GUARANTY FINANCIAL CORP /VA/
Form 10KSB
April 14, 2004

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, 2003

Commission file number 0-25905

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

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

(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. [ ]

The issuer's gross income for its most recent fiscal year was $14,089,633.

The aggregate market value of the voting stock held by non-affiliates computed by reference to the closing sales price of such stock as of March 1, 2004 was approximately $42,526,000. (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 March 1, 2004 was 2,000,659.

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PART I

PART I

Item 1. Description of Business.

General

Guaranty Financial Corporation ("Guaranty") is a Virginia corporation which was organized in 1995 for the purpose of becoming the holding company of Guaranty Bank (the "Bank"). The Bank began business in February 1981 as a federal savings association, converted to a Virginia chartered Federal Reserve member bank in 1997, and is headquartered in Charlottesville, Virginia. The consolidated financial statements of Guaranty include the accounts of Guaranty and its wholly-owned subsidiaries, Guaranty Capital Trust I and the Bank, and the Bank's wholly-owned subsidiaries, GMSC, Inc. and Guaranty Investment Corp. Guaranty Capital Trust I issued trust preferred securities in 1998, which have been fully redeemed as of December 31, 2003. GMSC, Inc. was organized in 1987 for the purpose of issuing debt securities which are principally secured by mortgage-backed securities. The debt securities have been fully paid as of December 31, 2003.

Guaranty's principal asset is the outstanding stock of the Bank. 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, and selling loans. Of Guaranty's $157.8 million of gross loans outstanding at December 31, 2003, 24.1% represented construction and land loans, 46.3% represented commercial business and commercial real estate loans, and 16.1% represented residential first mortgages. Guaranty also lends funds to retail banking customers by means of home equity and installment loans. 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.

On December 18, 2003, Guaranty and Union Bankshares Corporation announced the signing of a definitive merger agreement, which was unanimously approved by each board of directors, pursuant to which Union will acquire Guaranty. The merger is dependent on certain regulatory approvals, as well as approval by Guaranty shareholders, and is expected to close in the second quarter of 2004.

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 2001 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 seven full service retail branches, which serve the City of Charlottesville and the counties of Albemarle, Fluvanna and Nelson. According to the June 30, 2003 market share report as summarized by the Federal Deposit Insurance Corporation (the "FDIC"), Guaranty holds 7.68% of the deposits in the Charlottesville, Virginia market.

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.

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, 2003, commitments to extend credit totaled $60.1 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, 2003, construction, land and land development loans outstanding were $38.0 million, or 24.1%, 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, 2003, commercial loans, excluding commercial real estate loans as discussed below, totaled $67.0 million, or 42.5% 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, 2003, commercial real estate loans aggregated $6.0 million or 3.8% 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.

Most fixed rate mortgage loans are originated with the intent to sell. The Bank also occasionally originates non-conforming fixed rate loans to hold in the portfolio. At December 31, 2003, $15.4 million, or 9.8%, 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, 2003, $10.0 million, or 6.3%, 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 requires 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, 2003, Guaranty had consumer loans of $21.2 million or 13.5% of gross loans. Such loans are generally made to customers with whom 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, 2003, Guaranty had 91 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 is 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, 2003, the Bank declared $773,803 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 FDIC. The deposits of the Bank are insured by the FDIC up to the limits set forth under applicable law. The deposits of the Bank are subject to the deposit insurance assessments of the Bank Insurance Fund ("BIF") of the FDIC.

The FDIC has implemented a risk-based deposit insurance assessment system under which the assessment rate for an insured institution may vary according to regulatory capital levels of the institution and other factors (including supervisory evaluations). Depository institutions insured by the BIF that are "well capitalized" and that present few or no supervisory concerns, are required to pay only the statutory minimum assessment of $2,000 annually for deposit insurance, while all other banks are required to pay premiums ranging from .03% to .27% of domestic deposits. The Bank's deposit insurance assessment decreased from .030% to .017% and then to .015% of deposits in calendar years 2001, 2002 and 2003, respectively. 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 1997 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.

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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, 2003, 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.

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Item 2. Description of Property.

As of March 1, 2004, Guaranty conducted its business from its main office in Charlottesville, Virginia and seven 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 2
Route 29 North & Rio Road 1700 Seminole Trail Charlottesville, Virginia	1985	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
Lovingston 124 Main Street Lovingston, Virginia	2003	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. There are no material pending legal proceedings to which the Company is a party or of which the property of the Company is subject.

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, 2003:			
1st quarter	$14.00	12.83	$0.07
2nd quarter	15.36	13.01	0.07
3rd quarter	16.20	14.18	0.07
4th quarter	26.24	15.90	0.07
Fiscal Year Ended December 31, 2002:			
1st quarter	10.95	8.00	--
2nd quarter	13.75	10.20	--
3rd quarter	14.12	12.20	--
4th quarter	14.60	12.50	--

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. Guaranty and the Bank were released from the Written Agreement in October 2002. The timing, amount and payment of future dividends on Guaranty's Common Stock is at the discretion of Guaranty's Board of Directors and will depend upon the earnings of Guaranty and its subsidiaries, principally the Bank, the financial condition of Guaranty and other factors, including general economic conditions and applicable governmental regulations and policies.

Guaranty is a legal entity separate and distinct from its subsidiaries, and its revenues depend primarily on the payment of dividends from the Bank.

As of March 1, 2004, Guaranty had approximately 330 shareholders of record. This number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

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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, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001. 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 markets of the City of Charlottesville and the counties of Albemarle, Fluvanna and Nelson. Guaranty Bank (the "Bank") operated seven branch locations throughout the year 2003.

Guaranty maintained solid earnings during calendar year 2003, which was the third and final 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 maintained a high level of asset quality, ending the year with no non-performing assets and past-due loans balances at the lowest level in five years. As a result of Guaranty's focused effort on attracting low-cost deposits, the net interest margin widened from 3.51% for calendar year 2001 to 4.75% for calendar year 2003.

From December 31, 2001 to December 31, 2003, Guaranty reduced its total assets from $225.2 million to $199.0 million. This planned reduction in total assets is indicative of Guaranty's emphasis changing from aggressive growth to profitability management.

Net Income

Net income for the year ended December 31, 2003, was $1,946,000 ($.97 per diluted share), which represented a $183,000, or 10.4% increase over the net income for the prior year. Factors that contributed to the increased net income were the gain that was realized on the sale of the Harrisonburg branch and increased mortgage banking income. These favorable variances were offset by lower net interest income, an increased loan loss provision, resulting from fraudulent activity on the part of one large commercial borrower, and decreased investment commissions.

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 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 or $.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 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 $8.3 million for the year ended December 31, 2003, a 4.8% decrease from $8.7 million in net interest income for the year ended December 31, 2002. The yield on loans fell 75 basis points from 6.99% during 2002 to 6.24% during 2003. The yield on securities was substantially impacted by the low rate environment, as Guaranty replaced higher risk long-term corporate bonds yielding an average of 6.30% in 2002 with securities yielding an average of 3.73% in 2003. The cost of interest bearing deposits fell 115 basis points to 1.09% during 2003 from 2.24% during 2002, as Guaranty's continued focus regarding deposits remained centered around low-cost deposit growth. During 2003, Guaranty redeemed its Trust Preferred Securities, which had a 7% coupon rate, saving over $260,000 in interest expense in 2003. Unamortized expenses were recognized in full at the time of the redemption, resulting in a negative impact to the yield of $185,000. Guaranty also redeemed GMSC's REMIC bond during 2003, at which time $52,000 in unamortized premium was recognized, also negatively impacting Guaranty's net interest income.

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.

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.

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,						
	2003			2002			
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	
Assets							
Interest earning assets:							
Securities	$ 7,114	$ 265	3.73%	$ 17,226	$ 1,086	6.30%	$
Loans	158,992	9,916	6.24%	166,634	11,649	6.99%	
Interest bearing deposits in other banks	8,159	101	1.25%	6,078	120	1.97%	
Total interest-earning assets/ total interest income	174,265	10,282	5.90%	189,938	12,855	6.77%	
Non-interest earning assets:							
Cash and due from banks	8,715			8,551			
Premises and equipment	6,467			8,185			
Other assets	4,742			4,975			
Less allowance for loan losses	(2,193)			(2,531)			
Total non-interest earning assets	17,731			19,180			
Total Assets	$191,996			$209,118			$
Liabilities and Stockholders' Equity							
Interest bearing liabilities:							
Interest bearing deposits:							
Demand accounts	$ 30,347	54	0.18%	$ 27,057	87	0.32%	
MMDA accounts	40,164	368	0.92%	24,864	381	1.53%	
Savings	12,833	27	0.21%	13,103	63	0.48%	
Certificates of deposit	58,309	1,094	1.88%	89,635	2,933	3.27%	
Total interest bearing deposits	141,653	1,543	1.09%	154,659	3,464	2.24%	
FHLB advances and other borrowings	760	10	1.32%	6,136	120	1.96%	

Trust preferred bonds	2,718	364	13.39%	6,013	481	8.00%
Bonds payable (3)	189	84	44.44%	486	90	18.52%
Total interest bearing liabilities/total interest expense	145,320	2,001	1.38%	154,659	4,155	2.48%
Non-interest bearing liabilities:						
Demand deposits	26,306			22,879		
Other liabilities	1,123			1,397		
Total Liabilities	172,749			191,570		
Stockholders' equity	19,247			17,548		
Total liabilities and Stockholders' equity	$191,996			$209,118		$
Interest spread (1)			4.52%			4.29%
Net interest income/net interest margin (2)		$8,281	4.75%		$ 8,700	4.58%

(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.

