GUARANTY FINANCIAL CORP /VA/
Form 10KSB
March 31, 2003

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, 2002

Commission file number 0-25905

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

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

(434) 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. [X]

The issuer's gross income for its most recent fiscal year was $15,306,120.

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 February 28, 2003 was approximately $21,166,000. (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 February 28, 2003 was 1,978,377.

DOCUMENTS INCORPORATED BY REFERENCE

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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.

Guaranty's principal asset 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 $165.4 million of gross loans outstanding at December 31, 2002, 23.3% represented construction and land loans, 51.1% represented commercial business and commercial real estate loans, and 12.2% 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 (434) 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 six full service retail branches, which serve Charlottesville, Albemarle County, and Fluvanna County, 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.

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, 2002, commitments to extend credit totaled $52.4 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, 2002, construction, land and land development loans outstanding were $38.5 million, or 23.3%, of gross loans. Approximately 95% 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 75% to 80% 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, 2002, commercial loans totaled $76.6 million, or 46.3% 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, 2002, commercial real estate loans aggregated $7.9 million or 4.8% 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 valuation of residential collateral is provided by independent fee appraisers who have been approved by the Bank's Board of Directors. Loan applications are underwritten either manually or automatically. Automated underwriting may be used on those loans with limited risk, based on assigned guidelines set forth by FHLMC.

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, all fixed rate mortgage 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. At December 31, 2002, $8.9 million, or 5.4%, 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. 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 One, Three, Five or Seven Year United States Treasury bills. 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. At

December 31, 2002, $11.2 million, or 6.8%, 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, 2002, Guaranty had consumer loans of $22.2 million or 13.4% of gross loans. Such loans are generally made to customers with which Guaranty has a pre-existing relationship. Guaranty currently originates all of its consumer loans in its geographic market area. 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. 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, 2002, Guaranty had 87 full-time and 4 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, 2002, the Bank declared $420,875 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. Guaranty and the Bank were released from the Written Agreement in October of 2002. 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.

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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. The Bank's deposit insurance assessment was .10% of deposits per year in 2000 and was .03% of deposits per year in 2001 and 2002. 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, 2002, 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 Guaranty's current expectations. A variety of factors could cause Guaranty'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 Guaranty'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 Guaranty's control, and general economic conditions.

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Item 2. Description of Property.

As of March 1, 2003, Guaranty conducted its business from its main office in Charlottesville, Virginia and six 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 400 East Main Street Charlottesville, Virginia	2002	Lease expires in Guaranty's right additional five-ye
Barracks Road 1924 Arlington Boulevard Charlottesville, Virginia	1994	Lease expires in Guaranty's right additional five-ye
West Main 2211 West Main Street Charlottesville, Virginia	1998	Lease expires in Guaranty's right additional five-ye
Route 29 North & Rio Road 1700 Seminole Trail Charlottesville, Virginia	1996	Lease expires in Guaranty's right additional five-ye
Lake Monticello Route 53 & Turkey Sag Road Lake Monticello, Virginia	1998	Owned by Guaranty
Forest Lakes 3290 Worth Crossing Charlottesville, Virginia	2001	Owned by Guaranty

Guaranty believes that all of its properties are maintained in good

operating condition and are suitable and adequate for its operational needs.

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, 2001:			
1st quarter	9.000	5.000	--
2nd quarter	8.250	7.500	--
3rd quarter	8.500	7.270	--
4th quarter	9.000	7.500	--
Fiscal Year Ended December 31, 2002:			
1st quarter	10.950	8.000	--
2nd quarter	13.750	10.200	--
3rd quarter	14.120	12.200	--
4th quarter	14.600	12.500	--

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 was 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 and the Bank were released from the Written Agreement in October 2002.

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 of February 28, 2003, Guaranty had approximately 987 shareholders of record.

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

The following commentary discusses major components of the business of Guaranty Financial Corporation (Guaranty) and presents an overview of its consolidated financial position and results of operations at December 31, 2002 and 2001, and for the years ended December 31, 2002, 2001 and 2000. This discussion should be reviewed in conjunction with the consolidated financial statements, the summary of accounting policies 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 its operations through its subsidiary, Guaranty Bank. Guaranty Bank is a community bank serving the Charlottesville and Fluvanna markets. Guaranty Bank (the "Bank") operated eight branch locations throughout the year 2002, one of which was located in the Harrisonburg market. The Bank closed on the sale of the Harrisonburg branch to FNB Southeast, on January 24, 2003.

Guaranty made tremendous progress during calendar year 2002, which was the second year of its strategic repositioning to become a high performing banking company. Management continued to focus on initiatives that were established in 2001 to improve earnings. Guaranty realized substantial growth in earnings and maintained a high level of asset quality, even while experiencing a continued decline in the Federal Reserve's discount rate, which underwent an additional 50 basis point reduction in the fourth quarter of 2002, to .75%. As a result of Guaranty's focused effort on attracting low-cost deposits, the net interest margin widened year-over-year from 3.51 to 4.58%.

In October 2000, Guaranty and the Bank, entered into a Written Agreement (the "Agreement") with the Federal Reserve Bank of 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. Guaranty addressed all of the issues raised in the Agreement and gained formal written relief from the Agreement in October 2002. As a result of the Agreement, Guaranty suspended dividends to its common shareholders from the third quarter of 2000 through the fourth quarter of 2002. Guaranty's Board of Directors re-instated a dividend to shareholders on January 23, 2003, in the amount of 7.5 cents per share for shareholders of record as of January 29, 2003, payable February 10, 2003.

Guaranty's 2002 financial performance reflected a planned reduction in total assets. This planned reduction in total assets is indicative of Guaranty's emphasis changing from aggressive growth to profitability management. Combined with increased earnings, the net result increased regulatory capital ratios for both Guaranty and the Bank.

Net Income

Net income for the year ended December 31, 2002, was $1,763,000 ($.89 per diluted share), which represented a $1,245,000, or 240% increase over the net income for the prior year. Factors that significantly contributed to the increased net income were higher net interest income, lower loan loss

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provision, and decreased personnel and occupancy expenses, offset by lower mortgage banking fees, investment commissions and an increased provision for income taxes.

Net income for the year ended December 31, 2001, was $518,000 ($.26 per diluted share), an $89,000 decrease from the net income reported for the prior year. Decreased net income was due to a reduction in net interest income caused by the impact of declining interest rates on a short-term asset sensitive balance sheet. Increases in operating expenses primarily related to severance expenses arising from management changes also negatively impacted net income for 2001. These changes more than offset increased mortgage banking income and a reduction in the provision for possible loan losses.

Net income for the year ended December 31, 2000, was $607,000 or $.31 per diluted share. These earnings, an increase over 1999 earnings, 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 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 $8.7 million for the year ended December 31, 2002, a 10.3% increase from $7.9 million in net interest income for the year ended December 31, 2001. The net interest margin was 4.58% for the year ended December 31, 2002, a 107 basis point increase over net interest margin of the prior year. Interest on deposits decreased year-over-year by 61.2%, falling from $8.9 million to $3.5 million. This decrease was the result of a focused effort to attract and retain low-cost deposits, coupled with lower market rates. The average cost of deposits decreased 233 basis points, from 4.57% to 2.24% from December 31, 2001 to December 31, 2002. The impact of lower interest rates offered by the Bank to deposit customers was offset to a certain extent by lower interest earned on interest earning assets. Interest income generated by loans fell from $15.5 million to $11.6 million, a 24.6% decrease. The average yield on loans fell by 118 basis points, to 6.99% for the year ended December 31, 2002, from 8.17% for the prior year. Interest earned on investments decreased by $984,000, predominantly due to lower balances in the investment portfolio. If there are additional prime rate decreases in 2003, the net interest margin will be negatively impacted, as the yield on interest earning assets will generally fall faster than the cost of interest bearing liabilities. Guaranty's net interest margin will be positively impacted by stable or rising rates in 2003.

Net interest income was $7.9 million for the year ended December 31, 2001, a

19.4% decrease from $9.8 million in net interest income for the prior year. The net interest margin for the year ended December 31, 2001, was 3.51%, a 48 basis point decline from 3.99% in the prior year. The net interest margin was compressed throughout 2001 as interest rates on earning assets fell faster than the corresponding decrease in interest rates paid on deposits. During 2001, the yield on the loan portfolio fell by 125 basis points while the cost of interest bearing deposits declined by 62 basis points. This difference was due to the impact of loans with interest rates tied to the prime rate repricing immediately with each rate reduction. In contrast, certificates of deposit are generally issued with maturities of twelve months and the interest rate paid usually does not adjust until maturity. Net interest income was also negatively impacted by a reduction in average loans outstanding to $189.1 million in 2001 from $213.4 million during the prior year.

