loans are charged-off partially or wholly at the time management determines collectibility is not probable. Management's assessment of the adequacy of the allowance is subject to evaluation and adjustment by the Corporation's regulators.

Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier if collection is uncertain based upon an evaluation of the value of the underlying collateral and the financial strength of the borrower. Loans may be reinstated to accrual status when all payments are brought current and, in the opinion of management, collection of the remaining balance can be reasonably expected. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest.

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Allowance for Possible Loan Losses (continued)

A loan is considered to be impaired when it is probable that the Corporation will be unable to collect all principal and interest amounts according to the contractual terms of the loan agreement. A performing loan may be considered impaired. The allowance for loan losses related to loans identified as impaired is primarily based on the excess of the loan's current outstanding principal balance over the estimated fair market value of the related collateral. For a loan that is not collateral-dependent, the allowance is recorded at the amount by which the outstanding principal balance exceeds the current best estimate of the future cash flows on the loan discounted at the loan's original effective interest rate.

For impaired loans that are on nonaccrual status, cash payments received are generally applied to reduce the outstanding principal balance. However, all or a portion of a cash payment received on a nonaccrual loan may be recognized as interest income to the extent allowed by the loan contract, assuming management expects to fully collect the remaining principal balance on the loan.

At December 31, 2000 and 1999 the Corporation had no loans that were considered impaired.

Real Estate Owned

Real estate acquired through foreclosure is initially recorded at the lower of fair value, less selling costs, or the balance of the loan on the property at date of foreclosure. Costs relating to the development and improvement of property are capitalized, whereas those relating to holding the property are charged to expense.

Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value, less selling costs.

Securities Sold Under Agreements to Repurchase

The Corporation enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Fixed-coupon reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets. The dollar amount of securities underlying the agreements remain in the asset accounts.

Office Properties and Equipment

Office properties and equipment are stated at cost less accumulated depreciation and amortization. Provisions for depreciation and amortization are computed using the straight-line method over the estimated useful lives of the individual assets or the terms of the related leases, if shorter, for leasehold improvements. Expenditures for betterments and major renewals are capitalized and ordinary maintenance and repairs are charged to expense as incurred.

15

Guaranty Financial Corporation
and Subsidiaries

Summary of Accounting Policies
(continued)

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Income Taxes

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

For tax years beginning prior to January 1, 1996, savings banks that met certain definitional tests and other conditions prescribed by the Internal Revenue Code were allowed, within limitations, to deduct from taxable income an allowance for bad debts using the "percentage of taxable income" method. The cumulative bad debt reserve, upon which no taxes have been paid, was approximately $236,000 at

December 31, 1998.

Section 1616 of the Small Business Job Protection Act of 1996 (the "Act") repealed the percentage of taxable income method of computing bad debt reserve, and requires the recapture into taxable income of "excess reserves", on a ratable basis over the next six years. Excess reserves are defined, in general, as the excess of the balance of the tax bad debt reserve (using the percentage of taxable income method) as of the close of the last tax year beginning before January 1, 1996 over the balance of the reserve as of the close of the last tax year beginning before January 1, 1988. The recapture of the reserves is deferred if the Corporation meets the "residential loan requirement" exception, during either or both of the first two years beginning after December 31, 1995. The residential loan requirement is met, in general, if the principal amount of residential loans made by the Corporation during the year is not less than the Corporation's "base amount". The base amount is defined as the average of the principal amounts of residential loans made during the six most recent tax years beginning before January 1, 1996.

As a result of the Act, the Corporation must recapture into taxable income approximately $354,000 ratably over six years, which began December 31, 1998, since the Corporation met the residential loan requirement exemption for the period ended December 31, 1997.

Basic and Diluted Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity. The basic and diluted weighted average number of shares of common stock outstanding were 1,961,727, 1,558,439 and 1,501,604 for the years ended December 31, 2000, 1999 and 1998, respectively.