(3) The yield associated with bonds payable for the year ended December 31, 2003 includes $52,000 of premium associated with the time of redemption of the bonds.

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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, 2003 compared to Year Ended December 31, 2002 Change Due To:			Y Y Ch
(Dollars in thousands)	Rate	Volume	Increase (Decrease)	R
Interest income:				
Securities	$ (444)	$ (377)	$ (821)	$
Loans	(1,256)	(477)	(1,733)	(2,
Interest bearing deposits in other banks	(44)	26	(18)	(
Total interest income	(1,744)	(828)	(2,572)	(2,

Interest expense:				
Interest bearing deposits:				
Demand accounts	(39)	6	(33)	(
MMDA accounts	(153)	140	(13)	(
Savings	(35)	(1)	(36)	(
Certificates of deposit	(1,251)	(588)	(1,839)	(3,
Total interest bearing deposits	(1,478)	(443)	(1,921)	(3,
FHLB advances and other	(39)	(71)	(110)	(
Trust preferred bonds	324	(441)	(117)	
Bonds payable	126	(132)	(6)	
Total interest expense	(1,067)	(1,087)	(2,154)	(4,
Net interest income	$ (677)	$ 259	$ (418)	$ 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 has an Asset/Liability Committee ("ALCO"), which meets regularly to discuss deposit pricing, changes in borrowed money, investment activity, loan sale activity, liquidity levels and the overall interest sensitivity. The actions of this committee are reported to the Board of Directors monthly. The daily monitoring of interest rate risk, investment and trading activity, along with any other significant transactions are managed by the President with input from other ALCO members. Guaranty's ALCO has assigned an "effective maturity" to non-maturing demand accounts, ranging from two to three years, depending on the nature of the account, and this effective maturity reduces the risk of the liability sensitive position.

At December 31, 2003, Guaranty had $46.7 million more liabilities than assets that re-price 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 a large concentration of non-maturing interest-bearing demand deposit accounts and fixed rate certificates of deposit reaching maturity in one year or less.

Because gap analysis shows only the dollar volume of assets and liabilities that will mature or re-price, Guaranty's ALCO uses simulation modeling to measure the actual effects the re-pricing will have on net interest margin and net income. The typical simulation model involves a 12-month projection with a level rate scenario and rising and falling rate scenarios deemed appropriate given the current rate environment. The acceptable level of interest rate sensitivity is plus or minus 15% of net interest income from an immediate 200 basis point increase or decrease in interest rates. The acceptable change in net income is plus or minus 40% from a 200 basis point increase or decrease in interest rates. ALCO 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.

ALCO also measures the economic value at risk. The purpose of this measure is to determine the long-term effect interest rate changes will have on the economic value of the balance sheet. This measurement is obtained using a discounted cash flow technique, at current, level and rising and falling rate scenarios. ALCO has established risk parameters for economic value of equity and monitors periodic projections against such parameters.

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	$ 68,932	$ 17,349
Investments and mortgage-backed securities (1)	3	9
Deposits at other institutions	4,667	-
Total interest-sensitive assets	73,602	17,358
Cumulative interest-sensitive assets	73,602	90,960
Interest-sensitive liabilities:		
NOW accounts	32,073	-
Money market deposit accounts	45,225	-
Savings accounts	13,404	-
Certificates of deposit	16,991	29,971
Total interest-sensitive liabilities	107,693	29,971
Cumulative interest-sensitive liabilities	$ 107,693	$137,664
Period gap	$(34,091)	$(12,613)
Cumulative gap	(34,091)	(46,704)
Ratio of cumulative interest-sensitive assets to interest-sensitive liabilities	68.34%	66.07%
Ratio of cumulative gap to total assets	(17.13%)	(23.47%)

(1) Amounts include Federal Home Loan Bank stock.

Of Guaranty's commercial and construction loans with a maturity of more than one year, approximately $2.2 million have fixed interest rates and $1.9 million have variable interest rates.

Investments

Total investment securities increased 267% to $19.9 million at December 31, 2003, from $5.4 million at December 31, 2002. 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, in an effort to improve liquidity without incurring investment losses. Guaranty began to re-build the investment portfolio in 2003 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, 2003		2002	
	Cost	Market	Cost	Market
(Dollars in thousands)				
Held-to-maturity				
Mortgage-backed securities	$ 3,321	$ 3,349	$ 433	$ 471
U.S. Government Agency Obligations	8,138	8,122	403	403
Total held-to-maturity	11,459	11,471	836	874
Available for sale				
Mortgage-backed securities	5,882	5,868	-	-
Corporate bonds	-	-	3,247	3,212
U.S. Government Agency Obligations	1,497	1,477	-	-
Federal Reserve Bank & Other Stocks	557	557	422	422
Total available for sale	7,936	7,902	3,669	3,634
Other				
Federal Home Loan Bank Stock	532	532	947	947
Total	$19,927	$19,905	$5,452	$5,455

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

	December 31, 2003		2002	
(Dollars in thousands)	Book Value	% of Total	Book Value	% of Total

Investment securities:				
Mortgage-backed securities	$ 9,189	46.19%	$ 431	7.96%
Corporate bonds	-	-	3,212	59.29
Treasury and agency notes	9,615	48.33	-	-
FHLB stock	532	2.68	947	17.48
Other	557	2.80	827	15.27
Total Investment securities	$19,893	100.00%	$5,417	100.00%

The following table indicates the maturity distribution and yields of investment securities, held as of December 31, 2003.

	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	$ -	-	$8,138	2.77%	$ -	-	$
Mortgage-backed securities	-	-	-	-	-	-	3,32
Total	$ -	-	$8,138	2.77%	$ -	-	$ 3,32
Securities available for sale (1):							
U.S. Government securities	$ -	-	$1,477	3.50%	$ -	-	$
Mortgage-backed securities	-	-	-	-	-	-	5,86
Total	$ -	-	$1,477	3.50%	$ -	-	$ 5,86
Total securities	$ -	-	$9,615	2.88%	$ -	-	$ 9,18

(1) Excludes Federal Reserve stock of $352,250, Federal Home Loan Bank stock of $532,000, Community Bankers Bank stock of $70,000 and BI Investments stock of $135,000.

Loans

Net loans consist of total loans minus undisbursed loan funds, deferred loan fees and the allowance for loan losses. Net loans were $156.0 million at December 31, 2003, a 4.4% decline from December 31, 2002. During 2003, Guaranty continued to reposition the loan portfolio with highly focused lending strategies and an emphasis on credit quality. Net loans declined to $163.2 million at December 31, 2002, from $177.6 million at December 31, 2001, 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,		
	2003	2002	2001
(Dollars in thousands)			
Mortgage Loans:			
Residential	$25,461	$ 20,119	$ 39,864
Commercial	5,975	7,894	16,277
Construction and land loans	38,013	38,480	36,307
Total real estate	69,449	66,493	92,448
Commercial business loans	67,090	76,651	66,603
Consumer loans	21,241	22,238	20,973
Total loans receivable	157,780	165,382	180,024
Adjustments:			
Deferred fees (costs)	(240)	(110)	(67)
Allowance for losses	2,011	2,242	2,512
Total net items	1,771	2,132	2,445
Total loans receivable, net	$156,009	$163,250	$177,579

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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 42% of total loans outstanding. During this same time period, residential mortgage loans outstanding have decreased from $62.8 million to $25.5 million. Presently, the majority of the residential mortgage loans originated are sold on a servicing released basis.

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

	December 31,		
	2003	2002	2001
(Dollars in thousands)			
Fixed-Rate Loans:			
Real Estate			
Residential	$15,417	$ 8,921	$ 27,200
Commercial	-	-	-
Construction and land loans	-	-	-
Total real estate	15,417	8,921	27,200
Commercial business loans	13,380	15,745	15,427

Consumer Loans	4,412	3,606	3,429
Total fixed-rate loans	33,209	28,272	46,056
Adjustable-Rate Loans:			
Real Estate			
Residential	10,045	11,198	12,664
Commercial	5,975	7,894	16,277
Construction and land loans	38,013	38,480	36,307
Total real estate	54,033	57,572	65,248
Commercial business loans	53,650	60,906	51,176
Consumer loans	16,888	18,632	17,544
Total adjustable-rate loans	124,571	137,110	133,968
Total loans receivable	157,780	165,382	180,024
Less:			
Deferred fees (costs)	(240)	(110)	(67)
Allowances for losses	2,011	2,242	2,512
Total net items	1,771	2,132	2,445
Total loans receivable, net	$156,009	$163,250	$177,579

The following table presents the remaining maturities of selected categories of Guaranty's loan portfolio at December 31, 2003.