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 reflected higher loan and investment yields, higher average balances and an increased gap between the amount of earning assets and the amount of interest bearing liabilities. The net interest margin increased due to Guaranty 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 basis point increase in the yield on earning assets, which exceeded the 54 basis point increase in the cost of interest bearing liabilities.

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.

	Year Ended December 31,						
	2002			2001			
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	
Assets							
Interest earning assets:							
Securities	$ 17,226	$ 1,086	6.30%	$ 28,303	$ 1,855	6.55%	$
Loans	166,634	11,649	6.99%	189,135	15,451	8.17%	
Interest bearing deposits in other banks	6,078	120	1.97%	7,381	336	4.55%	
Total interest-earning assets/ total interest income	189,938	12,855	6.77%	224,819	17,642	7.85%	
Non-interest earning assets:							
Cash and due from banks	8,551			8,134			
Premises and equipment	8,185			9,245			
Other assets	4,975			4,504			

Less allowance for loan losses	(2,531)			(2,523)			
Total non-interest earning assets	19,180			19,360			
Total Assets	$209,118			$244,179			$
Liabilities and Stockholders' Equity							
Interest bearing liabilities:							
Interest bearing deposits:							
Demand accounts	$ 27,057	87	0.32%	$ 23,344	243	1.04%	$
MMDA accounts	24,864	381	1.53%	21,170	674	3.18%	
Savings	13,103	63	0.48%	11,643	195	1.67%	
Certificates of deposit	89,635	2,933	3.27%	139,438	7,821	5.61%	
Total interest bearing deposits	154,659	3,464	2.24%	195,595	8,933	4.57%	
FHLB advances and other borrowings	6,136	120	1.96%	4,608	237	5.14%	
Trust preferred bonds	6,013	481	8.00%	6,013	481	8.00%	
Bonds payable	486	90	18.52%	739	105	14.21%	
Total interest bearing liabilities/total interest expense	154,659	4,155	2.48%	206,955	9,756	4.71%	
Non-interest bearing liabilities:							
Demand deposits	22,879			18,755			
Other liabilities	1,397			2,259			
Total liabilities	191,570			227,969			
Stockholders' equity	17,548			16,210			
Total liabilities and Stockholders' equity	$209,118			$244,179			$
Interest spread (1)			4.29%			3.13%	
Net interest income/net interest margin (2)		$8,700	4.58%		$ 7,886	3.51%	

(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.

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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, 2002 compared to Year Ended December 31, 2001 Change Due To:			Y Y
(Dollars in thousands)	Rate	Volume	Increase (Decrease)	R
Interest income:				
Securities	$ (71)	$ (698)	$ (769)	$ (
Loans	(2,229)	(1,573)	(3,802)	(2,
Interest bearing deposits in other banks	(190)	(26)	(216)	(
Total interest income	(2,490)	(2,297)	(4,787)	(2,
Interest expense:				
Interest bearing deposits:				
Demand accounts	(168)	12	(156)	(
MMDA accounts	(350)	57	(293)	(
Savings	(139)	7	(132)	
Certificates of deposit	(3,258)	(1,630)	(4,888)	(
Total interest bearing deposits	(3,915)	(1,554)	(5,469)	(1,
FHLB advances and other	(147)	30	(117)	(
Bonds payable	32	(47)	(15)	
Total interest expense	(4,030)	(1,571)	(5,601)	(1,
Net interest income	$ 1,540	$ (726)	$ 814	$(1,

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, 2002, Guaranty had $25.5 million more liabilities than assets that reprice within one year and therefore was in a one-year 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 primarily the result of fixed rate certificates of deposit reaching maturity in one year or less. To decrease the gap between interest-sensitive assets and liabilities, Guaranty is in the process of shifting its deposit mix to include a higher percentage of demand accounts and a lower percentage of certificates of deposit. Guaranty reduced its gap between

liabilities and assets that reprice within one year by $13.3 million, from $38.8 million at December 31, 2001.

Guaranty has an Asset/Liability Committee ("ALCO"), which meets regularly to discuss deposit pricing, changes in borrowed money, investment and trading activity, loan sale activity, liquidity levels and the

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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, 2 Maturing or Repri		
(Dollars in thousands)	3 Months or less	4-12 Months	
Interest-sensitive assets:			
Loans	$ 80,034	$ 23,350	$
Investments and mortgage-backed securities (1)	4	12	
Deposits at other institutions	7,487	-	
Total interest-sensitive assets	87,525	23,362	
Cumulative interest-sensitive assets	87,525	110,887	
Interest-sensitive liabilities:			
NOW accounts	28,773	-	
Money market deposit accounts	34,445	-	
Savings accounts	12,812	-	
Certificates of deposit	21,048	39,338	
Convertible preferred securities	-	-	
Bonds payable	3	11	
Total interest-sensitive liabilities	97,081	39,349	
Cumulative interest-sensitive liabilities	$ 97,081	$ 136,430	$
Period gap	$ (9,556)	$ (15,987)	$
Cumulative gap	(9,556)	(25,543)	
Ratio of cumulative interest-sensitive assets to interest-sensitive liabilities	90.16%	81.28%	
Ratio of cumulative gap to total assets	(4.85%)	(12.96%)	

(1) Amounts include Federal Home Loan Bank stock.

Of Guaranty's commercial and construction loans with a maturity of more than one year, approximately $2.9 million have fixed interest rates and $2.4 million have variable interest rates.

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Investments

Total investment securities decreased 77.0% to $5.4 million at December 31, 2002, from $23.5 million at December 31, 2001. During 2002, Guaranty took advantage of the sustained low interest rate environment and liquidated $10.4 million of the corporate bonds in the available for sale classification. This decreased the corporate bond portfolio from $13.6 million at December 31, 2001 to $3.2 million at December 31, 2002, in an effort to improve liquidity without incurring investment losses. This strategy results in decreased interest income in the short term, however, the flexibility gained allows Guaranty to build and maintain an investment portfolio better structured to meet future liquidity and profitability objectives.

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

	December 31, 2002		December 31, 2001	
	Cost	Market	Cost	Market
(Dollars in thousands)				
Held-to-maturity				
Mortgage-backed securities	$ 433	$ 471	$ 720	$ 768
Other	403	403	250	250
Total held-to-maturity	836	874	970	1,018
Available for sale				
Corporate bonds	3,247	3,212	13,620	12,597
U.S. Government Agency Obligations	-	-	8,000	7,970
Federal Reserve Bank & Other Stocks	422	422	422	422
Total available for sale	3,669	3,634	22,042	20,989
Other				
Federal Home Loan Bank Stock	947	947	1,550	1,550
Total	$ 5,452	$ 5,455	$ 24,562	$ 23,557

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

	December 31, 2002	December 31, 2001

(Dollars in thousands)	Book Value	% of Total	Book Value	% of Total
Investment securities:				
FHLMC mortgage-backed securities	$ 431	7.96	$ 720	3.06%
Corporate bonds	3,212	59.29	12,597	53.58
Treasury and agency notes	--	--	8,220	34.97
FHLB stock	947	17.48	1,550	6.59
Other	827	15.27	422	1.80
Total Investment securities	$ 5,417	100.00%	$ 23,509	100.00%

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The following table indicates the maturity distribution and yields of investment securities, held as of December 31, 2002.

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due aft
	Amount	Yield	Amount	Yield	Amount	Yield	Amoun
(Dollars in thousands)							
Securities held for investment:							
U.S. Government securities	$ -	-	$ 403	3.07%	$ -	-	$
Mortgage backed securities	16	8.52%	77	8.52%	142	8.52%	19
Total	16	8.52%	480	3.94%	142	8.52%	19
Securities held for sale (1):							
Corporate securities	-	-	-	-	1,020	6.45%	2,19
Total securities	$ 16	8.52%	$ 480	3.94%	$1,162	6.70%	$2,39

(1) Excludes Federal Reserve stock of $352,250, Federal Home Loan Bank stock of $947,100 and Community Bankers Bank stock of $70,

Loans

Net loans consist of total loans minus undisbursed loan funds, deferred loan fees and the allowance for loan losses. Net loans were $163.2 million at December 31, 2002, an 8.1% decline from December 31, 2001. During 2002, the size of Guaranty's loan portfolio decreased as a result of higher credit standards in light of an uncertain economy. Net loans declined to $177.6 million at December 31, 2001, from $201.6 million at December 31, 2000, as Guaranty controlled its growth to increase its regulatory capital ratios.

