



2018 ANNUAL REPORT



• MISSION STATEMENT •

*Work hard, have fun, make money,
while providing outstanding customer service
and honoring the Golden Rule.*





To Our
STOCKHOLDERS and CUSTOMERS

What a great year 2018 was for our markets! Businesses thrived as the economy grew, unemployment was at record lows, and commodity prices were stable to growing. Our Happy Bancshares, Inc. (HBI) stock value increase was somewhat modest (we have never seen our stock value decline in our 28-year history). We had a record-breaking year for both our net income and our stock offering, but because other bank stock values actually declined at year end, our valuation was also restrained. We are anticipating an exciting 2019 at your Happy State Bank.

Highlights for 2018 include:

- ★ In spite of market volatility, the HBI stock value increased to \$43.25, equating to a 10 year annualized return of 13.7%.
- ★ All-time record earnings increased 29.2%, which is \$7.2 million over last year.
- ★ We strengthened our capital base as we raised a record-breaking \$82 million for future growth.
- ★ Mikel Williamson was promoted to President and COO and is now running the daily operations of the bank.
- ★ For the fifth year in a row, *American Banker Magazine* named us as one of the “Best Banks to Work For in the USA.”
- ★ We continued to lay the framework to open new bank locations over the next two years.
- ★ Our ATM network broadened with the installation of 64 new locations in Lubbock and Abilene.
- ★ And the biggest WOW, the bank was recognized by *Forbes Magazine* as the third best bank in Texas.

The economy continues to do well, which comes at a great time for our customers as we expand into additional rural and urban markets. The first step is our new Bedford branch, opening in January. The next steps include conversations regarding the acquisitions of other banks, as well as starting construction of new branch locations. We will continue to enrich our already robust banking services and products, so be on the lookout for some exciting enhancements in the near future.

Every day our employees strive to provide excellent banking service and to be the best at what we do. The truth is, I get to work with the best bankers and directors, taking care of the best customers and stockholders in the best state, in the best nation in the world. And it's pretty neat when multiple national organizations, like *Forbes* and *American Banker*, recognize that we are among the very best, year-after-year - confirming that there is something special going on at the Happy Bank.

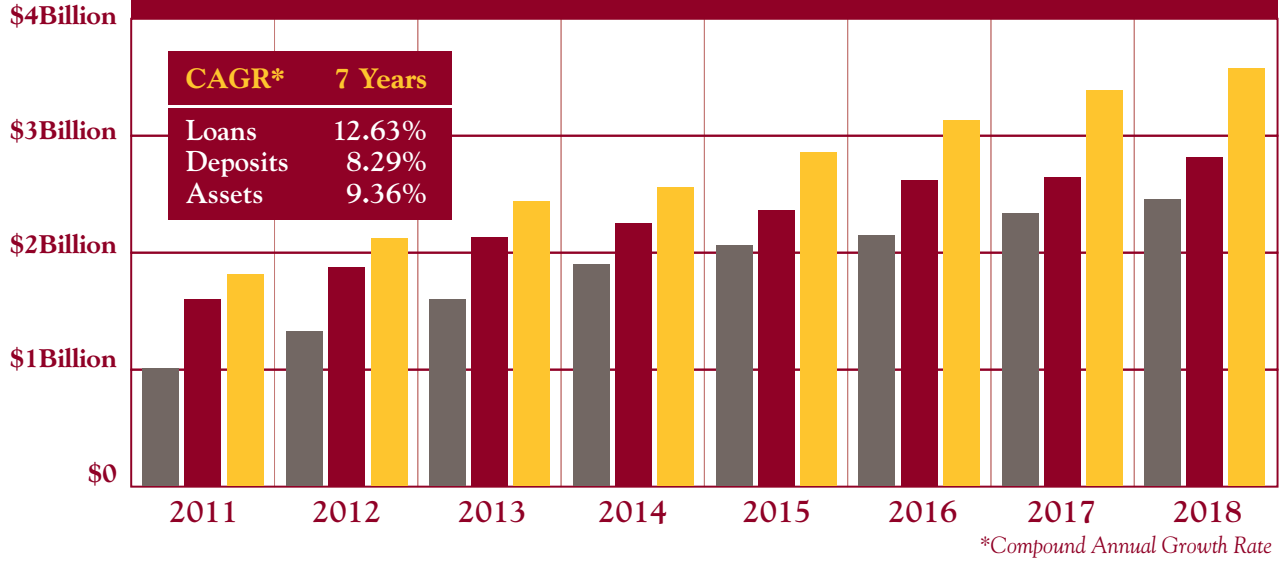
We're not taking the recognition for granted or slowing down. Nor will we take for granted - or forget - the blessings God has bestowed on this bank. I'm blessed to get to lead this company and work for you all. I thank my God, and I thank you. God Bless!