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Statements of Cash Flows

Cash and cash equivalents include Federal funds sold with original maturities of three months or less. Interest paid was approximately $12,713,000, $10,772,000 and $7,343,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Cash paid for income taxes was approximately $697,000, $360,000 and $656,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Real estate acquired in the settlement of loans was approximately $941,000, $1,141,000 and $488,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133, which was subsequently amended by SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain requirements are met, a derivative may be specifically designated as a hedge and an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. SFAS 133, as amended, was effective for all fiscal quarters of fiscal years beginning after June 15, 2000 and required application prospectively. The adoption of SFAS 133, as amended, did not have a material impact on the Corporation's consolidated financial statements.

In March 2000, the FASB issued interpretation No. 44 ("FIN 44"), Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25. FIN 44 clarifies the application of APB No. 25 for (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequences of various modifications to the previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 2, 2000 but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The Corporation believes that adoption of FIN 44 will not have a material effect on the Corporation's financial statements but may impact the accounting for grants or awards in future periods.

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1. Investment Securities

A summary of the carrying value and estimated market value of investment securities is as follows:

December 31, 2000

	Amortized Cost	Gross Unrealized Gains	Gr Unrea Los

Held to Maturity			
Mortgage-backed securities	$ 949,609	$ 20,335	$
Other	250,000	-	
	1,199,609	20,335	
Available for Sale			
Corporate bonds	19,354,392	-	1,
Other	422,250	-	
	19,776,642	-	1,
	$20,976,251	$ 20,335	$ 1,

18

Guaranty Financial Corporation
and Subsidiaries

Notes to Consolidated Financial Statements
(continued)

1. Investment Securities (continued)

December 31, 1999

	Amortized Cost	Gross Unrealized Gains	Gr Unrea Los
Held to Maturity			
Mortgage-backed securities	$ 1,085,625	$ 17,048	$
Other	250,000	-	

	1,335,625	17,048	
Available for Sale			
Mortgage-backed securities	4,897,805	-	117
Corporate bonds	19,415,565	-	2,319
Other	319,750	-	
	24,633,120	-	2,436
	$ 25,968,745	$ 17,048	$ 2,436

Guaranty Financial Corporation
and Subsidiaries

Notes to Consolidated Financial Statements
(continued)

1. Investment Securities (continued)

The amortized cost and estimated market value of available for sale and held to maturity securities at December 31, 2000 by maturity is as follows:

	Amortized Cost	Estim Mar Val
Held to Maturity		
Mortgage-backed securities	$ 949,609	$ 9
Other	250,000	2
	1,199,609	1,2
Available for Sale		
Corporate bonds and other due after five years	19,776,642	17,9

	19,776,642	17,9
	$ 20,976,251	$ 19,1

Gross gains and losses from the sale of securities during the years ended December 31, 2000, 1999 and 1998 were as follows (in 000's):

	2000		1999	
	Gains	Losses	Gains	Losses
Held to Maturity	$ -	$ -	$ -	$ -
Available for Sale	-	77	256	1,468
Trading	-	-	77	381

Mortgage backed securities of approximately $950,000 and $1,086,000 at December 31, 2000 and 1999, respectively, were pledged for bonds payable (Note 6). At December 31, 2000 and 1999, investment securities with a market value of approximately $16,650,000 were pledged as collateral under repurchase agreements (Note 7).

2. Loans Receivable

Loans receivable are summarized as follows

December 31,	2000	1
Mortgage loans		
Residential	$ 54,910,973	$ 54,912,
Commercial	3,434,287	3,838,
Construction and land loans	59,363,432	70,008,
Total real estate	117,708,692	128,759,
Commercial business loans	59,119,906	53,504,
Consumer loans	27,157,528	24,378,

Total loans receivable	203,986,126	206,642,
Less		
Deferred loan fees (costs), net	(27,121)	39,
Allowance for loan losses	2,396,512	1,203,
	2,369,391	1,242,
	$ 201,616,735	$ 205,399,

The allowance for loan losses is summarized as follows:

	Amo
Balance at December 31, 1997	$ 934
Provision charged to expense	184
Net charge-offs	(116
Balance at December 31, 1998	1,002
Provision charged to expense	486
Net charge-offs	(285
Balance at December 31, 1999	1,203
Provision charged to expense	1,505
Net charge-offs	(311
Balance at December 31, 2000	$2,396