	Commercial, Financial and Agricultural	Real Estate Construction
(Dollars in thousands)		
Within 1 year	$12,735	$23,848
Variable Rate:		
1 to 5 years	16,800	5,450
After 5 years	32,822	2,235
Total	49,622	7,685
Fixed Rate:		
1 to 5 years	5,920	-
After 5 years	4,738	-
Total	10,658	-
Total	$73,015	$31,533

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, 2003, Guaranty had classified $3.7 million of its loans as substandard. No loans were classified as doubtful or loss at December 31, 2003. 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 and management believes that they are fully collectible and secured.

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. Guaranty had no loans that were considered in the non-accrual status as of December 31, 2003.

The following table reflects the composition of non-performing assets at the dates indicated.

			December 31,
	2003	2002	2001
(Dollars in thousands)			
Non-accrual loans	$ -	$2,363	$ 187
Restructured loans	-	-	-
Total non-performing loans	-	2,363	187
Foreclosed assets	-	397	764
Total non-performing assets	$ -	$2,760	$ 951
Loans past due 90 or more days and accruing interest	$ 92	$ 156	$ 103
Non-performing loans to total loans, at period end	-	1.43%	0.10%
Non-performing assets to period end			

total loans and foreclosed assets	-	1.67%	0.53%

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% - 10% 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.

During 2003, Guaranty charged-off $1.03 million as the consequence of substantial fraudulent activity by one commercial borrower and increased the provision for loan loss due to concern regarding the ability to collect a second large commercial credit that was currently in the workout stage. The combination of these two factors resulted in an increased provision to the allowance for loan losses in the amount of $949,000 during the second quarter of 2003. A recovery of a portion of the previously charged-off loan was recorded in the third quarter of 2003.

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

	Year Ended Decemb		
	2003	2002	2001
(Dollars in thousands)			
Balance at beginning of period	$2,242	$2,512	$2,396
Provision charged to operations	841	100	333
Charge-offs:			
Real estate	-	-	66
Consumer	19	14	15

Commercial	1,288	359	145
Recoveries:			
Real estate	-	-	1
Consumer	7	3	-
Commercial	228	-	8
Net Charge-offs	1,072	370	217
Balance, end of period	$2,011	$2,242	$2,512
Allowance for loan losses to period end total loans	1.27%	1.36%	1.40%
Allowance for loan losses to nonaccrual loans	-	94.9%	1,343.32%
Net charge-offs to average loans	1.70%	0.22%	0.12%

Provision for loan losses

For the years ended December 31, 2003, 2002 and 2001, the provision for loan losses was approximately $841,000, $100,000 and $333,000, respectively. The provision for loan losses increased for the year ended December 31, 2003 due to fraudulent activity on the part of one large commercial borrower and concern regarding the ability to collect a second large commercial credit that was currently in the workout stage. The provision for loan losses decreased for the year ended December 31, 2002, as Guaranty's loan portfolio decreased and its allowance for possible losses as a percentage of loans outstanding was determined by management to be adequate to cover future potential losses based on the assessed level of risk in the portfolio.

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.

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,			
	2003		2002	
	Allowance	Ratio of Loans to Total Gross Loans	Allowance	Ratio of Loans to Total Gross Loans
(Dollars in thousands)				
Residential real estate	$ 32	16.1%	$ 27	12.2%
Construction and land	512	24.1	48	23.3
Commercial	951	46.3	1,434	51.1
Consumer and other loans	106	13.5	10	13.4

Unallocated	410	-	23	-
Total	$2,011	100.0%	$2,242	100.0%

	December 31,			
	2000		1999	
	Total Allowance	Ratio of Gross Loans to Total Gross Loans	Total Allowance	R L
(Dollars in thousands)				
Residential real estate	$ 109	26.9%	$ 78	
Construction and land	1,056	29.1	383	
Commercial	861	30.7	575	
Consumer and other loans	137	13.3	167	
Unallocated	233	-	-	
Total	$2,396	100.0%	$1,203	

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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	2003	2002
(Dollars in thousands)		
Mortgage banking income	$1,419	$ 999
Loan and deposit fees and servicing income	917	907
Net gain on sale of branches	939	-
Increase in cash surrender value of life insurance	217	183
Investment sales commissions	10	104
Net gain (loss) on sale of securities	12	20
Other	293	273
Total	$3,807	$ 2,486

Non-interest income increased for the year ended December 31, 2003 by

$1.3 million, primarily as the result of the sale of the Harrisonburg branch and the increase in mortgage banking income. In January 2003, Guaranty closed on the sale of it Harrisonburg branch, as part of its focus on profitability management. The Bank also thrived in the refinancing boom of 2003, increasing mortgage banking income from $1.0 million for calendar year 2002 to $1.4 million for calendar year 2003, a 42% increase. The mortgage banking department closed over $70 million loans during 2003, of which $54 million were sold on the secondary market; fees realized on the sale of loans averaged 220 basis points throughout the year. Guaranty does not anticipate that earnings realized in 2003 in the mortgage banking area will be indicative of future results. Loan and deposit fees increased by $10,000 from 2002 to 2003, due to increased commercial and real estate loan fees, and a continued increased in the volume of checking accounts. Investment sales commissions were minimal during 2003, as the re-configuration of the investments sales function, realigned with a new broker/dealer, was still in progress during 2003.

Non-interest income decreased for the year ended December 31, 2002, by $20,000 from the same period in the prior year. 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 year ended December 31, 2002, 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 checking 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.

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

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practice of selling most 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 $98,000 from $8.5 million for the year ended December 31, 2002 to $8.4 million for the year ended December 31, 2003. Occupancy expenses decreased $75,000, due to the net effect of closing two branches early in the year and opening only one, more efficient use of third party vendors who provide grounds maintenance services, and lower depreciation expense. This favorable variances was offset by professional fees, for increased legal fees relating to commercial loan workouts, including substantial fees associated with the fraudulent activity of one commercial borrower. .

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, as certain assets became fully depreciated ($171,000 decrease in depreciation expense), and rental expense 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.

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

	Year Ended Dece	
Non-Interest Expense	2003	2002
(Dollars in thousands)		
Personnel	$4,545	$4,561
Occupancy	1,093	1,168
Data Processing	1,124	1,158
Marketing	161	159
Professional fees	338	294
Other	1,148	1,168
Total	$8,409	$8,508

Income Taxes

Income tax expense for the years ended December 31, 2003, 2002 and 2001, was $892,000, $814,000 and $267,000, respectively. The increases are a direct result of earnings levels for the respective year-ends. The effective income tax rate was 31.4% and 31.6% for the years ended December 31, 2003 and 2002, respectively, as the increase in cash surrender value of BOLI is a non-taxable item and therefore reduces Guaranty's overall effective tax rate. The effective tax rate was 34.0% for the year ended December 31, 2001.

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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, 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, 2003, deposits totaled $175.2 million, a $3.9 million, or 2.3% increase over the same date in the prior year. In its continuing effort to reduce reliance on high cost sources of funds, Guaranty continues to direct efforts towards attracting lower cost transaction accounts. Low cost transaction and savings accounts comprise 69.0% of total deposits as of December 31, 2003, compared to $58.7% as of December 31, 2002 and 41.1% as of December 31, 2001.

At December 31, 2002, deposits were $171.3 million, a 14.6% decline from $200.6 million at December 31, 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,	2003	2002
(Dollars in thousands)		
Demand deposit accounts	$ 62,170	$ 53,498
Statement savings account	13,404	12,812
Money market accounts	45,226	34,445
30-to-180-day certificates	5,172	3,326
Seven to eleven month certificates	441	856
One-to-five year fixed-rate certificates	42,229	62,857
Eighteen-month prime rate certificates	6,542	3,465
Total	$175,184	$171,259

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,	2003		2002	
(Dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Averag Rate Paid

Non-interest bearing demand deposits	$ 26,306	0.00%	$ 22,879	0.00
Interest bearing demand deposits	70,511	0.60	51,921	0.90
Savings deposits	12,833	0.21	13,103	0.53
Time deposits	58,309	1.88	89,635	3.27
Total deposits	$167,959	0.92%	$177,538	1.95

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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,	2003	2002
(Dollars in thousands)		
Opening balance	$171,259	$200,632
Net deposits	2,383	(32,838)
Interest credited	1,542	3,465
Ending balance	$175,184	$171,259
Net increase (decrease)	$3,925	$ (29,373)
Percent increase (decrease)	2.29%	(14.64%)

The following table indicates the amount of Guaranty's certificates of deposit by time remaining until maturity as of December 31, 2003.

			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	$ 11,753	$ 7,758	$ 17,558
Certificates of deposit of $100,000 or more	5,239	894	3,760
Total of certificates of deposits	$ 16,992	$ 8,652	$ 21,318

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, 2003, Guaranty had $3 million in outstanding borrowings from the FHLB compared to zero and $1 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 2003 or 2002.

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.

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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,	2003		2002	
(Dollars in thousands)				
Maximum Balance:				
FHLB advances	$5,000		$15,000	
Securities sold under agreements to repurchase	-		-	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
FHLB advances	$760	1.32%	$6,136	1.96%
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,	2003	2002
(Dollars in thousands)		
FHLB advances	$3,000	-
Weighted average interest rate of short-term FHLB advances	1.24%	-

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, 2003, cash and cash equivalents were approximately $11.8 million, which was a decrease of $3.6 million over the prior year. Operating activities provided approximately $786,000, predominantly generated by the sale of loans. Investing activities absorbed approximately $15.2 million in cash, primarily with the purchase of agency and mortgage-backed securities. Cash generated by financing activities partially offset the cash absorbed by investing activities by approximately $10.9 million, which represents the increase in deposits that occurred due to a continued effort to increase low-cost deposits, offset by the cash paid to redeem the Trust Preferred Securities.