Sincerely,

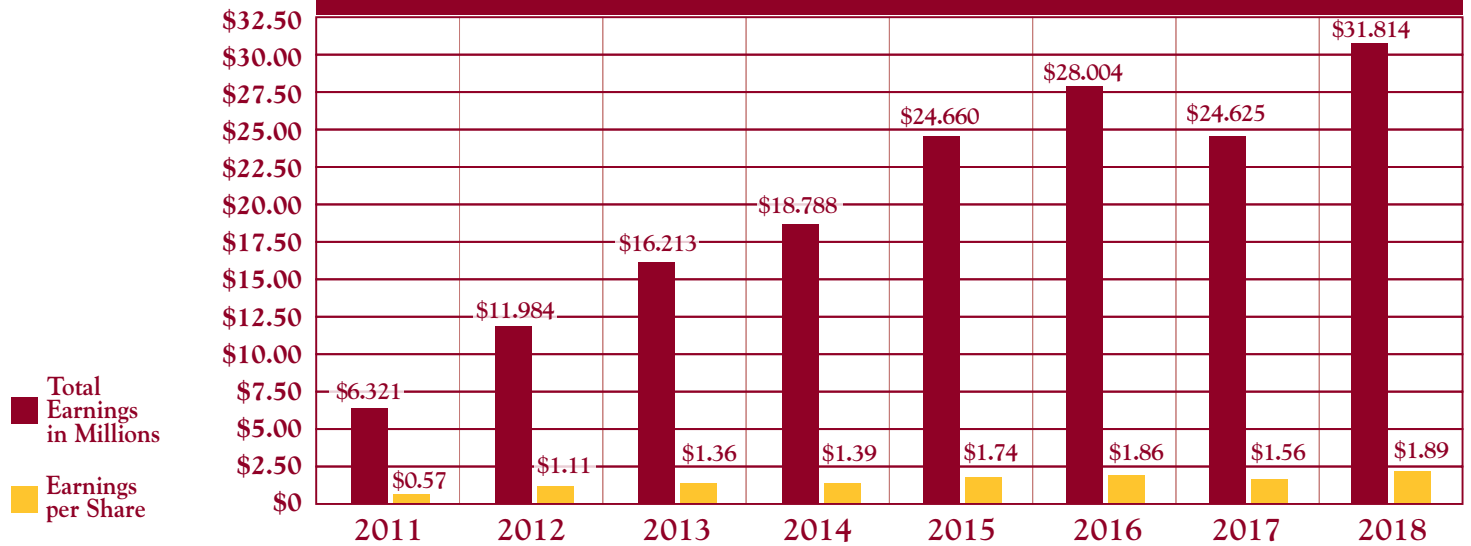
J. Pat Hickman
Chairman & CEO

All numbers in this letter represent Happy State Bank. All other numbers in this report reflect Happy Bancshares, Inc. performance.