2. Loans Receivable (continued)

The Corporation serviced loans for others aggregating approximately $91,963,000 and $241,930,000 at December 31, 2000 and 1999, respectively. The servicing rights to approximately $189,000,000 in loans were sold during 1999, however, the transfer of the servicing portfolio did not occur until February 2000. Mortgage servicing rights, net of valuation reserve, were approximately $1,021,000 and $568,000 at December 31, 2000 and 1999, respectively. Mortgage servicing rights of approximately $599,000 and $1,571,000 were capitalized during the years ended December 31, 2000 and 1999, respectively.

Gross gains and gross losses on the sale of loans totaling approximately $643,000 and $305,000, $911,000 and $592,000, $1,374,000 and $46,000 were realized during the years ended December 31, 2000, 1999 and 1998, respectively.

3. Office Properties and Equipment

Office properties and equipment are summarized as follows:

December 31,	2000	1999
Land	$ 3,494,851	$ 3,494,851
Building and leasehold improvements	4,459,307	4,389,136
Furniture and fixtures	1,253,539	1,223,340
Equipment	3,114,318	2,032,628
Automobiles	163,165	129,743
	12,485,180	11,269,398
Less accumulated depreciation and amortization	2,608,005	1,938,214
Net office properties and equipment	$ 9,877,175	$ 9,331,484

4. Deposits

Deposits are summarized as follows:

December 31,	2000	1999
Statement savings accounts	$ 10,310,764	$ 11,202,630
Demand deposit accounts	40,571,422	30,205,914
Money market accounts	18,893,556	27,877,742

	69,775,742	69,286,286
Time deposits	146,951,455	130,308,385
	$ 216,727,197	$199,594,671

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was approximately $26,746,000 and $40,596,000 at December 31, 2000 and 1999, respectively.

At December 31, 2000, scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2001	$136,969,152
2002	7,464,226
2003	1,552,047
2004	814,025
2005 and thereafter	152,005
	$146,951,455

5. Fair Value of Financial Instruments

The estimated fair values of the Corporation's financial instruments are as follows:

December 31,	2000		
	Carrying Amount	Fair Value	Ca A
Financial assets			
Cash and short-term investments	$ 15,550,212	$ 15,550,000	$ 1
Securities	19,130,328	19,151,000	2

Loans, net of allowance for loan losses	201,616,735	203,822,000	20
Financial liabilities			
Deposits	216,727,197	216,733,000	19
Advances from Federal Home Loan Bank	14,000,000	14,000,000	2
Securities sold under agreement to repurchase	-	-	1
Bonds payable	792,153	N/A	

	Notional Amount	Fair Value	No A
Unrecognized financial instruments			
Commitments to extend credit	$49,674,000	$49,674,000	$6

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and short-term investments

For those short-term investments, the carrying amount is a reasonable estimate of fair value.

Securities

Fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

5. Fair Value of Financial Instruments (continued)

Loan receivables

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar remaining maturities. This calculation ignores loan fees and certain factors affecting the interest rates charged on various loans such as the borrower's creditworthiness and compensating balances and dissimilar types of real estate held as collateral.

Deposit liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the balance sheet date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Advances from Federal Home Loan Bank

For advances that mature within one year of the balance sheet date, carrying value is considered a reasonable estimate of fair value.

The fair values of all other advances are estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rate for similar types of advances.

Securities sold under agreement to repurchase

Fixed-coupon reverse repurchase agreements are treated as short-term financings. The carrying value is considered a reasonable estimate of fair value.

Bonds payable

Due to the nature and terms (Note 6) of the bonds payable held by GMSC, Inc. at December 31, 2000 and 1999, it was not deemed practicable to estimate the fair value.

Commitments to extend credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the borrowers. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. Because of the competitive nature of the marketplace loan fees vary greatly with no fees charged in many cases.

5. Fair Value of Financial Instruments (continued)

Forward Commitments to purchase mortgage-backed securities

Fair values are based on quoted market prices or dealer quotes.