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.

Guaranty uses its sources of funds primarily to meet operating needs, to pay deposit withdrawals and fund loan commitments. At December 31, 2003, total approved loan commitments were $7.6 million. In addition, at December 31, 2003, commitments under unused lines of credit were $52.5 million. Certificates of deposit scheduled to mature or re-price in one year or less at December 31, 2003 totaled $46.9 million.

Management intends to fund anticipated loan closings and operating needs during 2004 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.

The following summarizes Guaranty's contractual cash obligations and commercial commitments, including maturing certificates of deposit, as of December 31, 2003 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)	$ 46,962	$ 5,739	$ 1,674
Undisbursed credit lines	52,550	-	-
Commitments to extend credit	7,593	-	-
Standby letters of credit	3,899	-	-
Total obligations	$111,004	$ 5,739	$ 1,674

(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.

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Guaranty and the Bank are subject to regulatory capital requirements of the Federal Reserve. At December 31, 2003, 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	$ 2,491
Capital surplus	9,238
Retained earnings	8,484
Total Tier 1 Capital	20,213
Tier 2 Capital:	
Allowance for loan losses (1)	1,993
Total Tier 2 Capital	1,993
Total Risk Based Capital	$ 22,206
Risk Weighted Assets	$159,470
Capital Ratios:	
Tier 1 Risk-based	12.68%
Total Risk-based	13.93%
Tier 1 Capital to average adjusted total assets	10.27%

(1) Limited to 1.25% of risk weighted assets.

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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 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 financial statements.

SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities", issued in April 2003, amends Statement No. 133 for decisions made by the Derivatives Implementation Group, in particular the meaning of an initial net investment, the meaning of underlying and the characteristics of a derivative that contains financing components. Presently, the Bank has no derivative financial instruments and, consequently, the adoption of the Statement had no effect on its financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", was issued in May 2003. Under this Statement, certain freestanding financial instruments that embody obligations for the issuer and that are now classified in equity, must be classified as liabilities (or as assets in some circumstances). Generally, SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. However, the effective date of the Statement's provisions related to the classification and measurement of certain mandatory redeemable non-controlling interests has been deferred indefinitely by the FASB, pending further Board action. Presently, the Bank has no financial instruments that come under the scope of the Statement and, therefore, believes that adoption of the new Statement will have no impact on its financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", to provide guidance on the identification of entities controlled through means other than voting rights. FIN No. 46 specifies how a business enterprise should evaluate its interests in a variable interest entity to determine whether to consolidate that entity. A variable interest entity must be consolidated by its primary

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beneficiary if the entity does not effectively disperse risks among the parties involved. The adoption of FIN No. 46 is not expected to have a significant effect on the Bank's financial statements.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123. This Statement amends SFAS 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 SFAS 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. We do not expect the adoption of

SFAS 148 to have an effect on our financial statements.

In December 2003, the FASB issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. This SOP, among other things, no longer allows financial institutions to record an allowance for loan losses, related to credit quality, when they purchase loans, including through a purchase business acquisition. The SOP is effective, on a prospective basis, for loans acquired in fiscal years beginning after December 31, 2004. We do not expect the adoption of SOP 03-3 to have an effect on our financial statements.

Subsidiary Activities

Guaranty has two subsidiaries, the Bank and Guaranty Capital Trust I (the "Trust"). The Trust was formed on April 29, 1999 and was the holder of the trust preferred securities, which were sold for $6,900,000 in 1999 and redeemed in full in 2003. See Notes to the Consolidated Financial Statements for information regarding the terms and redemption 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 (loss) of $73,000, $560 and $53,000 for the years ended December 31, 2003, 2002 and 2001, 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. During 2003, Guaranty prepaid the bonds, eliminating the liability associated with the REMIC. For the years ended December 31, 2003, 2002 and 2001, amortization expense was $66,000, $44,000 and $36,000, respectively. The amortization of the REMIC expenses is treated as interest expense.

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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.

Caution About Forward Looking Statements

We make forward looking statements in this annual report that are subject to risks and uncertainties. These forward looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals. The words "believes," "expects," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends," or other similar words or terms are intended to identify forward looking statements.

These forward looking statements are subject to significant uncertainties because they are based upon or are affected by factors including:

- changes in general economic and business conditions in our market area;
- changes in interest rates and interest rate policies;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- the ability to successfully manage our growth or implement our growth strategies if we are unable to identify attractive markets, locations or opportunities to expand in the future;
- maintaining capital levels adequate to support our growth;
- maintaining cost controls and asset qualities as we open or acquire new branches and/or merger with another entity;
- reliance on our management team, including our ability to attract and retain key personnel;
- the successfulmanagement of interest rate risk;
- problems with technology utilized by us, and
- changes in banking and other laws and regulations applicable to us.

Because of these uncertainties, our actual future results may be materially different from the results indicated by these forward looking statements. In addition, our past results of operations do not necessarily indicate our future results.

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, 2003 and 2002
Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001
Consolidated Statements of Comprehensive Income for the years ended December 31, 2003, 2002 and 2001
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001
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.

Item 8A. 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.

An evaluation of the effectiveness of the design and operation of Guaranty's disclosure controls and procedures, as of the end of the period covered by this report, 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 were no changes in Guaranty's internal control over financial reporting identified in connection with the evaluation of it that occurred during Guaranty's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons;

Compliance with Section 16(a) of the Exchange Act.

Directors

Henry J. Browne, 71, has been a director since 1981. Mr. Browne is an architect in private practice with a studio in Boca Grande, Florida.

Douglas E. Caton, 61, has been a director since 1981 and has been Chairman of Guaranty's Board of Directors since 1989. Mr. Caton is Chief Executive Officer of Management Services Corporation, a regional commercial real estate management, construction and development company. A combat veteran of the Vietnam War, Mr. Caton retired as a Major General in the United States Army Reserve. He is a member of the Board of Governors of both St. Margaret's School in Tappahannock, Virginia, and The Miller School of Albemarle, Virginia.

William E. Doyle, Jr., 51, has been a director since 2001. Mr. Doyle has been Guaranty's President and Chief Executive Officer since May 2001. From November 1997 to May 2001, he was Senior Vice President, Mortgage and Retail Services, of The Middleburg Bank. Mr. Doyle is a member of the Board of Directors of the United Way - Thomas Jefferson Area, Martha Jefferson Medical Enterprises, VBA Management Services Corporation and VBA Benefits Corporation.

Jason I. Eckford, Jr., 74, has been a director since 1999. Mr. Eckford is President of Eckford Financial Services, a financial consulting business in Charlottesville, Virginia. He had a 36-year career in commercial and trust banking in the Charlottesville area and currently serves on the boards of the Martha Jefferson House, the Charlottesville and University Symphony Orchestra, and the Coastal Lumber Company.

W. Bradford Eure, 47, was appointed a director in 2003. Mr. Eure is the President and General Manager of Eure Communications, Inc., which owns and operates WINA, WQMZ and WWWV. He serves as a board member of the National Association of Broadcasters and is past president of the Virginia Association of Broadcasters.

Harry N. Lewis, 76, has been a director since 1981, has served as Chairman of the Board of Directors, and currently serves as Vice Chairman, a position he has held since 1989. Mr. Lewis retired as President of Lewis Insurance Agency, an insurance sales company, and as owner of O'Neill Mortgage Corp, a mortgage company, both in Charlottesville, Virginia.

Patrick J. McCann, 47, was appointed a director in 2003. Mr. McCann is a principal in Virginia CFO Services, LLC, a financial management consulting firm. From January 1998 through January 2000, Mr. McCann was Senior Financial Officer for NationsBank-Florida. He has been involved in the banking industry for over 20 years, where he served in a variety of financial capacities, including Chief Financial Officer, Director of Finance and Controller. His background and experience qualify him as an audit committee financial expert, according to the standards promulgated by Sarbanes-Oxley Act of 2002.

John R. Metz, 66, has been a director since 1981. Mr. Metz is a retired pharmacist and also retired from the United States Air Force and Air National Guard in 1995 with the rank of Brigadier General. He is a member and past president of the Board of Directors of the Virginia Pharmacists

Association Research and Education Foundation and is a member of the Board of Directors of the Northwestern Virginia Health Systems Agency.

James R. Sipe, Jr., 48, has been a director since 1996. Mr. Sipe is an Associate Broker with Coldwell Banker Funkhouser Realtors and Coldwell Banker

Commercial Funkhouser Realtors, real estate sales companies in Harrisonburg, Virginia. Mr. Sipe is a member of the Board of Directors of the James Madison University Duke Club, a member of the Emmanuel Episcopal Church Construction and Renovation Committee and currently serves as president of the Harrisonburg Rockingham Association of Realtors.