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

	December 31,		
	2002	2001	2000
(Dollars in thousands)			
Mortgage Loans:			
Residential	$ 20,119	$ 39,864	$ 54,911
Commercial	7,894	16,277	3,434
Construction and land loans	38,480	36,307	59,363
Total real estate	66,493	92,448	117,708
Commercial business loans	76,651	66,603	59,120
Consumer loans	22,238	20,973	27,190
Total loans receivable	165,382	180,024	204,018
Adjustments:			
Deferred fees (costs)	(110)	(67)	(27)
Allowance for losses	2,242	2,512	2,396
Total net items	2,132	2,445	2,369
Total loans receivable, net	$163,250	$177,579	$201,649

The changes in Guaranty's loan portfolio over the past five years represent the evolution from a savings association to a full service commercial bank. Commercial business lending began in 1998 and now comprises over 51% of total loans outstanding. During this same time period, residential mortgage loans

outstanding have decreased from $66.4 million to $20.1 million. Presently, the majority of the residential mortgage loans originated are sold on a servicing released basis. Construction and land development loans declined in 2001 as Guaranty reduced its loan concentration in speculative real estate lending, and increased in 2002 through implementation of a plan for targeted growth.
The following tables show the composition of Guaranty's loan portfolio by fixed and adjustable rate at the dates indicated.

	December 31,		
	2002	2001	2000
(Dollars in thousands)			
Fixed-Rate Loans:			
Real Estate			
Residential	$ 8,921	$ 27,200	$ 20,403
Commercial	-	-	-
Construction and land loans	-	-	-

Total real estate	8,921	27,200	20,403
Commercial business loans	15,745	15,427	12,891
Consumer Loans	3,606	3,429	3,832
Total fixed-rate loans	28,272	46,056	37,126
Adjustable-Rate Loans:			
Real Estate			
Residential	11,198	12,664	34,508
Commercial	7,894	16,277	3,434
Construction and land loans	38,480	36,307	59,363
Total real estate	57,572	65,248	97,305
Commercial business loans	60,906	51,176	46,229
Consumer loans	18,632	17,544	23,358
Total adjustable-rate loans	137,110	133,968	166,892
Total loans receivable	165,382	180,024	204,018
Less:			
Deferred fees (costs)	(110)	(67)	(27)
Allowances for losses	2,242	2,512	2,396
Total net items	2,132	2,445	2,369
Total loans receivable, net	$163,250	$177,579	$201,649

The following table presents the remaining maturities of selected categories of Guaranty's loan portfolio at December 31, 2002.

	Commercial, Financial and Agricultural	Real Estate Construction
(Dollars in thousands)		
Within 1 year	$24,553	$26,083
Variable Rate:		
1 to 5 years	10,262	3,604
After 5 years	39,078	1,237
Total	49,340	4,841
Fixed Rate:		
1 to 5 years	8,170	-
After 5 years	2,482	-
Total	10,652	-
Total	$84,545	$30,924

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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

General

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 that do not currently expose Guaranty to sufficient risk to warrant classification in one of the aforementioned categories but possess potential weaknesses are required to be designated "special mention" by management. On the basis of management's review of its assets, at December 31, 2002, Guaranty had classified $8.4 million of its loans as substandard. No loans were classified as doubtful or loss at December 31, 2002. Most of Guaranty's assets that have been classified are not included in the table of non-performing assets set forth below because many loans are classified as substandard based on certain criteria or previous credit problems but are currently performing.

Unless well secured and in the process of collection, Guaranty places loans on a non-accrual 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 ceases, 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 non-performing assets at the dates indicated.

		December 31,	
	2002	2001	2000
(Dollars in thousands)			
Non-accrual loans	$2,363	$ 187	$ 238
Restructured loans	-	-	-
Total non-performing loans	2,363	187	238
Foreclosed assets	397	764	1,301
Total non-performing assets	$2,760	$ 951	$1,539
Loans past due 90 or more days and accruing interest	$ 156	$ 103	$1,587
Non-performing loans to total loans, at period end	1.43%	0.10%	0.12%
Non-performing assets to period end total loans and foreclosed assets	1.67%	0.53%	0.76%

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

Guaranty provides valuation allowances for anticipated losses on loans when its management determines that full repayment by the borrower is unlikely and 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, risk rating and type of loan. A loss experience percentage is established for each risk rating and loan type and is reviewed quarterly. Each quarter the loss percentage is applied to the portfolio, by risk rating and loan type, to determine the minimum amount of reserves required. Percentages are applied to the various categories of loans, from 0.12% - 1% of satisfactory loans, and from 2% - 100% of loans for less than satisfactory loans. Mortgage loans that are HUD or VA guaranteed are excluded from the allowance for loan loss calculation. 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		
	2002	2001	2000
(Dollars in thousands)			
Balance at beginning of period	$2,512	$2,396	$1,203
Provision charged to operations	100	333	1,505
Charge-offs:			
Real estate	-	66	229
Consumer	14	15	72
Commercial	359	145	34
Recoveries:			
Real estate	-	1	20
Consumer	3	-	2
Commercial	-	8	1
Net Charge-offs	370	217	312

Balance, end of period	$2,242	$2,512	$2,396
Allowance for loan losses to period end total loans	1.36%	1.40%	1.17%
Allowance for loan losses to nonaccrual loans	94.9%	1,343.32%	1,006.72%
Net charge-offs to average loans	0.22%	0.12%	0.15%

Provision for loan losses

For the years ended December 31, 2002, 2001 and 2000, the provision for loan losses was approximately $100,000, $333,000 and $1.5 million, respectively. The provision for loan losses decreased for the years ended December 31, 2002 and 2001, as Guaranty's loan portfolio decreased and its allowance for possible losses as a percentage of loans outstanding was above the peer group at each of the years then ended.

Guaranty monitors its loan loss allowance quarterly 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.

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A comparison of the allocation of the allowance for loan losses in dollars by loan category to the percentage of the loan portfolio represented by each category is provided in the following table. Because all of these factors are subject to change, the allocation is not necessarily predictive of future loan losses in the indicated categories.

	December 31,			
	2002		2001	
	Allowance	Ratio of Loans to Total Gross Loans	Allowance	Ratio of Loans to Total Gross Loans
(Dollars in thousands)				
Residential real estate	$ 27	12.2%	$ 50	22.1%
Construction and land	548	23.3	611	20.2
Commercial	1,434	51.1	1,165	46.0
Consumer and other loans	110	13.4	105	11.7
Unallocated	123	-	581	-
Total	$2,242	100.0%	$2,512	100.0%

	December 31,		
	1999		1998
	Ratio of Loans to Total Gross		R L Tot

(Dollars in thousands)	Allowance	Loans	Allowance
Residential real estate	$ 78	29.8%	$ 101
Construction and land	383	31.4	384
Commercial	575	30.7	402
Consumer and other loans	167	8.1	115
Unallocated	-	-	-
Total	$1,203	100.0%	$1,002

Non-Interest Income

Guaranty's non-interest income consists primarily of mortgage banking income, loan and deposit fees and servicing income, gains and losses on sale of investment securities, and investment sales commissions. In the first quarter of 2002, Guaranty invested in bank-owned life insurance ("BOLI"). The BOLI will increase in value over the life of the policies, and this increase will have a positive impact on non-interest income.

The following table presents information on the sources and amounts of non-interest income.

	Year Ended Dece	
Non-Interest Income	2002	2001
(Dollars in thousands)		
Mortgage banking income	$ 999	$1,093
Loan and deposit fees and servicing income	907	831
Increase in cash surrender value of life insurance	183	-
Investment sales commissions	104	254
Net gain (loss) on sale of securities	20	3
Other	273	325
Total	$ 2,486	$2,506

Non-interest income decreased for the year ended December 31, 2002, by $20,000. Mortgage banking income decreased approximately $94,000, as the result of a combination of two factors. First, residential mortgage loan originations decreased from $70.7 million for the year ended December 31, 2001, to $45.7 million for the current year, which was partially due to the closing of the mortgage loan production office in Harrisonburg. The second factor affecting mortgage banking income was the increase in fees realized upon the sale of the loans, which averaged 218 basis points compared to 155 basis points in the prior year. Loan and deposit fees and servicing income increased $76,000 from December 31, 2001 to December 31, 2002, due to a continued increased volume of transactions accounts. In the first quarter of 2002, the Board of Directors approved the purchase of $3 million of bank-owned life insurance ("BOLI"). The increase in the cash surrender value of the BOLI amounted to $183,000 for the year ended December 31, 2002. Investment sales commissions decreased by $150,000 for the year ended December 31, 2002, compared to the prior year, due to the

departure of key personnel, which resulted in management's re-configuration of the investment sales function, which was still in progress as of December 31, 2002.