6. Bonds Payable

In October 1987, GMSC, Inc. issued serial bonds (the "Bonds") collateralized by mortgage-backed securities which are treated as a real estate mortgage investment conduit ("REMIC") under the Internal Revenue Code of 1986 for federal tax purposes. The Bonds are secured by an indenture between GMSC, Inc. and the Bank of New York, acting as trustee for the bondholders. The Bonds are summarized as follows:

December 31,	2000	1999
Serial Bonds		
Class A-3, maturing January 20, 2019, at 8.0%	$971,042	$1,152,698
Unapplied payments	(34,949)	(85,628)
	936,093	1,067,070
Less unamortized discount	(143,940)	(164,557)
	$792,153	$ 902,513

The Bonds are repaid in conjunction with the net cash flow from the mortgage-backed securities together with the reinvestment income thereon. As a result, the actual life of the Bonds is less than their stated maturities. Interest is paid as incurred on the Class A-3 Bonds. The indenture also provides for the establishment of two trust accounts to insure the timely payment of interest, debt maturities, trustee and accounting fees and other expenses. The account established for payment of trustee and accounting fees is included in cash on the statement of condition. The account established for payment of interest and debt maturities is netted with cash and bonds payable on the balance sheet.

7. Securities Sold Under Agreements to Repurchase

The following is a summary of certain information regarding the Bank's repurchase agreements:

Year Ended December 31,	2000	
Maximum amount outstanding at any month end during the year	$16,684,364	$16,6
Average amount outstanding during the year	$ 4,265,035	$ 9,3
Weighted average interest rate during the year	6.39%	

8. Advances From Federal Home Loan Bank

Information related to borrowing activity from the Federal Home Loan Bank is as follows:

Year Ended December 31,	2000	
Maximum amount outstanding during the year	$31,000,000	$30,0
Average amount outstanding during the year	$18,147,059	$26,2
Average interest rate during the year	6.68%	

9. Income Taxes

The provision for income taxes as presented in the consolidated statements of operations are as follows:

Year ended December 31,	2000	1999	
Current income tax	$744,103	$2,300	$
Deferred income tax expense (benefit)	(431,000)	-	
	$313,103	$2,300	$

Reconciliations of the provision for income taxes computed at the federal statutory income tax rate to the effective rate follows:

Year ended December 31,	2000	1999	
Tax expense at statutory rate	$312,874	$2,300	$
Adjustments			
Other	229	-	
	$313,103	$2,300	$

9. Income Taxes (continued)

The components of the net deferred income taxes, which is included in other assets in the balance sheet, are as follows:

December 31,	2000	1999
Deferred tax asset		
Bad debt reserves	$ 755,000	$ 363,000
REO reserves	117,000	-
Deferred loan fees	14,000	22,000
Servicing rights	19,000	-
Available for sale securities	628,000	828,000
Other	37,000	70,000
Total deferred tax asset	1,570,000	1,283,000
Deferred tax liability		
GMSC REMIC	91,000	97,000
FHLB stock	-	26,000
Fixed assets	309,000	221,000
Total deferred tax liability	400,000	344,000
Net deferred tax asset	$1,170,000	$ 939,000

10. Related Party Transactions

In the normal course of business, the Corporation makes loans to directors, officers and other related parties. These loans are made on substantially the same terms as those prevailing at the time for comparable transactions with the other borrowers.

The following is a summary of loan transactions with directors, officers and other related parties:

December 31,	2000	1999
Balance at the beginning of year	$1,469,000	$ 975,000
Additional loans	598,000	798,000
Loan reductions	(902,000)	(304,000)
Balance at end of year	$1,165,000	$1,469,000

11. Commitments and Contingencies

The Corporation leases office space under operating leases expiring at various dates through 2002 and has a contract for data processing services whose initial term expires in February 2004 and requires minimum payments of $25,800 per month. Future minimum rental and data processing payments required that have initial or remaining noncancelable terms in excess of one year as of December 31, 2000, are as follows:

	Amount	
Year Ending December 31,	Leases	Data Processing
2001	$106,000	$309,600
2002	88,400	309,600
2003	69,600	309,600
2004	43,000	51,600
2005	5,000	-
	$312,000	$980,400

Total rental expense amounted to approximately $108,000, $91,600 and $70,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Total data processing expense amounted to approximately $926,000, $762,000 and $585,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The Corporation is defendant in various lawsuits incidental to its business. Management is of the opinion that its financial position will not be materially affected by the ultimate resolution of any pending or threatened litigation.