Oscar W. Smith, Jr., 73, has been a director since 1981. Mr. Smith is President of K-B Management Co., a real estate investment company, in Charlottesville, Virginia.

Executive Officers Who Are Not Directors

Tara Y. Harrison, 35, has been Vice President and Chief Financial Officer since January 2003. From December 2000 to January 2003, she was Director of Internal Audit for Guaranty. Ms. Harrison was Director of Finance and Controller for Comdial Corporation from February 1999 through December 2000 and, prior to that, was with Deloitte & Touche LLP in their Richmond office, where she most recently held the position of Senior Manager.

Richard L. Saunders, 50, has been Senior Vice President and Chief Credit Officer since February 2000. From June 1998 to February 2000, he was Vice President and a commercial banker of Guaranty and, from April 1996 to June 1998, he was Vice President and a business banker with Jefferson National Bank and its successor, Wachovia Bank. Mr. Saunders also acted as Guaranty's chief executive officer from March 2001 to May 2001.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires Guaranty's directors and executive officers, and any persons who own more than 10% of the outstanding shares of Common Stock, to file with the SEC reports of ownership and changes in ownership of Common Stock. Directors and executive officers are required by SEC regulation to furnish Guaranty with copies of all Section 16(a) forms that they file. Based solely on review of the copies of such reports furnished to Guaranty or written representation that no other reports were required, Guaranty believes that, during fiscal year 2003, its executive officers and directors were in compliance with the applicable regulations.

Audit Committee Financial Expert

The Board of Directors has determined that Patrick J. McCann qualifies as an audit committee financial expert as defined by the regulations of the Securities and Exchange Commission.

Code of Ethics

The Board of Directors has not approved a Code of Ethics for Guaranty's senior officers who have financial responsibilities that covers all items contemplated by the disclosure requirements of the Securities and Exchange Commission. Guaranty expects that such a Code will be adopted if the merger with Union Bankshares Corporation is not completed. The Bank, however, has a code of ethics for all of its officers and employees that promotes the highest standards of ethical conduct.

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Item 10. Executive Compensation

Summary of Cash and Certain Other Compensation

The following table shows, for the fiscal years ended December 31, 2003, 2002 and 2001, the cash compensation paid by Guaranty, as well as certain other compensation paid or accrued for those years, to the named Executive Officers in all capacities in which they served.

Summary Compensation Table

		Annual Compensation			Long-Term	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options	Co
William E. Doyle, Jr.	2003	$218,244	$10,000	*	10,000	
President and Chief	2002	205,274	--	$60,243 (3)	15,000	
Executive Officer (2)	2001	118,310	--	47,201 (4)	5,100	
Tara Y. Harrison Vice President and Chief Financial Officer (5)	2003	97,854	5,869	*	--	
Richard L. Saunders	2003	136,794	8,961	*	2,500	
Senior Vice President and	2002	118,750	3,563	*	10,000	
Chief Credit Officer	2001	122,969	--	*	100	

* All benefits that might be considered of a personal nature did not exceed the lesser of $50,000 or 10% of total annual salary and bonus.

(1) Amounts reflect Guaranty's matching contribution under its Section 401(k) retirement plan.

(2) Mr. Doyle's employment with Guaranty commenced in May 2001.

(3) Amount includes $46,296 in benefits relating to initiation fees and dues for a country club membership, including an allowance for the payment of taxes resulting from the club membership benefit.

(4) Amount includes $33,758 in relocation expenses in connection with the commencement of Mr. Doyle's employment.

(5) Ms. Harrison became an executive officer of Guaranty in January 2003.

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Stock Option Grants

The following table sets forth for the year ended December 31, 2003, the grants of stock options to the named Executive Officers. Guaranty did not grant any stock options to Ms. Harrison in 2003.

Option Grants In Last Fiscal Year

	Number of Securities Underlying Options	Percent of Total Options Granted to Employees in Fiscal	Exercise or Base

Name	Granted (#) (1)	Year (%) (2)	Price ($/Share)
William E. Doyle, Jr.	10,000	57.14%	$13.84
Richard L. Saunders	2,500	14.29%	$13.45

(1) Stock options were granted at or above the fair market value of the shares of Common Stock at the date of grant. Each grant is immediately exercisable.
(2) Options to purchase 17,500 shares of Common Stock were granted to employees during the year ended December 31, 2003.

Option Exercises and Holdings

The following table sets forth information as to stock option exercises during 2003 and the amount and value of stock options held by the named Executive Officers as of December 31, 2003.

Aggregate Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) (1) Exercisable / Unexercisable	Op Y
William E. Doyle, Jr.	--	--	30,100 / --	
Tara Y. Harrison	--	--	50 / --	
Richard L. Saunders	5,000	$14,400	12,500/ --	

(1) Each of these options relates to shares of Common Stock.
(2) The value of unexercised in-the-money options at fiscal year end was calculated by determining the difference between (i) the fair market value of common stock underlying the options at December 31, 2003 ($25.75) and (ii) the exercise price of the options. All options disclosed in the table were in-the-money as of December 31, 2003.

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Directors' Fees

Directors, excluding directors who are officers of Guaranty, receive fees of $550 for each meeting of the Board of Directors attended and $300 for each Audit, ALCO, Executive and Loan Committee meeting attended. Mr. Caton, who is an ex officio member of all committees and devotes additional time to Guaranty's affairs as Chairman of the Board of Directors, received a fee of $32,500 in the fiscal year ended December 31, 2003, in lieu of any fees for attending Board of Directors and committee meetings.

Beginning in 2002, Guaranty annually issues 150 shares of Common Stock to each of its active non-employee directors (pro-rated in the first year as a director). Such shares are not issued under any plan of Guaranty, and they are in addition to the cash compensation that the directors receive.

Employment Agreements

Guaranty and William E. Doyle, Jr. are parties to an employment agreement dated as of May 10, 2001. The agreement provides for Mr. Doyle's service as President and Chief Executive Officer of both Guaranty and Guaranty Bank and provides for a base salary of $195,300, beginning in 2001. In addition, the agreement provides for, at the beginning of his employment, the grant of options to purchase 5,000 shares of Common Stock and, in each of February 2002, 2003 and 2004, the grant of options to purchase 10,000 shares of Common Stock. Each option, which Guaranty grants under the 1991 Incentive Plan, is immediately exercisable, has an exercise price of the fair market value at the date of grant and has a 10-year term. The options are intended to be treated as incentive stock options.

Under the agreement, if Mr. Doyle's employment is terminated by Guaranty for reasons other than cause or by Mr. Doyle for "good reason" (as defined in the agreement), he will be entitled to receive severance pay equal to one-twelfth of his annual base salary in effect at the time for 36 months or for the remainder of the term of the agreement, whichever is less. If his employment terminates for reasons other than cause or for good reason within one year of a change in control of Guaranty, he will be entitled to severance payments approximately equal to 299% of his annualized cash compensation for the period that precedes the change in control as determined under the Internal Revenue Code of 1986, as amended. If termination of employment due to a change in control had occurred in the year ended December 31, 2003, Mr. Doyle would have been entitled to severance payments amounting to approximately $695,000.

The agreement also contains a covenant not to compete that is in effect while Mr. Doyle is an officer and employee of Guaranty and for a 12-month period after the termination of employment. The agreement is for a period ending May 31, 2006.

Change of Control Agreements

Tara Y. Harrison and Richard L. Saunders are each parties with Guaranty to change of control agreements, dated January 16, 2003 and January 2, 2002, respectively. The agreements provide for severance payments approximately equal to one times their annualized cash compensation for the period that precedes the change in control as determined under the Internal Revenue Code of 1986, as amended. If termination of employment due to a change in control had occurred in the year ended December 31, 2003, Ms. Harrison would have been entitled to a severance payment amounting to approximately $60,000 and Mr. Saunders would have been entitled to a severance payment amounting to approximately $102,000.

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Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Management

The following table sets forth information as of March 1, 2004, regarding the number of shares of Common Stock beneficially owned by each director, each individual named in the Summary Compensation Table below and all current directors and executive officers as a group. Beneficial ownership includes shares, if any, held in the name of the spouse, minor children or other relatives of the individual living in such person's home, as well as shares, if any, held in the name of another person under an arrangement whereby the director or executive officer can vest title in himself at once or at some future time. The address for each of the following individuals is 1658 State Farm Boulevard, Charlottesville, Virginia 22911.

Name	Common Stock Beneficially Owned (1)	Percenta
Henry J. Browne	38,587	1
Douglas E. Caton	325,183	16
William E. Doyle, Jr.	42,039	2
Jason I. Eckford, Jr.	2,800	
W. Bradford Eure	438	
Tara Y. Harrison	436	
Harry N. Lewis	5,988	
Patrick J. McCann	444	
John R. Metz	14,782	
Richard L. Saunders	12,500	
James R. Sipe, Jr.	3,200	
Oscar W. Smith, Jr.	20,874	1
All current executive officers and directors as a group (12 Persons)	467,271	22

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* Percentage of ownership is less than one percent of the outstanding shares of Common Stock.

(1) Amounts disclosed include shares of Common Stock that certain individuals have the right to acquire upon the exercise of stock options exercisable within 60 days of March 1, 2004, as follows: Mr. Browne, 800; Mr. Doyle, 40,100; Mr. Saunders, 12,500; and all current executive officers as a group, 53,400.