Non-interest income increased by $1.0 million to $2.5 million for the year ended December 31, 2001. The increase in non-interest income was due primarily to an increase in income from Guaranty's mortgage banking unit resulting from an increase in sales of residential mortgage loans to $63.5 million from $39.8 million in the prior year. In mid-2001, Guaranty revised its mortgage banking business model and as a result sells all originated residential mortgage loans on a servicing released basis. Residential mortgage loan originations for the year ended December 31, 2001, increased to $70.7 million from $40.1 million in the prior year. The increase was due to the employment of an additional mortgage loan originator in 2001 and the impact of declining interest rates. Service charges on deposit accounts increased by 9.3% to $785,000 for the year ended December 31, 2001, due to increased volume of transaction accounts.

As part of its revised mortgage banking business model, Guaranty sold its residential mortgage loan servicing for others portfolio in 2001 for approximately $900,000. The transfer of the loan servicing, which was completed in October 2001, resulted in a gain of approximately $9,000. With the present practice of selling all residential mortgage loans on a servicing released basis, Guaranty will not accumulate mortgage loan servicing rights 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 creating volatility in net earnings. 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 exit the mortgage loan servicing business.

Non-Interest Expenses

Non-interest expenses decreased by 8.3% to $8.5 million for the year ended December 31, 2002, compared to $9.3 million for the prior year. Personnel expenses decreased by $250,000, due partially to the strategic re-alignment of several departments, which lowered overall headcount, coupled with the lack of severance costs and recruiting expenses that were incurred in the prior year as the result of turnover in management. Occupancy costs decreased by $244,000, due to lower depreciation expense ($171,000 decrease) due to assets becoming fully depreciated, and rental expense, which decreased by approximately $40,000.

Non-interest expenses increased by 4.7% to $9.3 million for the year ended December 31, 2001. The majority of the increase was related to severance and recruiting expenses resulting from management changes in 2001. For the first seven months of 2001, Guaranty operated nine retail-banking branches due to the opening of the Forest Lakes branch in northern Albemarle County. The retail-banking branch in suburban Richmond was sold in July 2001. Guaranty incurred approximately $152,000 in expenses, consisting primarily of personnel and occupancy expenses prior to its sale.

Non-interest expenses increased by approximately $1.4 million to $8.9 million for the year ended December 31, 2000. The increase was in all categories and reflected the continued growth of Guaranty.

The following table summarizes the main components of non-interest expense.

	Year Ended Dece	
Non-Interest Expense	2002	2001
(Dollars in thousands)		
Personnel	$4,561	$4,811
Occupancy	1,168	1,412
Data Processing	1,158	1,153
Marketing	159	211
Professional fees	294	385
Other	1,168	1,301
Total	$8,508	$9,273

Income Taxes

Income tax expense for the years ended December 31, 2002, 2001 and 2000, was $814,000, $267,000 and $313,000, respectively. The decreases and increases are a direct result of earnings levels for the respective year-ends. The effective income tax rate was 31.6% for the year ended December 31, 2002, as the increase in cash surrender value of BOLI is a non-taxable item and therefore reduces Guaranty's effective tax rate. The effective tax rate was 34.0% for the years ended December 31, 2001 and 2000.

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 Federal Home Loan Bank ("FHLB") of Atlanta advances. Contractual loan payments are a relatively stable source of funds, while deposit inflows and outflows and the 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, 2002, deposits were $171.3 million, a 14.6% decline from $200.6 million at December 31, 2001. In order to reduce the overall cost of funds and reduce Guaranty's reliance on high cost time deposits and short-term borrowings as a funding source, management continues to direct extensive efforts towards attracting lower cost transaction accounts. Low-cost transaction accounts comprise 58.7% of total deposits as of December 31, 2002, compared to 41.1% as

of December 31, 2001. Current rates offered by Guaranty on certificates of deposit are substantially below those offered two years ago. The majority of certificates of deposit are initially issued with a one-year maturity. As these certificates of deposit continue to mature and reprice, Guaranty's interest expense will decrease and its net interest income will increase. The average cost of certificate of deposits for the year ended December 31, 2002 declined by 234 basis points to 3.27% from the same period a year ago.

At December 31, 2001, deposits were $200.6 million, a 7.6% decrease from $217.0 million at December 31, 2000. The decrease in deposits corresponds with the decrease in the loan portfolio in 2001. During 2001, Guaranty increased its non-interest bearing demand balances by 25.3% to $22.1 million and its

interest bearing demand balances by 11.1% to $25.5 million. The financial markets were affected by eleven short-term interest rate reductions totaling 475 basis points in 2001.

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,	2002	2001
(Dollars in thousands)		
Demand deposit accounts	$ 53,498	$ 47,570
Statement savings account	12,812	12,992
Money market accounts	34,445	22,394
30-to-180-day certificates	3,326	1,427
Seven to eleven month certificates	856	6,404
One-to-five year fixed-rate certificates	62,857	105,608
Eighteen-month prime rate certificates	3,465	4,237
Total	$171,259	$200,632

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,	2002		2001	
(Dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Averag Rate Paid
Non-interest bearing demand deposits	$ 22,879	0.00%	$ 18,755	0.00
Interest bearing demand deposits	51,921	0.90%	44,514	2.06
Savings deposits	13,103	0.53%	11,643	1.67
Time deposits	89,635	3.27%	139,438	5.61
Total deposits	$177,538	1.95%	$214,350	4.17

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.

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

Year Ended December 31,	2002	2001
(Dollars in thousands)		
Opening balance	$ 200,632	$217,044
Net deposits	(32,838)	(25,345)
Interest credited	3,465	8,933
Ending balance	$171,259	$200,632
Net increase (decrease)	$ (29,373)	$ (16,412)
Percent increase (decrease)	(14.64%)	(7.56%)

The following table indicates the amount of Guaranty's certificates of deposit by time remaining until maturity as of December 31, 2002.

			Maturity
	3 Months or less	Over 3 to 6 months	Over 6 to 12 months
(Dollars in thousands)			
Certificates of deposit less than $100,000	$ 18,386	$ 10,592	$ 22,260
Certificates of deposit of $100,000 or more	4,951	1,380	3,458
Total of certificates of deposits	$ 23,337	$ 11,972	$ 25,718

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 the size of the advances and repayment provisions. The advances are collateralized by Guaranty's investment in FHLB 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, 2002, Guaranty had no outstanding borrowings from the FHLB compared to $1.0 million and $14.0 million outstanding at the end of the prior two years, respectively.

Guaranty has also used securities sold under agreements to repurchase, with mortgage-backed securities or other securities pledged as collateral. The proceeds have been used for general corporate purposes. Guaranty did not use securities sold under agreements to repurchase during the calendar years 2002 or 2001.

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,	2002	2001
(Dollars in thousands)		
Maximum Balance:		
FHLB advances	$15,000	$18,000
Securities sold under agreements to repurchase	-	-

	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
FHLB advances	$6,136	1.96%	$4,608	5.14%
Securities sold under agreements to repurchase	-	-	-	-

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

December 31,	2002	2001
(Dollars in thousands)		
FHLB advances	-	$1,000
Weighted average interest rate of short-term FHLB advances	-	2.13%

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, loan sales and prepayments and maturities of outstanding loans and investments. 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, 2002, cash and cash equivalents were approximately $15.4 million, which was an increase of $3.0 million over the prior year. Operating activities provided approximately $13.7 million, predominantly generated by the sale of loans. Investing activities provided approximately $19.8 million in cash, primarily through the sale of corporate bonds, in an effort to reduce the market risk of long-term bonds previously held. Cash absorbed through financing activities offset the cash generated by operating and investing activities by approximately $30.6 million, which represents the decrease in deposits that occurred, largely due to decreased certificate of deposit rates.

Cash and cash equivalents were approximately $12.4 million at December 31, 2001. Financing activities reduced cash and cash equivalents by approximately $22.3 million in 2001 due to decreases in deposits and repayment of advances from the FHLB. Approximately $5.8 million was absorbed by operating activities, which was primarily a result of the origination of $70.7 million in residential mortgage loans held for sale that were offset by proceeds from the sale of residential mortgage loans totaling $63.5 million. In addition, investing activities provided approximately $24.9 million that was primarily a result of a net decrease in loans of $27.7 million that was slightly offset by the net purchase of $2.3 million in investments available for sale.

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 provided $3.4 million in cash and cash equivalents. Investing activities provided an additional $5.6 million in cash and cash equivalents that 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.