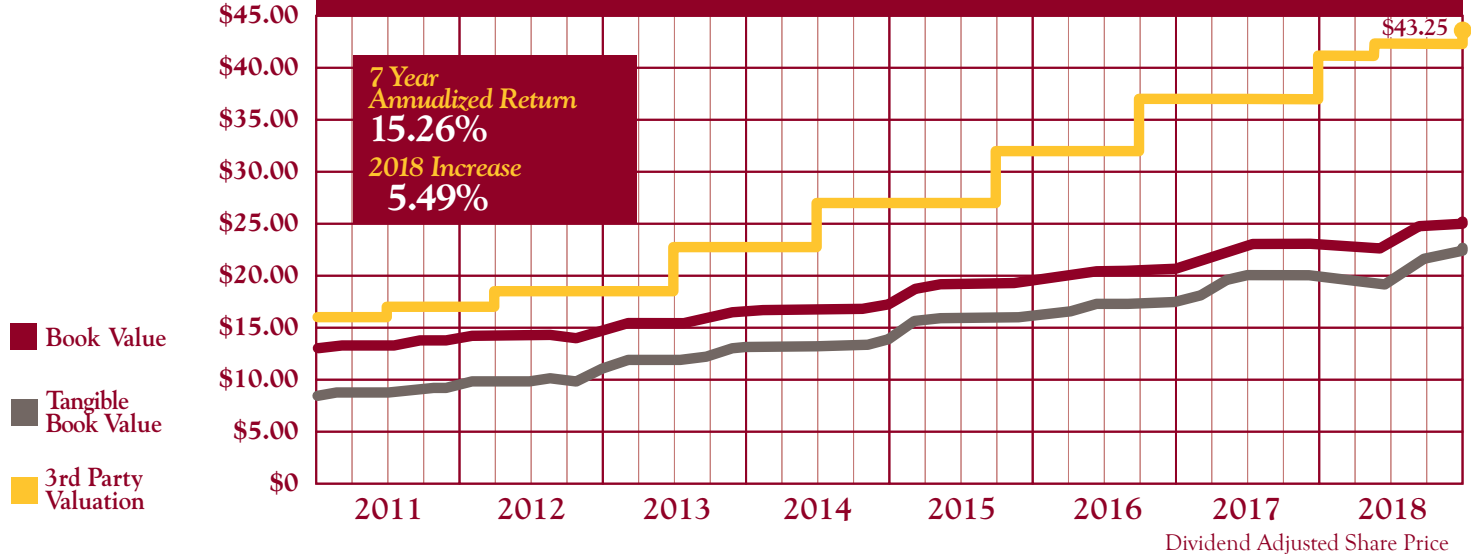
HBI HISTORIC GROWTH



HBI HISTORIC EARNINGS & EARNINGS PER SHARE



HBI STOCK VALUES



HAPPY BANCSHARES, INC.

Statement of Condition



BALANCE SHEET

(Dollars in thousands)

	2016	2017	2018	Change from 2017 to 2018
ASSETS				
Cash & Due from Banks	\$ 268,276	\$ 187,475	\$ 181,478	-3%
Investments	474,596	604,857	580,870	-4%
Loans	2,149,326	2,339,046	2,352,080	1%
Fixed Assets	96,826	107,326	111,265	4%
Other Assets	146,795	174,389	220,688	27%
TOTAL ASSETS	3,135,819	3,413,093	3,446,381	1%
LIABILITIES				
Deposits	2,626,079	2,663,641	2,813,600	6%
Other Liabilities	188,503	369,259	171,458	-54%
TOTAL LIABILITIES	2,814,582	3,032,900	2,985,058	-2%
CAPITAL				
Common Stock	15,731	16,494	18,086	10%
Capital Surplus	158,375	185,302	241,217	30%
Retained Earnings	152,037	176,662	208,102	18%
Accumulated other Comprehensive Income	(4,906)	1,735	(6,082)	-451%
TOTAL CAPITAL	321,237	380,193	461,323	21%
TOTAL LIABILITIES & EQUITY CAPITAL	\$ 3,135,819	\$ 3,413,093	\$ 3,446,381	1%