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of February 28, 2004, regarding the number of shares of Common Stock beneficially owned by all persons who own five percent or more of the outstanding shares of Common Stock.

Name and Address	Common Stock Beneficially Owned	Percentag
Douglas E. Caton 4 Deer Park Earlysville, Virginia	325,183	16
J. Sheldon Clark (1) 1633 Broadway, 30th Floor New York, New York	193,737	9

Banc Fund V L.P. and (2) Banc Fund VI L.P. 208 S. LaSalle Street Chicago, Illinois	159,848	7

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(1) In a Schedule 13D/A filed with the Securities and Exchange Commission (the "SEC") on January 24, 2003, John Sheldon Clark reported beneficial ownership of, including sole voting and dispositive power with respect to, 193,737 shares of Common Stock as of that date.

(2) In a Schedule 13G/A filed with the SEC on February 12, 2004, Banc Fund V L.P. reported beneficial ownership of, including sole voting and dispositive power with respect to, 85,909 shares of Guaranty common stock and Banc Fund VI L.P. reported similar beneficial ownership of 73,939 shares of Guaranty common stock, as of December 31, 2003. Banc Fund V L.P. and Banc Fund VI L.P. are under common control and are affiliated with The Bank Funds Company, L.L.C., according to the Schedule 13G/A. The total amount with respect to which these entities have sole voting and dispositive power was 159,848 shares of Guaranty common stock as of December 31, 2003, according to the Schedule 13G/A.

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Equity Compensation Plan Information

The following table sets forth information as of December 31, 2003, 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	Nu Re fo Co
Equity Compensation Plans Approved by Shareholders 1991 Amended Incentive Stock Option Plan	66,750	$10.67	
Equity Compensation Plans Not Approved by Shareholders 2	--	--	
Total	66,750	$10.67	

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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

Some of the directors and officers of Guaranty are at present, as in the past, customers of Guaranty, and Guaranty has had, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, principal shareholders and their associates, on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with others. These transactions do not involve more than the normal risk of collectibility or present other unfavorable features.

There are no legal proceedings to which any director, officer or principal shareholder, or any affiliate thereof, is a party that would be material and adverse to Guaranty.

Item 13. Exhibits and Reports on Form 8-K

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

(a) Exhibits

2	Agreement and Plan of Reorganization, dated December 18, 2003, by and between Union Bankshares Corporation ("Union") and Guaranty, and a related Plan of Merger, filed as Appendix I to the Proxy Statement/Prospectus included in (and referred to as Exhibit 2 of) Union's Registration Statement on Form S-4, Registration No. 333-112416, filed with the Commission on March 5, 2004, incorporated herein by reference.

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.
10.3	Form of Change of Control Agreement for Executive Officers.
21	Subsidiaries of Guaranty.

31.1 Rule 13a-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

The Company furnished a Current Report on Form 8-K with the Securities and Exchange Commission on October 23, 2003. The Form 8-K reported Item 12 and attached as an exhibit and incorporated by reference a press release that reported the Company's financial results for the quarter ended September 30, 2003.

Item 14. Principal Accountant Fees and Services

Fees of Independent Public Accountants

Audit Fees

The aggregate fees billed by BDO Seidman, LLP for professional services rendered for the audit of Guaranty's annual financial statements for the fiscal years ended December 31, 2003 and 2002, and for the review of the financial statements included in Guaranty's Quarterly Reports on Form 10-QSB, and services that are normally provided in connection with statutory and regulatory filings and engagements, for those fiscal years were $84,000 for 2003 and $74,000 for 2002.

Audit Related Fees

The aggregate fees billed by BDO Seidman, LLP for professional services for assurance and related services that are reasonably related to the performance of the audit or review of Guaranty's

financial statements and not reported under the heading "Audit Fees" above for the fiscal year ended December 31, 2003 were $21,000, which included fees related to filing of an S-4, review of the audit committee charter and internal audit plan and audit and report of FHLB collateral verification. During 2002, the Company incurred no audit related fees other than those noted in the preceding paragraph.

Tax Fees

The aggregate fees billed by BDO Seidman, LLP for professional services for tax compliance, tax advice and tax planning for the fiscal years ended December 31, 2003 and December 31, 2002 were $9,000 and $12,000, respectively. During 2003 and 2002, these services generally included preparing corporate tax returns and estimating quarterly payments.

Pre-Approved Services

The Audit Committee pre-approves all audit, audit-related, tax and other services to be performed by the independent auditors. All such services, as described above, were pre-approved by the Audit Committee, which concluded that the provision of such services by BDO Seidman, LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

Guaranty Financial Corporation
and Subsidiaries

Consolidated Financial Statements
As of December 31, 2003 and 2002 and
For the Years Ended December 31, 2003, 2002 and 2001

GUARANTY FINANCIAL CORPORATION
Contents

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Report of Independent Certified Public Accountants

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

We have audited the consolidated balance sheets of Guaranty Financial Corporation and subsidiaries as of December 31, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

Richmond, Virginia
January 9, 2004

GUARANTY FINANCIAL CORPORATION
Consolidated Balance Sheets

December 31,	2003
Assets	
Cash and cash equivalents (including interest bearing deposits of approximately $5,398,000 and $6,979,000)	$ 11,813,766
Investment securities (Note 1)	
Held-to-maturity	11,459,062
Available for sale	7,901,967
Investment in Federal Home Loan Bank stock, at cost	532,000
Loans receivable, net (Notes 2 and 9)	156,009,221
Accrued interest receivable	788,374
Real estate owned	-
Office properties and equipment, net (Note 3)	6,371,287
Other assets (Note 8)	4,101,749
	$198,977,426
Liabilities and Stockholders' Equity	
Liabilities	
Deposits (Note 4)	$175,184,224
Advances from Federal Home Loan Bank (Note 7)	3,000,000
Convertible preferred securities (Notes 11 and 12)	-
Bonds payable (Notes 1 and 6)	-
Accrued interest payable	9,504
Prepayments by borrowers for taxes and insurance	72,896
Other liabilities	519,901
Total liabilities	178,786,525
Commitments and Contingencies (Notes 10, 11, 13 and 15)	
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, 1,992,909 and 1,970,677 shares issued and outstanding	2,491,136

Additional paid-in capital	9,238,003
Accumulated other comprehensive loss	(22,165)
Retained earnings - substantially restricted	8,483,927
Total stockholders' equity	20,190,901
	$198,977,426

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

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GUARANTY FINANCIAL CORPORATION
Consolidated Statements of Operations

Year Ended December 31,	2003	200
Interest income		
Loans	$9,915,739	$11,648,
Investment securities	366,218	1,206,
Total interest income	10,281,957	12,855,
Interest expense		
Deposits	1,542,462	3,464,
Borrowings	458,517	691,
Total interest expense	2,000,979	4,155,
Net interest income	8,280,978	8,699,
Provision for loan losses (Note 2)	840,991	99,
Net interest income after provision for loan losses	7,439,987	8,599,
Other income		
Mortgage banking income	1,419,062	999,
Loan and deposit fees and servicing income	917,191	906,
Net gain on sale of branches	939,231	
Increase in cash surrender value of life insurance	217,164	182,
Investment sales commissions	10,215	104,
Net gain on sale of securities	11,843	20,
Other	292,970	272,
Total other income	3,807,676	2,486,

Other expenses		
Personnel	4,544,878	4,560,
Occupancy (Note 10)	1,093,235	1,167,
Data processing (Note 10)	1,124,337	1,158,
Other	1,646,948	1,621,
Total other expenses	8,409,398	8,507,
Income before income taxes	2,838,265	2,577,
Provision for income taxes (Note 8)	891,956	814,
Net income	$ 1,946,309	$ 1,763,
Basic Earnings Per Share	$ .98	$
Diluted Earnings Per Share	.97	$

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

GUARANTY FINANCIAL CORPORATION
Consolidated StatementS of comprehensive income

Year Ended December 31,	2003	2002
Net income	$1,946,309	$1,763,442
Other comprehensive income		
Unrealized gains on securities arising during period	13,118	1,038,806
Reclassification adjustment for (gains) losses included in net income	(11,843)	(20,125
Other comprehensive income, before tax	1,275	1,018,681
Income tax expense related to items of other comprehensive income	(433)	(346,352
Other comprehensive income, net of tax	842	672,329

Comprehensive income	$1,947,151	$2,435,771

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, 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,
Cash dividend	-	-	-	(5
Other comprehensive income	-	-	842	
Issuance of Common Stock (Note 13)	27,790	203,796	-	
Net income	-	-	-	1,
Balance, December 31, 2003	$2,491,136	$9,238,003	$(22,165)	$8,