Guaranty uses its sources of funds primarily to meet operating needs, to pay deposit withdrawals and fund loan commitments. At December 31, 2002, total approved loan commitments were $2.5 million. In addition, at December 31, 2002,

commitments under unused lines of credit were $49.9 million. Certificates of deposit scheduled to mature or re-price in one year or less at December 31, 2002 totaled $61.0 million.

Management intends to fund anticipated loan closings and operating needs during 2003 through cash on hand, 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.

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The following summarizes Guaranty's contractual cash obligations and commercial commitments, including maturing certificates of deposit, as of December 31, 2002 and the effect such obligations may have on liquidity and cash flows in future periods.

Contractual Obligations

	Less Than One Year	2-3 Years	4-5 Years
(Dollars in thousands)			
Certificate of deposit maturities (1)	$ 61,027	$ 7,552	$ 1,917
Undisbursed credit lines	49,872	-	-
Commitments to extend credit	2,484	-	-
Standby letters of credit	5,054	-	-
Total obligations	$ 118,437	$ 7,552	$ 1,917

(1) Guaranty expects to retain maturing deposits or replace maturing amounts with comparable deposits based on current market interest rates.

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.

Guaranty and the Bank are subject to regulatory capital requirements of the Federal Reserve. At December 31, 2002, Guaranty and the Bank exceeded all such regulatory capital requirements as shown in the following table.

	Decemb
	Guaranty Financial Corporation
(Dollars in thousands)	
Tier 1 Capital:	
Common stock	$ 2,463

Capital surplus	9,034
Cumulative preferred securities (2)	6,013
Retained earnings	7,133
Total Tier 1 Capital	24,643
Tier 2 Capital:	
Allowance for loan losses (1)	2,076
Cumulative preferred securities	-
Total Tier 2 Capital	2,076
Total Risk Based Capital	$ 26,719
Risk Weighted Assets	$165,911
Capital Ratios:	
Tier 1 Risk-based	14.87%
Total Risk-based	16.12%
Tier 1 Capital to average adjusted total assets	12.36%

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

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Impact of Inflation, 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.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which was effective July 1, 2001. SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests methods. The adoption of SFAS 141 has not had an effect on Guaranty's financial statements.

Also in July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which was effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized

intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires a transitional goodwill impairment test six months from the date of adoption and further requires an evaluation of the carrying value of goodwill for impairment annually thereafter. The adoption of SFAS 142 has not had an effect on Guaranty's financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Guaranty believes the adoption of SFAS 144 will not have a material effect on Guaranty's financial statements.

On July 6, 2001, the SEC issued Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance Methodology and Documentation Issues". The bulletin expresses the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses in accordance with generally accepted accounting principles. This includes for each period reported the "books and records of the registrants engaged in lending activities include documentation of: (a) systematic methodology to be employed each period in determining the amount of loan losses to be reported, and (b) rationale supporting each period's determination that the amounts reported were adequate." Management believes that its documentation and methodologies are compliant with SAB 102.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", ("SFAS 146"). This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition of Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 will not have an effect on Guaranty's financial statements.

In October 2002, the FASB issued SFAS 147, "Acquisitions of Certain Financial Institutions - an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. This statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, "Business Combinations", and No. 142, "Goodwill and Other

Intangible Assets". Thus, the requirement in paragraph 5 of Statement 72 to recognize (and subsequently amortize) any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets required as an unidentifiable intangible asset no longer applies to acquisitions within the scope of this Statement. In addition, this Statement amends FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor - and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement 144 requires for other long-lived assets that are held and used. The adoption of SFAS 147 did not have an effect on Guaranty's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Guaranty does not expect the adoption of SFAS 148 to have an effect on the financial statements.

Subsidiary 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 $560, $53,000 and $42,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

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, 2002, 2001 and 2000, amortization expense was $44,000, $36,000 and $21,000, respectively. The amortization of the REMIC expenses is treated as interest expense.

Critical Accounting Policies, Estimates and Judgments

Guaranty's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent liabilities. Management continually evaluates its estimates and judgments, including those related to the allowance for loan losses and income taxes. Management bases its estimates and judgments

on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management believes that, of its significant accounting policies, the most critical accounting policies we apply are those related to the valuation of the loan portfolio.

A variety of factors impact carrying value of the loan portfolio, including the calculation of the allowance for loan losses, valuation of amortization of loan fees, and deferred origination costs. The allowance for loan losses is the most difficult and subjective judgment. The allowance is established and maintained at a level that management believes is adequate to cover losses resulting from the inability of borrowers to make required payments on loans. Estimates for loan losses determined by analyzing risks associated with specific loans and the loan portfolio, current trends in delinquencies and charge-offs, the views of regulators, changes in the size and composition of loan portfolio and peer comparisons. The analysis also requires consideration of the economic climate and directions, changes in the interest rate environment, which may impact a borrower's ability to pay, legislation impacting the banking industry and economic conditions specific to our service area. Because the calculation of the allowance for loan losses relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

Forward Looking Statements

Guaranty cautions readers that certain statements in this annual report with respect to Guaranty's future operations and business prospects are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are generally identified by phrases such as "Guaranty expects," "Guaranty believes" or words of similar import. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, interest rate fluctuations, competition within and from outside the banking industry, new products and services in the banking industry, risks inherent in making loans such as repayment risks and fluctuating collateral values, changing trends in customer profiles and changes in laws and regulations applicable to Guaranty. Although Guaranty believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of Guaranty will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Item 7. Financial Statements.

The following financial statements are filed as a part of this report following Item 14 below:

Report of Independent Certified Public Accountants
Consolidated Balance Sheets as of December 31, 2002 and 2001
Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000
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 2003 Annual Meeting of Shareholders (the "2003 Proxy Statement") is hereby incorporated by reference.

Item 10. Executive Compensation

Information set forth under the heading "Executive Compensation " in the 2003 Proxy Statement is hereby incorporated by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information set forth under the headings "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners" in the 2003 Proxy Statement is incorporated by reference.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2002, with respect to compensation plans under which shares of the Company's Common Stock are authorized for issuance.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	N R f
Equity Compensation Plans Approved by Shareholders 1991 Amended Incentive Stock Option Plan	76,012	$10.01	
Equity Compensation Plans Not Approved by Shareholders 2	--	--	
Total	76,012	$10.01	

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1 Amounts exclude any securities to be issued upon exercise of outstanding options.

2 The Company does not have any equity compensation plans that have not been approved by shareholders.

Item 12. Certain Relationships and Related Transactions

Information set forth under the heading "Executive Compensation -- Transactions with Management" in the 2003 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 Guaranty'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 Guaranty'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.

10.2 Employment Agreement, dated as of May 10, 2001, by and between Guaranty and William E. Doyle, Jr., attached as Exhibit 10.1 to Guaranty's Quarterly Report on Form 10-QSB for the period ended June 30, 2001, incorporated herein by reference.

21 Subsidiaries of Guaranty.

99.1 Statement of Chief Executive Officer Pursuant to 18 U.S.C.ss.1350.

99.2 Statement of Chief Financial Officer Pursuant to 18 U.S.C.ss.1350.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2002.

ITEM 14. Controls and Procedures

Guaranty maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, including, without limitation, those controls and procedures designed to ensure that such information is accumulated and communicated to Guaranty's management to allow timely decisions regarding required disclosures.

Within the 90 day period prior to the filing of this report, an evaluation of the effectiveness of the design and operation of Guaranty's disclosure controls and procedures was carried out under the supervision and with the participation of Guaranty's management, including the chief executive officer and chief financial officer. Based on and as of the date of such evaluation, these officers concluded that Guaranty's disclosure controls and procedures were effective.

Guaranty also maintains a system of internal accounting controls that is designed to provide assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and properly recorded. This system is continually reviewed and is augmented by written policies and procedures, the careful selection and training of qualified personnel and an internal audit program to monitor its effectiveness. There have been no significant changes to this system of internal controls or in other factors that could significantly affect those controls subsequent to the date of Guaranty's evaluation.