INCOME STATEMENT

(Dollars in thousands)

	2016	2017	2018	Change from 2017 to 2018
NET INTEREST INCOME				
Interest Income	\$ 113,182	\$ 125,606	\$ 147,387	17%
Interest Expense	12,203	17,335	27,607	59%
	100,979	108,271	119,780	11%
Provision for Loan Losses	6,385	6,200	6,300	2%
NON INTEREST INCOME				
Service Charges	14,352	15,844	17,482	10%
Other Non Interest Income	20,531	17,596	17,780	1%
	34,883	34,440	35,262	5%
NON INTEREST EXPENSE				
Salaries and Employee Benefits	49,817	59,683	66,079	11%
Occupancy and Equipment Expense, Net	13,271	12,295	12,850	5%
Data Processing	7,951	9,468	6,939	-27%
Other	20,749	21,094	27,652	31%
	91,788	102,540	113,520	11%
Net Income before Tax	37,689	32,971	35,222	7%
Income Tax	9,685	8,346	3,408	-59%
NET INCOME	\$ 28,004	\$ 24,625	\$ 31,814	29%



11,465

reported community hours
serving **776** organizations

We're so...

HAPPY



Our core system conversion was a BIG deal – so we celebrated its anniversary! Happy to the Core for one year!





Well, we did it again. For five years now, HAPPY STATE BANK has been named one of the "Best Banks to Work For" by *American Banker*. From the start, Happy's goal was to cultivate a fun environment that would make people truly enjoy their time at work. We're Happy it's working!

AMERICAN BANKER

BEST BANKS TO WORK FOR
 FOR 2014, 2015,
 2016, 2017, 2018
 5 YEARS IN A ROW



When the 2018 Tax Cuts & Jobs Act came into play at the beginning of the year, HAPPY STATE BANK did something unheard of – we passed our savings onto our employees. These are the people that keep Happy what it is: Happy. This move garnered so much attention, Texas Congressman, Jodey Arrington, visited our 19th Street Lubbock branch to meet with employees. FOX News also retweeted our announcement!

It's not often that we surprise our fearless leader, J. Pat Hickman, but when it happens it's worth the watch! In September, the Independent Bankers Association of Texas (IBAT) surprised Pat with his face on the IBAT *Wall of Heroes and Legends of Texas Community Banking*. What's more, some Happy employees and board members made the trip down to San Antonio to surprise him!



Our annual corn stand in Amarillo's Chamber BBQ was a hit! HAPPY STATE BANK gave away 4,000 ears of corn and had fun in the process.



It was fun hosting both past and present Happy Board members at Palo Duro Canyon! Growing and thriving – together.



Partnering up with WT Business Enterprise Center for their Reverse Pitch was a great way to encourage local entrepreneurs. Twenty-one teams competed with their designs of the branch of the future!

Forbes 2018

BEST-IN-STATE BANKS

Powered by STATISTA

It's a recognition we're dang proud of, and we won't let anyone forget it! In July, *Forbes* magazine named HAPPY STATE BANK as the 3rd Best Bank in Texas, and the 26th Best Bank in the Nation. What makes us even Happy-er? This was all due to ratings from our customers. We have a Happy relationship!



Happy State Bank

Published by Jason Anderson [?] · July 5, 2018 ·

No, it's not a funny email that's making our CEO, J. Pat Hickman, smile. He just found out that Forbes has named Happy State Bank as one of the Best Banks in Texas! We are so honored to be mentioned among these companies: USAA, Comerica Bank, Prosperity Bank, and First Financial Bank.

Learn more: Happybank.com/Forbes



89,229
People Reached

15,134
Engagements



The decision to donate \$2.5 million to WTAMU Ag School was an easy one for our Board. This record-breaking gift is meant to serve future agriculture leaders and the farming communities of Texas. This donation has allowed the school the opportunity to bring more state-of-the-art equipment into the classroom for students to receive hands-on experience.