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

GUARANTY FINANCIAL CORPORATION
Consolidated Statements of Cash Flows

Year Ended December 31,	2003	2002
Operating activities		

Net income	$ 1,946,309	$ 1,763,442
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Provision for loan losses	840,991	99,998
Provision for loss on sale of other real estate owned	-	86,701
Depreciation and amortization	455,317	585,810
Deferred loan fees	(255,957)	(109,386
Net amortization of premiums and accretion of discounts	63,211	134,398
Gain on sale of loans	(1,419,062)	(999,168
Originations of loans held for sale	(73,952,163)	(45,748,750
Proceeds from sale of loans	73,882,883	57,437,524
Loss (gain) on sale of held to maturity and securities available for sale	(11,843)	(20,125
Loss (gain) on disposal of office properties and equipment	(27,604)	(7,481
Loss (gain) on sale of real estate owned	(2,374)	22,416
Gain on sale of branch	(986,305)	-
Changes in:		
Accrued interest receivable	121,393	335,499
Other assets	434,679	167,924
Accrued interest payable	(48,297)	(79,690
Income taxes	-	(120,548
Prepayments by borrowers for taxes and insurance	(53,906)	(37,860
Other liabilities	(201,467)	176,255
Net cash provided (absorbed) by operating activities	785,805	13,686,959
Investing activities		
Net decrease in loans	2,504,748	3,392,299
Repayments on held to maturity securities	297,687	286,302
Purchase of held to maturity securities	(12,110,000)	(812,434
Proceeds from retirement of held to maturity securities	1,400,000	650,000
Purchase of securities available for sale	(7,493,337)	-
Proceeds from sales of securities available for sale	3,200,000	18,378,584
Sale of FHLB stock	415,000	602,900
Proceeds from sales of real estate owned	399,528	514,451
Improvements to real estate owned	-	(66,337
Purchase of bank owned life insurance	-	(3,000,000
Increase in bank owned life insurance	(217,164)	(213,694
Net decrease in cash from sale of branch:		
Proceeds from sale of loans	5,446,001	-
Sale of deposits	(9,983,988)	-
Proceeds from sale of office properties, equipment and land	1,652,999	-
Origination of mortgage servicing rights	-	-
Proceeds from sales of mortgage servicing rights, net	-	-
Purchase of office properties and equipment	(808,826)	(1,194,301
Proceeds from sales of office properties and equipment	57,298	1,289,408
Net cash provided (absorbed) by investing activities	(15,239,954)	19,827,178

GUARANTY FINANCIAL CORPORATION

Consolidated Statements of Cash Flows (CONTINUED)

Year Ended December 31,	2003	2002
Financing activities		
Net increase (decrease) in deposits	$14,677,672	$(29,372,598
Repayment of Federal Home Loan Bank advances	(27,000,000)	(49,000,000
Proceeds from Federal Home Loan Bank advances	30,000,000	48,000,000
Payments on bonds payable, including unapplied payments	(425,428)	(279,122
Redemption of trust preferred securities	(6,012,500)	-
Proceeds from issuance of common stock, net	231,586	92,164
Dividends paid	(595,289)	-
Net cash provided (absorbed) by financing activities	10,876,041	(30,559,556
Increase (decrease) in cash and cash equivalents	(3,578,108)	2,954,581
Cash and cash equivalents, beginning of year	15,391,874	12,437,293
Cash and cash equivalents, end of year	$11,813,766	$ 15,391,874

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 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.

On December 18, 2003, Guaranty and Union Bankshares Corporation announced the signing of a definitive merger agreement, which was unanimously approved by each board of directors, pursuant to which Union will acquire Guaranty. The merger is dependent on certain regulatory approvals, as well as approval by Guaranty shareholders, and is expected to close in the second quarter of 2004.

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, 2003 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.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. No such declines have occurred.

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, 2003 or 2002.

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 $1,451,000, $332,000 and $14,279,000 of loans held for sale at December 31, 2003, 2002 and 2001, 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.

GUARANTY FINANCIAL CORPORATION
Summary of Accounting Policies (continued)

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, 2003 and 2002 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

1,985,897 and 2,007,399, for 2003 and 1,963,415 for the year ended 2002 and 1,961,727 for the year ended 2001.

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,	2003	2002
Net income		
As reported	$1,946,309	$1,763,442
Pro forma	1,906,132	1,677,417
Net income per share (diluted)		
As reported	$ 0.97	$ 0.89
Pro forma	0.95	0.85

The weighted average fair value of options granted during the year ended December 31, 2003 and 2002 was $3.48 and $2.74, respectively.

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, 2003: a risk free interest rate range of 2.69% - 2.95%, depending on the date of grant, dividend yield of 2%, expected weighted average term of 5.0 years, and a volatility of 30%.

Statements of Cash Flows

Cash and cash equivalents include Federal funds sold with original maturities of three months or less. Interest paid was approximately $1,812,000, $4,236,000 and $10,012,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Cash paid for income taxes was approximately $822,000, $811,000 and $380,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Real estate acquired in the settlement of loans was approximately $191,000 and $305,000 for the years ended December 31, 2002 and 2001, respectively. No real estate was acquired in the settlement of loans during the year ended December 31, 2003.

Accounting Pronouncements

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 financial statements.

SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities", issued in April 2003, amends Statement No. 133 for decisions made by the Derivatives Implementation Group, in particular the meaning of an initial net investment, the meaning of underlying and the characteristics of a derivative that contains financing components. Presently, the Bank has no derivative financial instruments and, consequently, the adoption of the Statement had no effect on its financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", was issued in May 2003. Under this Statement, certain freestanding financial instruments that embody obligations for the issuer and that are now classified in equity, must be classified as liabilities (or as assets in some circumstances). Generally, SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. However, the effective date of the Statement's provisions related to the classification and measurement of certain mandatory redeemable non-controlling interests has been deferred indefinitely by the FASB, pending further Board action. As a result, the convertible trust preferred securities at December 31, 2002 have been reclassed into the liability section on the balance sheet.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", to provide guidance on the identification of entities controlled through means other than voting rights. FIN No. 46 specifies how a business enterprise should evaluate its interests in a variable interest entity to determine whether to consolidate that entity. A variable interest entity must be consolidated by its primary beneficiary if the entity does not effectively disperse risks among the parties involved. The adoption of FIN No. 46 is not expected to have a significant effect on the Bank's financial statements.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123. This Statement amends SFAS 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 SFAS 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. We do not expect the adoption of SFAS 148 to have an effect on our financial statements.

GUARANTY FINANCIAL CORPORATION
Summary of Accounting Policies (continued)

In December 2003, the FASB issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. This SOP, among other things, no longer allows financial institutions to record an allowance for loan losses, related to credit quality, when they purchase loans, including through a purchase business acquisition. The SOP is effective, on a prospective basis, for loans acquired in fiscal years beginning after December 31, 2004. We do not expect the adoption of SOP 03-3 to have an effect on our financial statements.

GUARANTY FINANCIAL CORPORATION
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, 2003			
Held to Maturity			
Mortgage-backed securities	$ 3,320,829	$ 28,169	$
U.S. Government Agency Bonds	8,138,233	3,340	
Total Held to Maturity	11,459,062	31,509	
Available for Sale			
Mortgage-backed securities	5,881,589	2,938	
U.S. Government Agency Bonds	1,496,712	-	
Other	557,250	-	
Total Available for Sale	7,935,551	2,938	
Total Investment Securities	$19,394,613	$ 34,447	
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

The amortized cost and estimated market value of available for sale and held to maturity securities at December 31, 2003 by maturity is as follows:

	Amortized Cost	Estimated Market Value
Held to Maturity		
Mortgage-backed securities	$ 3,320,829	$ 3,348,996
U.S. Government Agency Bonds	8,138,233	8,121,884
Total Held to Maturity	11,459,062	11,470,882
Available for Sale		
Mortgage-backed securities	5,881,589	5,868,325
U.S. Government Agency Bonds	1,496,712	1,476,392
Other	557,250	557,250
Total Available for Sale	7,935,551	7,901,967
Total Investment Securities	$19,394,613	$19,372,849

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GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Investment Securities (continued)

Gross gains and losses from the sale of securities during the years ended December 31, 2003, 2002 and 2001 were as follows:

	2003		2002	
	Gains	Losses	Gains	Losses
Held to Maturity	$ -	$ -	$ -	$ -
Available for Sale	11,843	-	20,125	-
Totals	$ 11,843	$ -	$20,125	$ -

No mortgage backed securities were pledged for bonds payable as of December 31, 2003. Mortgage backed securities of approximately $433,000 as of December 31, 2002, were pledged for bonds payable (Note 6).

2. Loans Receivable
Loans receivable are summarized as follows:

December 31,	2003
Mortgage loans	
Residential	$25,461,644
Commercial	5,974,792
Construction and land loans	38,012,937
Total real estate	69,449,373
Commercial business loans	67,090,002
Consumer loans	21,240,813
Total loans receivable	157,780,188
Less	
Deferred loan fees (costs), net	(240,166)
Allowance for loan losses	2,011,133
	1,770,967
	$156,009,221

The allowance for loan losses is summarized as follows:

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
Provision charged to expense
Net charge-offs
Balance at December 31, 2003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Loans Receivable (continued)

Guaranty serviced loans for others aggregating approximately $172,000 and $12.4 million at December 31, 2003 and 2002, respectively. The servicing rights to approximately $189,000,000 in loans were sold and transferred during 2001.

Gains on the sale of loans approximated $1.4 million, $1.0 million and $1.2 million during the years ended December 31, 2003, 2002 and 2001, respectively.