[LETTERHEAD OF BDO SEIDMAN, LLP]

Independent Auditors' Report

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, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

Richmond, Virginia
January 17, 2003

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31,	2002
Assets	
Cash and cash equivalents (including interest bearing deposits of approximately $6,979,000 and $2,739,000)	$ 15,391,874
Investment securities (Note 1)	
Held-to-maturity	836,114
Available for sale	3,634,150
Investment in Federal Home Loan Bank stock, at cost	947,100
Loans receivable, net (Notes 2 and 9)	163,249,885
Accrued interest receivable	909,767
Real estate owned	397,155
Office properties and equipment, net (Note 3)	7,442,935
Other assets (Note 8)	4,335,896
	$197,144,876
Liabilities and Stockholders' Equity	
Liabilities	
Deposits (Note 4)	$171,259,105
Advances from Federal Home Loan Bank (Note 7)	-
Bonds payable (Notes 1 and 6)	359,847
Accrued interest payable	57,801
Prepayments by borrowers for taxes and insurance	126,802
Other liabilities	721,368

Total liabilities	172,524,923
Commitments and Contingencies (Notes 10, 11, 13 and 15)	
Convertible preferred securities (Notes 11 and 12)	6,012,500
Stockholders' Equity (Notes 12 and 13) 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, 1,970,677 and 1,961,727 shares issued and outstanding	2,463,346
Additional paid-in capital	9,034,207
Accumulated other comprehensive loss	(23,007)
Retained earnings - substantially restricted	7,132,907
Total stockholders' equity	18,607,453
	$197,144,876

See accompanying summary of accounting policies and notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,	2002	2001
Interest income		
Loans	$11,648,714	$15,451,
Investment securities	1,206,296	2,190,
Total interest income	12,855,010	17,641,
Interest expense		
Deposits	3,464,836	8,932,
Borrowings	691,049	822,
Total interest expense	4,155,885	9,755,
Net interest income	8,699,125	7,885,
Provision for loan losses (Note 2)	99,998	333,
Net interest income after provision for loan losses	8,599,127	7,552,

Other income		
Mortgage banking income	999,168	1,093,
Loan and deposit fees and servicing income	906,785	830,
Increase in cash surrender value of life insurance	182,825	
Investment sales commissions	104,298	254,
Net gain (loss) on sale of securities	20,125	3,
Other	272,875	324,
Total other income	2,486,076	2,506,
Other expenses		
Personnel	4,560,540	4,810,
Occupancy (Note 10)	1,167,544	1,411,
Data processing (Note 10)	1,158,381	1,153,
Other	1,621,038	1,897,
Total other expenses	8,507,503	9,273,
Income before income taxes	2,577,700	785,
Provision for income taxes (Note 8)	814,258	267,
Net income	$ 1,763,442	$ 518,
Basic and Diluted Earnings Per Share	$ .89	$

See accompanying summary of accounting policies and notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31,	2002	2001
Net income	$1,763,442	$518,375
Other comprehensive income		
Unrealized gains on securities arising during period	1,038,806	795,429
Reclassification adjustment for (gains) losses included in net income	(20,125)	(3,046

Other comprehensive income, before tax	1,018,681	792,383
Income tax expense related to items of other comprehensive income	(346,352)	(269,410
Other comprehensive income, net of tax	672,329	522,973
Comprehensive income	$2,435,771	$1,041,348

See accompanying summary of accounting policies and notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Re Ea
Balance, December 31, 1999	$2,452,159	$8,943,119	$(1,608,089)	$4,
Cash dividend	-	-	-	(
Other comprehensive income	-	-	389,780	
Repurchase of trust preferred securities (note 12)	-	10,111	-	
Net income	-	-	-	
Balance, December 31, 2000	2,452,159	8,953,230	(1,218,309)	4,
Other comprehensive income	-	-	522,973	
Net income	-	-	-	
Balance, December 31, 2001	2,452,159	8,953,230	(695,336)	5,
Other comprehensive income	-	-	672,329	
Issuance of Common Stock (Note 13)	11,187	80,977	-	
Net income	-	-	-	1,
Balance, December 31, 2002	$2,463,346	$9,034,207	$ (23,007)	$7,

See accompanying summary of accounting policies and notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2002	2001
Operating activities		
Net income	$ 1,763,442	$ 518,37
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Provision for loan losses	99,998	333,46
Provision for loss on sale of other real estate owned	86,701	-
Depreciation and amortization	585,810	1,122,46
Deferred loan fees	(109,386)	(72,00
Net amortization of premiums and accretion of discounts	134,398	160,69
Gain on sale of loans	(999,168)	(1,249,39
Originations of loans held for sale	(45,748,750)	(70,683,96
Proceeds from sale of loans	57,437,524	63,478,42
Loss (gain) on sale of held to maturity and securities available for sale	(20,125)	(3,04
Loss (gain) on disposal of office properties and equipment	(7,481)	(3,03
Loss on sale of real estate owned	22,416	-
Gain on sale of branch	-	(79,28
Changes in:		
Accrued interest receivable	335,499	833,42
Other assets	167,924	87,54
Accrued interest payable	(79,690)	(256,29
Income taxes	(120,548)	156,51
Prepayments by borrowers for taxes and insurance	(37,860)	(99,31
Other liabilities	176,255	(21
Net cash provided (absorbed) by operating activities	13,686,959	(5,755,63
Investing activities		
Net decrease in loans	3,392,299	27,695,51
Repayments on held to maturity securities	286,302	229,62
Purchase of held to maturity securities	(812,434)	(250,00
Proceeds from retirement of held to maturity securities	650,000	250,00
Purchase of securities available for sale	-	(26,000,00
Proceeds from sales of securities available for sale	18,378,584	23,683,50
Sale of FHLB stock	602,900	-
Purchase of FHLB stock	-	-
Purchase of other stock	-	-
Proceeds from sales of real estate owned	514,451	830,29
Improvements to real estate owned	(66,337)	-
Purchase of bank owned life insurance	(3,000,000)	-
Increase in bank owned life insurance	(213,694)	-
Net decrease in cash from sale of branch:		
Proceeds from sale of loans	-	4,358,78
Sale of deposits	-	(7,143,69
Proceeds from sale of office properties, equipment and land	-	1,057,60
Origination of mortgage servicing rights	-	(331,30

Proceeds from sales of mortgage servicing rights, net	-	825,93
Purchase of office properties and equipment	(1,194,301)	(374,98
Proceeds from sales of office properties and equipment	1,289,408	109,88
Net cash provided by investing activities	19,827,178	24,941,15

(Continued)

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Year Ended December 31,	2002	2001
Financing activities		
Net increase (decrease) in deposits	(29,372,598)	(9,101,991
Repayment of Federal Home Loan Bank advances	(49,000,000)	(62,000,000
Proceeds from Federal Home Loan Bank advances	48,000,000	49,000,000
Payments on bonds payable, including unapplied payments	(279,122)	(196,445
Decrease in securities sold under agreements to repurchase	-	-
Repurchase of convertible preferred securities	-	-
Proceeds from issuance of common stock, net	92,164	-
Dividends paid	-	-
Net cash absorbed by financing activities	(30,559,556)	(22,298,436
Increase (decrease) in cash and cash equivalents	2,954,581	(3,112,919
Cash and cash equivalents, beginning of year	12,437,293	15,550,212
Cash and cash equivalents, end of year	$15,391,874	$12,437,293

See accompanying summary of accounting policies and notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
Summary of Accounting Policies

Nature of Business and Regulatory Environment

Guaranty Financial Corporation ("Guaranty") is a bank holding corporation whose principal assets are its wholly-owned subsidiaries, Guaranty Bank ("the Bank") and Guaranty Capital Trust I. Bank provides a full range of banking services to individual and corporate customers.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Guaranty, its wholly-owned subsidiaries, Guaranty Capital Trust I and the 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, 2002 presentation.

Investment Securities

Investments in securities are classified as either held-to-maturity, available for sale, or trading, 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.

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.

If any, investments in debt and equity securities classified as trading would be stated at market value. Unrealized holding gains and losses for trading securities would be included in the statement of operations. Guaranty held no securities that were classified as trading as of December 31, 2002 or 2001.

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.

Guaranty had approximately $332,000, $14,279,000 and $2,193,000 of loans held for sale at December 31, 2002, 2001 and 2000, 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.

Guaranty 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.

Sale of Loans and Participation in Loans

Guaranty generates funds by selling loans to the Federal Home Loan Mortgage Corporation and other investors. In mid-2001, Guaranty changed its mortgage banking business model to sell all residential mortgage loans originated on a servicing released basis. As part of this revised business model, Guaranty sold its residential mortgage loan servicing for others portfolio for $918,000 in 2001. Under prior servicing agreements, Guaranty continued to service the loans and the participant is paid its share of principal and interest collections.

Historically, Guaranty allocated 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 sold or securitized the loans and retained the mortgage servicing rights. Guaranty assessed its capitalized mortgage servicing rights for impairment based on the fair value of those rights.

The cost of mortgage servicing rights was amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights was assessed based on the fair value of those rights. Fair values were estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights were 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.