12. Convertible Preferred Stock

On April 29, 1998, the Corporation formed Guaranty Capital Trust I (the "Trust"), a wholly owned subsidiary. The Trust issued 276,000 shares of 7.0% cumulative preferred securities maturing May 5, 2028 with an option to call on or after April 29, 2003 (call price of $18.50 per share) for $6,900,000. Conversion of the preferred securities into the Corporation's stock may occur at any time prior to maturity. The Trust also issued 8,537 shares of convertible common stock for $213,425. The Corporation purchased all shares of the common stock. The proceeds from the sale of the preferred securities were utilized to purchase from the Corporation junior subordinated debt securities (guaranteed by the Bank), of $7,113,425 bearing interest at 7.0% and maturing May 5, 2028. All intercompany interest and equity was eliminated in consolidation.

In December 1999 the Corporation repurchased 33,000 shares of the cumulative preferred securities at an average price of $17.97 per share which resulted in a net gain, recognized in the statement of stockholders' equity, on the repurchase of $101,000.

29

Guaranty Financial Corporation
and Subsidiaries

Notes to Consolidated Financial Statements
(continued)

12. Convertible Preferred Stock (continued)

In January 2000, the Corporation repurchased 2,500 shares of the cumulative preferred securities at a price of $17.50 per share which resulted in a net gain, recognized in the statement of Stockholders' Equity, on the repurchase of $10,111.

13. Stockholders' Equity

On November 4, 1999, the Corporation completed a secondary offering of its common stock through the sale of 460,000 shares at a price of $9.00 per share. Proceeds to the Corporation from the offering (net of offering expenses of approximately $447,000) were approximately $3,693,000.

The following table represents the Bank's regulatory capital levels.

December 31, 2000	Amount Required	Percent Required	Actual Amount	Act Per
Tier 1 risk based	$ 8,723,000	4.00%	$21,857,000	10.
Total risk based capital	17,445,000	8.00%	24,254,000	11.

December 31, 1999	Amount Required	Percent Required	Actual Amount	Act Per
Tier 1 risk based	$ 8,952,000	4.00%	$21,513,000	9.
Total risk based capital	17,904,000	8.00	22,716,000	10.

The Corporation may not declare or pay a cash dividend, or repurchase any of its capital stock if the effect thereof would cause the net worth of the Corporation to be reduced below the net worth requirement imposed by federal regulations.

Proceeds from the Trust Preferred Securities were contributed to capital of the Bank and are included, to the extent allowed, in the calculation of regulatory capital.

On October 26, 2000, Guaranty Financial Corporation and Guaranty Bank entered into a written agreement with the Federal Reserve Bank of Richmond and the Bureau of Financial Institutions of the Commonwealth of Virginia with respect to various operating policies and procedures. Various bank operating policies including asset/liability management, liquidity, risk management, loan administration and capital adequacy have been revised and reviewed and approved by the bank regulators.

30

Guaranty Financial Corporation
and Subsidiaries

Notes to Consolidated Financial Statements
(continued)

13. Stockholders' Equity (continued)

The agreement also restricts Guaranty Financial Corporation from paying future dividends or incurring any debt at the holding company level without prior regulatory approval. In addition, Guaranty Bank, is also prohibited from paying intercompany dividends to Guaranty Financial Corporation without prior regulatory approval. Except for the requirement of the pre-approval of dividend payments by both the Company and its subsidiary bank, the Company does not expect the agreement will restrict or change its operating plans.

14. Stock Option Plan

The Corporation has a noncompensatory stock option plan (the "Plan") designed to provide long-term incentives to key employees. All options are exercisable upon date of vesting.