3. Office Properties and Equipment

Office properties and equipment are summarized as follows:

December 31,	2003
Land	$1,942,371
Building and leasehold improvements	3,741,316
Furniture and fixtures	1,241,794
Equipment	2,837,055
	9,762,536
Less accumulated depreciation and amortization	3,391,249
Net office properties and equipment	$6,371,287

4. Deposits

Deposits are summarized as follows:

December 31,	2003
Statement savings accounts	$ 13,404,288
Demand deposit accounts	62,170,098
Money market accounts	45,225,364
	120,799,750
Time deposits	54,384,474
	$175,184,224

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was approximately $11,778,000 and $11,390,000 at December 31, 2003 and 2002, respectively.

At December 31, 2003, scheduled maturities of certificates are as follows (rounded to the nearest thousand):

Year Ending December 31,
2004
2005
2006
2007
2008 and thereafter

GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Fair Value of Financial Instruments

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

December 31,	2003		
	Carrying Amount	Fair Value	Car Am
Financial assets			
Cash and short-term investments	$11,813,766	$11,814,000	$ 15,3
Securities	19,361,029	19,372,849	4,4
Loans, net of allowance for loan losses	156,009,221	155,706,284	163,2
Financial liabilities			
Deposits	175,184,224	175,285,979	171,2
Advances from Federal Home Loan Bank	3,000,000	3,000,000	
Bonds payable	-	-	3
	Notional Amount	Fair Value	Noti Amo
Unrecognized financial instruments			
Commitments to extend credit	$60,142,000	$60,142,000	$52,3

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, 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 were secured by an indenture between GMSC, Inc. and the Bank of New York, acting as trustee for the bondholders. The Bonds were redeemed during 2003 and the balances are summarized as follows:

December 31,	2003
Serial Bonds	
Class A-3, maturing January 20, 2019, at 8.0%	$ -
Unapplied payments	-
	-
Less unamortized discount	-
	$ -

Prior to redemption, the Bonds were 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 was less than their stated maturities. Interest was paid as incurred on the Class A-3 Bonds. The indenture also provided 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 was included in cash on the balance sheet as of December 31, 2002. The account established for payment of interest and debt maturities was netted with cash and bonds payable on the balance sheet as of December 31, 2002.

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GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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,	2003
Maximum amount outstanding during the year	$5,000,000

Average amount outstanding during the year	760,000
Average interest rate during the year	1.32%

8. Income Taxes

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

Year Ended December 31,	2003	20
Current income tax	$ 683,956	$927,
Deferred income tax expense (benefit)	208,000	(113,
	$ 891,956	$814,

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

Year Ended December 31,	2003	2
Tax expense at statutory rate	$965,010	$876,
Adjustments		
Other	73,054	62,
	$891,956	$814,

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

December 31,	2003
Deferred tax asset	
Bad debt reserves	$ 684,000
REO reserves	-
Deferred loan fees	-
Available for sale securities	11,000
Other	5,000
Total deferred tax asset	700,000
Deferred tax liability	
GMSC REMIC	52,000
Fixed assets	459,000
Other	-
Total deferred tax liability	511,000

Net deferred tax asset	$ 189,000

GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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,	2003
Balance at the beginning of year	$2,069,000
Additional loans	259,000
Loan reductions	(1,847,000)
Balance at end of year	$ 481,000

10. Commitments and Contingencies

Guaranty leases office space under operating leases expiring at various dates through 2012. Future minimum rental payments required that have initial or remaining noncancelable terms in excess of one year as of December 31, 2003, are as follows:

Year Ending December 31,	
2004	$ 162,056
2005	141,783
2006	144,169
2007	146,630
2008 and thereafter	731,206
	$1,325,844

Total rental expense amounted to approximately $197,000, $140,000 and $179,000 for the years ended December 31, 2003, 2002 and 2001, 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. 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.

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GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Convertible Preferred Stock (continued)

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. In May 2003, Guaranty redeemed 100% of the remaining preferred securities at which time $185,000 of unamortized issuances expenses were written-off.

12. Stockholders' Equity

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

December 31, 2003	Amount Required	Percent Required	Actual Amount
Tier 1 risk based	$ 6,376,000	4.00%	$20,213,000
Total risk based capital	12,753,000	8.00%	22,206,000

December 31, 2002	Amount Required	Percent Required	Actual Amount
Tier 1 risk based	$ 6,628,000	4.00%	$24,373,000
Total risk based capital	13,255,000	8.00	26,447,000

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 for the year ended December 31, 2002. No Trust Preferred Securities were outstanding as of December 31, 2003 and therefore, were not included in capital ratio calculations.

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. Guaranty paid dividends of $595,289 during 2003.

GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	2003		2002	
	Shares	Weighted - average exercise price	Shares	Weighte averag exercis price
Options outstanding at beginning of period	76,012	$10.01	57,912	$12.07
Granted	17,500	13.47	47,500	8.59
Forfeited	(5,762)	14.69	(21,500)	12.45
Exercised	(21,000)	9.52	(7,900)	10.59
Options outstanding at end of period	66,750	10.67	76,012	10.01
Options exercisable at end of period	66,750		76,012	

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 $68,000, $67,000 and $60,000 for the years ended December 31, 2003, 2002 and 2001, 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.

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

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

December 31,	2003
Financial instruments whose contract amounts represent credit risk	
Commitments to extend credit	$60,142,000
Standby letters of credit written	3,899,000

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. Subsequent events

On December 18, 2003, Guaranty and Union Bankshares Corporation announced the signing of a definitive merger agreement, which was unanimously approved by each board of directors, pursuant to which Union will acquire Guaranty. The merger is dependent on certain regulatory approvals, as well as approval by Guaranty shareholders, and is expected to close in the second quarter of 2004.

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GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Selected quarterly financial data (Unaudited)

Condensed quarterly financial data is shown as follows:

Year Ended December 31, 2003 (Dollars in thousands except per share data)	First Quarter	Second Quarter
Total interest income	$2,641	$2,607
Total interest expense	598	479
Net interest income	2,043	2,128
Provision for (credit to) loan losses	30	979
Net interest income after provision for loan losses	2,013	1,149

Other income	1,609	796
Other expenses	2,167	2,206
Income before income tax expense	1,455	(261)
Income tax expense (benefit)	476	(107)
Net income (loss)	$ 979	$ (154)
Basic earnings (loss) per share	$0.50	($0.08)
Diluted earnings (loss) per share	0.49	(0.08)

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

GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Condensed Financial Information of the Parent Company Only

Condensed Statements of Financial Condition

December 31,	2003

Assets		
Investment in subsidiaries, at equity		$19,929,419
Cash		283,647
Prepaid expenses and other assets		-
		$20,213,066
Liabilities and Stockholders' Equity		
Other liabilities	$	-
Total liabilities		-
Subordinated debt		-
Stockholders' Equity		
Common stock		2,491,136
Additional paid-in capital		9,238,003
Retained earnings		8,483,927
Total stockholders' equity		20,213,066
		$20,213,066

Condensed Statements of Operations

Year Ended December 31,	2003
Income	
Dividends received from bank	$ 773,803
Total income	773,803
Interest expense	(164,187
Non-interest expenses	(31,724
Income before undistributed net income of the Bank	577,892
Undistributed net income	1,368,417
Net income	$1,946,309

GUARANTY FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Condensed Statements of Cash Flows

Year Ended December 31,	2003
Operating activities	
Net income	$1,946,309
Adjustments:	
Undistributed earnings of the Bank	(1,368,417
Decrease in prepaid and other assets	448,437
Net cash provided (absorbed) by operating activities	1,026,329
Investing activities	
Dividends received from Bank	6,786,303
Investment in the bank	(1,831,855
Net cash provided by investing activities	4,954,448
Financing activities	
Issuance of common stock	231,586
Redemption of trust preferred securities	(6,012,500
Net cash provided (absorbed) by financing activities	(5,780,914
Increase in cash	199,863
Cash, beginning of year	83,784
Cash, end of year	$ 283,647

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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: April 13, 2004 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)	Ap
/s/ Tara Y. Harrison Tara Y. Harrison	Chief Financial Officer (Principal Financial and Accounting Officer)	Ap
/s/ Douglas E. Caton Douglas E. Caton	Chairman of the Board	Ap
/s/ Harry N. Lewis Harry N. Lewis	Vice Chairman of the Board	Ap
Henry J. Browne	Director	Ap
Jason I. Eckford, Jr.	Director	Ap
W. Bradford Eure	Director	Ap
/s/ Patrick J. McCann. Patrick J. McCann	Director	Ap
/s/ John R. Metz John R. Metz	Director	Ap
James R. Sipe, Jr.	Director	Ap
/s/ Oscar W. Smith, Jr. Oscar W. Smith, Jr.	Director	Ap

EXHIBIT INDEX

Number	Document
2	Agreement and Plan of Reorganization, dated December 18, 2003, by and between Union Bankshares Corporation ("Union") and Guaranty, and a related Plan of Merger, filed as Appendix I to the Proxy Statement/Prospectus included in (and referred to as Exhibit 2 of) Union's Registration Statement on Form S-4, Registration No. 333-112416, filed with the Commission on March 5, 2004, incorporated herein by reference.
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.
10.3	Form of Change of Control Agreement for Executive Officers.
21	Subsidiaries of Guaranty.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.