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 Guaranty'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.

A loan is considered to be impaired when it is probable that Guaranty 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, 2002 and 2001 Guaranty 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

Guaranty 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.

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 (the "Act") of 1996 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 Guaranty 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 Guaranty during the year is not less than Guaranty'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, Guaranty must recapture into taxable income approximately $354,000 ratably over six years, which began December 31, 1998, since Guaranty 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 1,963,415, 1,961,727 and 1,961,727 for the years ended December 31, 2002, 2001 and 2000, respectively.

Statements of Cash Flows

Cash and cash equivalents include Federal funds sold with original maturities of three months or less. Interest paid was approximately $4,236,000, $10,012,000 and $12,713,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Cash paid for income taxes was approximately $811,000, $380,000 and $697,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Real estate acquired in the settlement of loans was approximately $191,000, $305,000 and $941,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which was effective July 1, 2001. SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests methods. The adoption of SFAS 141 has not had an effect on Guaranty's financial statements.

Also in July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which was effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires a transitional goodwill impairment test six months from the date of adoption and further requires an evaluation of the carrying value of goodwill for impairment annually thereafter. The adoption of SFAS 142 has not had an effect on Guaranty's financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Guaranty believes the adoption of SFAS 144 will not have a material effect on Guaranty's financial statements.

On July 6, 2001, the SEC issued Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance Methodology and Documentation Issues". The bulletin expresses the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses in accordance with generally accepted accounting principles. This includes for each period reported the "books and records of the

registrants engaged in lending activities include documentation of: (a) systematic methodology to be employed each period in determining the amount of loan losses to be reported, and (b) rationale supporting each period's determination that the amounts reported were adequate." Management believes that its documentation and methodologies are compliant with SAB 102.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", ("SFAS 146"). This statement addresses financial accounting and reporting for costs associated with exit or disposal

activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition of Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. Guaranty does not expect the adoption of SFAS 146 to have an effect on the financial statements.

In October 2002, the FASB issued SFAS 147, "Acquisitions of Certain Financial Institutions - an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. This statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets". Thus, the requirement in paragraph 5 of Statement 72 to recognize (and subsequently amortize) any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets required as an unidentifiable intangible asset no longer applies to acquisitions within the scope of this Statement. In addition, this Statement amends FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor - and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement 144 requires for other long-lived assets that are held and used. The adoption of SFAS 147 did not have an effect on the Guaranty's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Management does not expect the adoption of SFAS 148 to have an effect on the Guaranty's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains

December 31, 2002		
Held to Maturity		
Mortgage-backed securities	$ 432,656	$38,152
U.S. Treasury Bonds	403,458	-
Total Held to Maturity	836,114	38,152
Available for Sale		
Corporate bonds	3,246,760	-
Other	422,250	-
Total Available for Sale	3,669,010	-
Total Investment Securities	$4,505,124	$38,152
December 31, 2001		
Held to Maturity		
Mortgage-backed securities	$ 719,989	$48,288
U.S. Treasury Bonds	250,000	-
Total Held to Maturity	969,989	48,288
Available for Sale		
U.S. Government Agency Bonds	8,000,000	-
Corporate bonds	13,620,016	-
Other	422,250	-
Total Available for Sale	22,042,266	-
Total Investment Securities	$23,012,255	$48,288

The amortized cost and estimated market value of available for sale and held to maturity securities at December 31, 2002 by maturity is as follows:

	Amortized Cost	Estimated Market Value
Held to Maturity		
Mortgage-backed securities	$ 432,656	$ 470,808
U.S. Treasury Bonds	403,458	403,458
Total Held to Maturity	836,114	874,266
Available for Sale		
Corporate bonds and other due after five years	3,246,760	3,211,900
Other	422,250	422,250
Total Available for Sale	3,669,010	3,634,150

Total Investment Securities	$4,505,124	$4,508,416

1. Investment Securities (continued)

Gross gains and losses from the sale of securities during the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002		2001	
	Gains	Losses	Gains	Losses
Held to Maturity	$ -	$ -	$ -	$ -
Available for Sale	20,125	-	3,046	-
Totals	$ 20,125	$ -	$ 3,046	$ -

Mortgage backed securities of approximately $433,000 and $720,000 December 31, 2002 and 2001, respectively, were pledged for bonds payable (Note 6).

2. Loans Receivable

Loans receivable are summarized as follows:

December 31,	2002
Mortgage loans	
Residential	$ 20,118,677
Commercial	7,893,953
Construction and land loans	38,479,836
Total real estate	66,492,466
Commercial business loans	76,651,355
Consumer loans	22,238,245
Total loans receivable	165,382,066
Less	
Deferred loan fees (costs), net	(109,911)
Allowance for loan losses	2,242,092
	2,132,181
	$163,249,885

The allowance for loan losses is summarized as follows:

Balance at December 31, 1999
Provision charge to expense
Net charge-offs
Balance at December 31, 2000
Provision charged to expense
Net charge-offs
Balance at December 31, 2001
Provision charged to expense
Net charge-offs
Balance at December 31, 2002

2. Loans Receivable (continued)

Guaranty serviced loans for others aggregating approximately $12.4 million and $13.2 million at December 31, 2002 and 2001, respectively. The servicing rights to approximately $189,000,000 in loans were sold and transferred during 2001. Mortgage servicing rights of $0 and $331,307 were capitalized during the years ended December 31, 2002 and 2001, respectively.

Gross gains and gross losses on the sale of loans and servicing totaling approximately $999,000 and $0, $1,249,000 and $0, and $643,000 and $305,000 were realized during the years ended December 31, 2002, 2001 and 2000, respectively.

3. Office Properties and Equipment
Office properties and equipment are summarized as follows:

December 31,	2002
Land	$2,817,101
Building and leasehold improvements	4,062,185
Furniture and fixtures	1,335,238
Equipment	2,546,040
Automobiles	-
	10,760,564
Less accumulated depreciation and amortization	3,317,629
Net office properties and equipment	$7,442,935

4. Deposits

Deposits are summarized as follows:

December 31,	2002
Statement savings accounts	$ 12,811,611
Demand deposit accounts	53,498,243
Money market accounts	34,444,896
	100,754,750
Time deposits	70,504,355
	$171,259,105

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was approximately $11,390,000 and $20,589,000 at December 31, 2002 and 2001, respectively.

At December 31, 2002, scheduled maturities of certificates are as follows (rounded to the nearest thousand):

Year Ending December 31,
2003
2004
2005
2006
2007 and thereafter

5. Fair Value of Financial Instruments

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

December 31,	2002		
	Carrying Amount	Fair Value	Car Am

Financial assets			
Cash and short-term investments	$ 15,391,874	$ 15,392,000	$ 12,4
Securities	4,470,264	4,508,000	21,9
Loans, net of allowance for loan losses	163,249,885	164,798,000	177,5
Financial liabilities			
Deposits	171,259,105	171,729,000	200,6
Advances from Federal Home Loan Bank	-	-	1,0
Bonds payable	359,847	N/A	5

	Notional Amount	Fair Value	Noti Amo
Unrecognized financial instruments			
Commitments to extend credit	$52,356,000	$52,356,000	$ 52,0

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.

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.

5. Fair Value of Financial Instruments (continued)

The fair values of all other advances are estimated using discounted cash flow analysis based on Guaranty'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, 2002 and 2001, 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.

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,	2002
Serial Bonds	
Class A-3, maturing January 20, 2019, at 8.0%	$455,428
Unapplied payments	(30,000)
	425,428
Less unamortized discount	(65,581)
	$359,847

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 balance sheet. The account established for payment of interest and debt maturities is netted with cash and bonds payable on the balance sheet.

7. Advances From Federal Home Loan Bank

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

Year Ended December 31,	2002
Maximum amount outstanding during the year	$15,000,000
Average amount outstanding during the year	$ 6,136,000
Average interest rate during the year	1.96%

8. Income Taxes

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

Year Ended December 31,	2002	2
Current income tax	$927,972	$285,
Deferred income tax expense (benefit)	(113,714)	(18,
	$814,258	$267,

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

Year Ended December 31,	2002	2
Tax expense at statutory rate	$876,418	$267,
Adjustments		
Other	62,160	
	$814,258	$267,

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

December 31,	2002
Deferred tax asset	
Bad debt reserves	$ 742,000
REO reserves	82,000
Deferred loan fees	7,000
Available for sale securities	12,000
Other	23,000
Total deferred tax asset	866,000
Deferred tax liability	
GMSC REMIC	63,000
Fixed assets	405,000
Other	-
Total deferred tax liability	468,000
Net deferred tax asset	$398,000

9. Related Party Transactions

In the normal course of business, Guaranty 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,	2002
Balance at the beginning of year	$2,044,000
Additional loans	171,000
Loan reductions	(146,000)
Balance at end of year	$2,069,000

10. Commitments and Contingencies

Guaranty leases office space under operating leases expiring at various dates through 2012 and has contracts for data processing services whose initial term expires in February 2004 and requires minimum payments of $60,100 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, 2002, are as follows:

Year Ending December 31,	Amount Leases
2003	$ 166,200
2004	162,100
2005	141,800
2006	144,200
2007 and thereafter	1,698,000
	$2,312,300

Total rental expense amounted to approximately $140,000, $179,000 and $108,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Total data processing expense amounted to approximately $1,049,000, $1,037,000 and $926,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Guaranty 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.