The following table summarizes options outstanding:

	2000		1999		
	Shares	Weighted - average exercise price	Shares	Weighted - average exercise price	Sha
Options outstanding at beginning of year	130,000	$13.69	88,000	$15.48	71
Granted	-	-	44,500	12.00	37
Forfeited	(28,100)	12.00	(2,500)	12.00	(18
Exercised	-	-	-	-	(2
Options outstanding at end of year	101,900	$14.16	130,000	$13.69	88

Options exercisable at end of year	73,200	49,700	24

No options were granted during the year ended December 31, 2000. The weighted average fair value of options granted during the year ended December 31, 1999 and 1998 was $3.17 and $4.85, respectively.

14. Stock Option Plan (continued)

The Corporation applies Accounting Principals Board Opinion No. 25 in accounting for stock options granted to employees. Had compensation expense been determined based upon the fair value of the awards at the grant date and consistent with the method under Statement of Financial Accounting Standards 123, the Corporation's net earnings and net earnings per share would have been decreased to the pro forma amounts indicated in the following table:

Year Ended December 31,	2000	1999
Net income (loss)		
As reported	$607,116	$ 4,433
Pro forma	607,116	(88,670)
Net income (loss)per share (basic and diluted)		
As reported	$ 0.31	$ .00
Pro forma	0.31	(.06)

The fair value of each option granted is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions used for grants for the year ended December 31, 1999: a risk free interest rate of 5.18%, dividend yield of .50%, expected weighted average term of 8.00 years, and a volatility of 20.00%.

15. Employee Benefit Plans

Effective February 16, 1989, the Corporation adopted a 401(k) profit-sharing plan in which all employees are eligible to participate after one year of service and are at least twenty-one years of age. Participants may elect to contribute a percentage of their compensation to the plan. The Corporation may make contributions to the plan at its discretion. Corporation contributions are allocated to employee accounts using a systematic formula based on participant compensation. The Corporation contributed approximately $65,000, $56,000 and $14,900 for the years ended December 31, 2000, 1999 and 1998, respectively.

16. Financial Instruments With Off-Balance-Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, options written and purchased, forward commitments to purchase mortgage-backed securities and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments

16. Financial Instruments With Off-Balance-Sheet Risk (continued)

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For options purchased, the contract or notional amounts do not represent exposure to credit loss.

Unless noted otherwise, the Corporation does not require collateral or other security to support financial instruments with credit risk.

December 31,	2000	
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	$49,674,000	$66,1
Standby letters of credit written	3,776,000	4,7

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 completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Substantially all of the Corporation's loan activity was with customers located in Charlottesville and Richmond, Virginia and surrounding counties, with approximately 24% of the loans collateralized by one to four family residential properties.

17. Selected Quarterly Financial Data (Unaudited)

Condensed quarterly consolidated financial data is shown as follows: (Dollars in thousands except per share data)

Year ended December 31, 2000	First Quarter	Second Quarter	T Qu
Total interest income	$ 5,327	$ 5,850	$
Total interest expense	3,019	3,317	
Net interest income	2,308	2,583	
Provision for loan losses	130	1,075	
Net interest income after provision for loan losses	2,178	1,458	
Other income	214	501	
Other expenses	2,022	2,083	
Income (loss) before income tax expense (benefit)	370	(124)	
Income tax expense (benefit)	126	(42)	
Net income (loss)	$ 244	$ (82)	$

Basic and diluted earnings (loss) per share	$ 0.12	$ (0.04)	$

Guaranty Financial Corporation
and Subsidiaries

Notes to Consolidated Financial Statements
(continued)

17. Selected Quarterly Financial Data (Unaudited) (continued)

Year ended December 31, 1999	First Quarter	Second Quarter	Q
Total interest income	$3,906	$4,679	
Total interest expense	2,526	2,649	
Net interest income	1,380	2,030	
Provision for loan losses	60	105	
Net interest income after provision for loan losses	1,320	1,925	
Other income (loss)	794	158	
Other expenses	1,701	1,701	
Income (loss) before income tax expense (benefit)	413	382	
Income tax expense (benefit)	140	130	
Net income (loss)	$ 273	$ 252	
Basic and diluted earnings (loss) per share	$ .18	$ .17	