HAPPY STATE BANK hosted Go Big in Texas for their Regional Business Summit in Amarillo. This event was moderated by Happy Board member, Drayton McLane, Jr.



As you may know, Pat's a little partial to his Red Raiders, so he was thrilled when the Board wanted to donate \$2.5 million to Texas Tech's Veterinary School. With this gift, Texas Tech is establishing Texas' first new veterinary school in 100 years. This innovative school of veterinary medicine is purpose-built from the ground up and will entice a wider pool of large animal veterinarians to serve our Texas agricultural industry.



Give back. It's one of our Core Values for a reason! We were Happy to sponsor both JPS Medical Home Northeast Tarrant and Cook's Children's Medical Center's Charity Care program, supporting medical services for adults and children.



Our execs were Happy to pass out Dell Chromebooks to every high school student at Ascension Academy this year. This monumental donation is an initiative to give valuable resources to students so they will have access to a wider variety of learning styles.



Our employees sold shirts where 100% of the proceeds went to the Stratford Fire Department, in memory of the late Jack Gore.



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Happy State Bank

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Frank O. Marrs

Drayton McLane Jr.

Drayton McLane III

Ginger Nelson

George Bailey Peyton IV

J. Brian Sims, M.D.

Trent Sisemore

Brian L. Vincent

Victor "Vic" A. Weir, II

John Zwiacher

**Happy State Bank
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Kim Mullane
Executive Assistant

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General Counsel

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EVP SR. Marketing Officer

Cindy Brown
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Johnny Terra
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SVP Loan Review

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Assistant Vice President

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Assistant Vice President

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Assistant Vice President

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Assistant Vice President

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Senior Vice President

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Assistant Vice President

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Vice President

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Assistant Vice President

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Assistant Vice President

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Joe Cowden
IT Officer

Ty O'Kelly
IT Officer

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Assistant Vice President

Mason Reinbold
Assistant Vice President

Travis Soto
Assistant Vice President

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Bank Officer

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Bank Officer

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EVP & Sr. Lending Officer

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EVP & Special Assets

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EVP & Sr. Credit Officer

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Sabrina Shields
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Bank Officer

Josh Garza
Bank Officer

Scott Henderson
Bank Officer

Jason West
Bank Officer

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Senior Vice President

Marci Willis
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Nicole Houle
Vice President

Rachel Sarine
Vice President

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Tonya Ingram
Bank Officer

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Shane Watson
Vice President

Christy Heuston
Assistant Vice President

JD Morrison
Assistant Vice President

Abilene

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Senior Vice President

Annette Anders
Vice President

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Bryce Beville
Bank Officer

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Senior Bank Officer

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Senior Bank Officer

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Senior Vice President

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Senior Vice President

Erin Viermann
Senior Vice President

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Vice President

Tucker Lee
Vice President

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Vice President

Shelly Kearns
Assistant Vice President

Staci Scott
Bank Officer

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President

Bell

Courtney Evans
Assistant Vice President

Coulter

Sherry States
Vice President,
Regional Operations

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Assistant Vice President

Georgia

Valerie de la Fuente
Assistant Vice President

Soncy

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Steve Seabourn
Senior Vice President

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Vice President

Geoff Phemister
Vice President

Stacy Armstrong
Assistant Vice President

Tascosa

Jennifer Currie
Assistant Vice President

Teckla

Yolanda Castillo
Assistant Vice President

Western

Debbie Loyless
Assistant Vice President

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President

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Vice President

John Haley
Vice President

Canyon

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President

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Vice President

Mike Sluder
Vice President

Chryis Thomason
Vice President

Dalhart

Eli Hernandez
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April Lind
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DFW Market

Robert Gottlich
Market President

Addison

Tanya Cowgill
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Kenneth Maynard
Senior Vice President

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Senior Vice President

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Cheryl Johnson
Vice President

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Vice President

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Bank Officer

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Vice President

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Vice President

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Vice President

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Vice President

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Assistant Vice President

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Samuel Warapius
Bank Officer