11. Convertible Preferred Stock

On April 29, 1998, Guaranty formed Guaranty Capital Trust I (the "Trust"), a wholly owned subsidiary. The Trust issued 276,000 shares of 7.0% convertible preferred securities maturing May 5, 2028 for $6,900,000, with an option to call on or after April 29, 2003. Conversion of the preferred securities into Guaranty's stock may occur at any time prior to maturity. The Trust also issued 8,537 shares of convertible common stock for $213,425. Guaranty purchased all shares of the common stock. The proceeds from the sale of the preferred securities were utilized to purchase from Guaranty 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 January 2000, Guaranty 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. In December 1999, Guaranty 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.

12. Stockholders' Equity

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

December 31, 2002	Amount Required	Percent Required	Actual Amount
Tier 1 risk based	$ 6,628,000	4.00%	$24,374,000
Total risk based capital	13,255,000	8.00	26,447,000

December 31, 2001	Amount Required	Percent Required	Actual Amount

Tier 1 risk based	$ 7,279,000	4.00%	$22,542,000
Total risk based capital	14,560,000	8.00	24,818,000

The ratios which have been established for well-capitalized banks are 6% and 10% for Tier 1 risk based capital and total risk based capital, respectively. Guaranty 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 Guaranty 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 and the 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. The agreement restricted Guaranty from paying dividends or incurring any debt at the holding company level without prior regulatory approval. In addition, the Bank, was also prohibited from paying intercompany dividends to Guaranty without prior regulatory approval. Guaranty and the Bank gained formal relief from the Written Agreement in October 2002.

13. Stock Option Plan

Guaranty has a non-compensatory 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:

	2002		2001	
	Shares	Weighted - average exercise price	Shares	Weighted averag exercis price
Options outstanding at beginning of period	57,912	$12.07	101,900	$14.16
Granted	47,500	8.59	16,512	8.74
Forfeited	(21,500)	12.45	(60,500)	12.10
Exercised	(7,900)	10.59	-	-
Options outstanding at end of period	76,012	10.01	57,912	12.07
Options exercisable at end of period	76,012		48,900	

The weighted average fair value of options granted during the year ended December 31, 2002 and 2001 was $2.74 and $4.28, respectively.

Guaranty 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, Guaranty'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,	2002	2001
Net income		
As reported	$1,763,442	$518,375
Pro forma	1,677,417	498,434
Net income per share (basic and diluted)		
As reported	$ 0.89	$ 0.26
Pro forma	0.85	0.25

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, 2002: a risk free interest rate of 4.97%, dividend yield of 2%, expected weighted average term of 7.0 years, and a volatility of 30%.

14. Employee Benefit Plans

Effective February 16, 1989, Guaranty 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. Guaranty may make contributions to the plan at its discretion. Guaranty's contributions are allocated to employee accounts using a systematic formula based on participant compensation. Guaranty contributed approximately $67,000, $60,000 and $65,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

15. Financial Instruments With Off-Balance-Sheet Risk

Guaranty 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 Guaranty has in particular classes of financial instruments.

Guaranty'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. Guaranty 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, Guaranty does not require collateral or other security to support financial instruments with credit risk.

December 31,	2002

Financial instruments whose contract amounts represent credit risk	
Commitments to extend credit	$52,356,000
Standby letters of credit written	5,054,000

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

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. Guaranty evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit written are conditional commitments issued by Guaranty 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 Guaranty's loan activity was with customers located in Charlottesville and Richmond, Virginia and surrounding counties.

16. Selected quarterly financial data (Unaudited)

Condensed quarterly financial data is shown as follows:

Year Ended December 31, 2002 (Dollars in thousands except per share data)	First Quarter	Second Quarter
Total interest income	$3,472	$3,313
Total interest expense	1,388	1,121
Net interest income	2,084	2,192
Provision for loan losses	25	25
Net interest income after provision for loan losses	2,059	2,167
Other income	634	541
Other expenses	2,090	2,087
Income before income tax expense	603	621
Income tax expense	197	193
Net income	$ 406	$ 428
Basic and diluted earnings per share	$ 0.21	$0.22

16. Selected quarterly financial data (Unaudited) (continued)

Year Ended December 31, 2001 (Dollars in thousands except per share data)	First Quarter	Second Quarter
Total interest income	$5,105	$4,569
Total interest expense	2,929	2,753
Net interest income	2,176	1,816
Provision for loan losses	150	75
Net interest income after provision for loan losses	2,026	1,741
Other income	538	560
Other expenses	2,310	2,290
Income before income tax expense	254	11
Income tax expense	86	4
Net income	$ 168	$ 7
Basic and diluted earnings per share	$ 0.08	$ 0.00

17. Condensed Financial Information of the Parent Company Only

Condensed Statements of Financial Condition

December 31,	2002
Assets	
Investment in subsidiaries, at equity	$24,324,165
Cash	83,784
Prepaid expenses and other assets	448,437
	$24,856,386
Liabilities and Stockholders' Equity	
Other liabilities	$ -
Total liabilities	-
Subordinated debt	6,225,925
Stockholders' Equity	
Common stock	2,463,346

Additional paid-in capital	9,034,207
Retained earnings	7,132,908
Total stockholders' equity	18,630,461
	$24,856,386

17. Condensed Financial Information of the Parent Company Only (continued)

Condensed Statements of Operations

Year Ended December 31,	2002
Income	
Dividends received from bank	$ 420,875
Total income	420,875
Interest expense	(420,875
Non-interest expenses	(8,531
Income before undistributed net income of the Bank	(8,531
Undistributed net income	1,771,973
Net income	$1,763,442

Condensed Statements of Cash Flows

Year Ended December 31,	2002
Operating activities	
Net income	$1,763,442
Adjustments	
Undistributed earnings of the Bank	(1,771,973
Decrease in prepaid and other assets	-
decrease in other liabilities	-
Net cash absorbed by operating activities	(8,531
Investing activities	
Dividends received from Bank	420,87
Investment in the bank	(420,875
Net cash provided (absorbed) by investing activities	
Financing activities	
Issuance of common stock	92,16

Net cash provided by financing activities		92,16
Increase (decrease) in cash		83,63
Cash, beginning of year		15
Cash, end of year	$	83,784

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 17, 2003

By: /s/ William E. Doyle, Jr.
William E. Doyle, Jr.
President and Chief Executive Officer

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/ William E. Doyle, Jr. William E. Doyle, Jr.	President and Chief Executive Officer and Director (Principal Executive Officer)	Ma
/s/ Tara Y. Harrison Tara Y. Harrison	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
/s/ Jason I. Eckford, Jr. ------------------------------------- Jason I. Eckford, Jr.	Director	Ma
/s/ John R. Metz ------------------------------------- John R. Metz	Director	Ma
/s/ James R. Sipe, Jr. ------------------------------------- James R. Sipe, Jr.	Director	Ma
/s/ Oscar W. Smith, Jr. ------------------------------------- Oscar W. Smith, Jr.	Director	Ma

CERTIFICATION

I, William E. Doyle, Jr., certify that:

1. I have reviewed this annual report on Form 10-KSB of Guaranty Financial Corporation;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003 /s/ William E. Doyle, Jr.

William E. Doyle, Jr.
President and Chief Executive Officer

CERTIFICATION

I, Tara Y. Harrison, certify that:

1. I have reviewed this annual report on Form 10-KSB of Guaranty Financial Corporation;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us

by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

/s/ Tara Y. Harrison

Tara Y. Harrison
Vice President and Chief Financial Officer

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.
10.2	Employment Agreement, dated as of May 10, 2001, by and between Guaranty and William E. Doyle, Jr., attached as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-QSB for the period ended June 30, 2001, incorporated herein by reference.
21	Subsidiaries of Guaranty Financial Corporation.
99.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
99.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350