18. Condensed Financial Information of the Corporation (Parent Corporation Only)

Condensed Statements of Financial Condition

December 31,	2000	1999
Assets		
Investment in subsidiaries, at equity	$22,032,092	$21,695,484
Cash	1,876	129,640
Prepaid expenses and other assets	463,967	455,664
	$22,497,935	$22,280,788
Liabilities and Stockholders' Equity		
Other liabilities	$ 15,531	$ 117,703
Total liabilities	15,531	117,703
Subordinated debt	6,225,925	6,288,425
Stockholders' equity		
Common stock	2,452,159	2,452,159
Additional paid-in capital	8,953,230	8,943,119
Retained earnings	4,851,090	4,479,382
Total stockholders' equity	16,256,479	15,874,660
	$22,497,935	$22,280,788

18. Condensed Financial Information of the Corporation (Parent Corporation Only) (continued)

Condensed Statements of Operations

Year Ended December 31,	2000	1999
Income		
Dividends received from Bank	$666,291	$886,278
Total income	666,291	886,278
Interest expense	(420,875)	(497,940)
Noninterest expense	(23,867)	(23,473)
Income before undistributed net income of the Bank	221,549	364,865
Undistributed net income	385,567	(360,432)
Net income	$607,116	$ 4,433

18. Condensed Financial Information of the Corporation (Parent Corporation Only) (continued)

Condensed Statements of Cash Flows

Year Ended December 31,	2000
Operating activities	
Net income	$ 607,116
Adjustments	
Undistributed earnings of the Bank	(385,567)
Gain on repurchase of subordinated debt	10,111
(Increase) decrease in prepaid and other assets	(8,304)
(Decrease) increase in other liabilities	15,531
Other	-
Net cash provided by operating activities	238,887
Investing activities	
Dividends received from Bank	666,291
Investment in the Bank	(617,331)
Net cash provided (absorbed) by investing activities	48,960
Financing activities	
Cash dividends paid on common stock	(353,111)
Repurchase of subordinated debt	(62,500)
Issuance of common stock	-
Net cash provided (absorbed) by financing activities	(415,611)
Increase (decrease) in cash	(127,764)
Cash, beginning of year	129,640
Cash, end of year	$ 1,876

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GUARANTY FINANCIAL CORPORATION

Date: March 30, 2001

By: /s/ Richard L. Saunders
Richard L. Saunders
Chief Executive Officer (interim)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	
/s/ Richard L. Saunders Richard L. Saunders	Chief Executive Officer (interim) (Principal Executive Officer)	Ma
/s/ Thomas F. Crump Thomas F. Crump	Chief Financial Officer (Principal Financial and Accounting Officer)	Ma
/s/ Douglas E. Caton Douglas E. Caton	Chairman of the Board	Ma
/s/ Harry N. Lewis Harry N. Lewis	Vice Chairman of the Board	Ma
Henry J. Browne	Director	Ma
Jason I. Eckford, Jr.	Director	Ma
/s/ Robert P. Englander Robert P. Englander	Director	Ma

Signature	Title

/s/ John R. Metz	Director	Ma
John R. Metz		
	Director	Ma
James R. Sipe, Jr.		
/s/ Oscar W. Smith, Jr.	Director	Ma
Oscar W. Smith, Jr.		

EXHIBIT INDEX

Number	Document
3.1	Amended and Restated Articles of Incorporation of Guaranty Financial Corporation (restated in electronic format), attached as Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1997, incorporated herein by reference.
3.2	Bylaws of Guaranty Financial Corporation, attached as Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1997, incorporated herein by reference.
10.1	Guaranty Financial Corporation 1991 Incentive Plan (as amended), attached as Exhibit A to the definitive Proxy Statement of Guaranty Financial Corporation for the 1998 Annual Meeting of Shareholders, incorporated herein by reference.
21	Subsidiaries of Guaranty Financial Corporation.