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Floydada

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Higgins

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Assistant Vice President

Lockney

Monty Teeter
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Yara Poole
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Lubbock Market

Bud Holmes
Market President

98th & Quaker

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Senior Vice President

Mike Jackson
Senior Vice President

Clay Mercer
Senior Vice President

Peter Smith
Senior Vice President

Trey Weaver
Senior Vice President

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Craig Wells
Vice President

Heather Glenn
Assistant Vice President

Jessica Terrell
Assistant Vice President

Leah Cleavinger
Bank Officer

Derek Dollahite
Bank Officer

James Sikes
Bank Officer

19th & Quaker

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Suzie Stafford
Vice President

Sarah Cook
Assistant Vice President

Olton

Brent Falkenberg
President

Gladys Harper
Assistant Vice President

Jimma Bradley
Bank Officer

Pampa

Alan Eubank
President

Jolita Sells
Vice President

Kay West
Vice President

Erica Guzman
Assistant Vice President

Misty Auwen
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Panhandle

Brady Shadid
President

Travis Hammer
Bank Officer

Plainview

Willis McCutcheon
President

Jordan Dunlap
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Assistant Vice President

Shamrock

Kelly Livingston
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Sae McAllister
Bank Officer

Silverton

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Stratford

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Holly Reinart
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Sunray

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Texline

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Other

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Chris Klemme - Dallas
Senior Vice President

Brooks Smith - Dallas
Senior Vice President

Bryan Limmer - Lubbock
Senior Vice President

Alisa Scott - Amarillo
Senior Vice President

Todd Wetsel - Amarillo
Senior Vice President

Terry Wright - Amarillo
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Vice President

Kevin Rider - Amarillo
Vice President

Terri Wright - Amarillo
Vice President

Scott Richardson - Amarillo
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Hunter Vagrosky - Amarillo
Trust Officer

Shannon Van Campen - Addison
Trust Officer

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Vice President

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Vice President

Cyan Batchelor - Lubbock
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Sandi Brandt - Amarillo
Bank Officer

Dan Fowler - Pampa
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Vice President

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Vice President

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Vice President

Donna Donnell - Amarillo
Vice President

Cindy Hanson - Amarillo
Vice President

Kay Kuhn - Amarillo
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Vice President

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Vice President

Ryan Stewart - Bedford
Vice President

Ashton George - Amarillo
Assistant Vice President

Kimberly Bailey - Amarillo
Assistant Vice President

Heather Schrader - Amarillo
Assistant Vice President

Mirna Corral - Amarillo
Mortgage Officer

Sharla Fife - Bedford
Mortgage Officer

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Senior Vice President

Jeff Worley
Senior Vice President

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Chris Silvaggi
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Vice President

Kelsea Heiman
Assistant Vice President

Marty McClish
Assistant Vice President

Jeremy Self
Assistant Vice President

Lara Johns
Trust Officer

Carla McCaslin
Trust Officer

GoldStar

Protective Services

Marvin Daniels
Vice President



David Seim
HAPPY STATE BANK
Chairman - Lubbock
2012 - 2018

A great friend, leader, motivator,
mentor, advisor, and servant.
David is dearly missed.



HAPPY BANCSHARES, INC.

HAPPY Locations

- | | | |
|---------------|-------------|-----------|
| Happy | Dalhart | Pampa |
| Abilene | Dumas | Panhandle |
| Addison | Floydada | Plainview |
| Allen | Fort Worth | Shamrock |
| Amarillo - 10 | Hereford | Silverton |
| Bedford | Higgins | Stratford |
| Borger | Lockney | Sunray |
| Canadian | Lubbock - 2 | Texline |
| Canyon | Olton | |



HAPPY STATE BANK
AND TRUST COMPANY

Member FDIC



GOLDSTAR
TRUST COMPANY



HAPPY
INVESTMENT
SERVICES



GOLDSTAR
PROTECTIVE
SERVICES