

2018

TEXAS BRAND **BANK**



TEXAS BRAND BANK



Dear Shareholders,

Texas Brand Bancshares, Inc., and Texas Brand Bank are pleased to announce another record year. Operating results were the highest in our history. We are happy to have assisted in the growing economy of DFW by providing our unique brand of service to local businesses, builders and developers.

After adjusting for the one-time non-cash tax charge last year, after tax earnings increased 28.73% over 2017. This represents the seventh consecutive year of earnings growth of 25% or more. Year-end assets increased 14.30% to \$203,621,026. Deposits were up 15.35% to \$174,965,222, while our loan portfolio increased 5.28% to \$151,259,547. For the third consecutive year, we had zero real estate foreclosures, zero non-performing loans and zero past due loans at year end, reflecting the strength of our local market and our continuing focus on credit quality.

Our capital to assets ratio, considered by many industry analysts to be the primary indicator of bank strength and solvency, was 12.90% at year end, significantly above the regulatory requirements for a banking organization to be categorized as "well capitalized." Despite our very high capital ratio, our after-tax return on equity from continuing operations was 8.81%. Return on average assets was 1.15%. We continued paying quarterly dividends of 10% of net earnings, resulting in a return of \$225,288 to our shareholders in 2018.

As you are aware, we currently have three banking offices. We are excited to report that we have been granted regulatory approval to open a fourth office. Our Deep Ellum branch office will be at 3033 Main Street (located at the Hall Street intersection, near Baylor Hospital). We anticipate that this office will open near the end of the second quarter. We believe that our company strategy of opening offices in redeveloping urban areas that do not have a banking presence will continue to produce results for our shareholders.

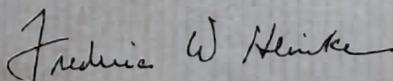
As a result of our success from the expansion of banking offices, we continue to look for additional opportunities for growth around the city center.

We continue to be optimistic about the future. Although we expect that the new offices and other initiatives may slow profit growth during 2019, we believe that these same opportunities will contribute to our continued growth and profitability in 2020 and beyond.

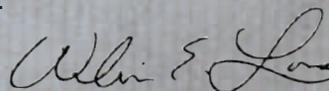
We are proud to remain a locally operated and independently-owned community bank.

Please allow us an opportunity to provide banking services for you, your family and your business associates. We welcome your referrals.

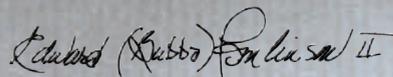
Thank you for your continued support.



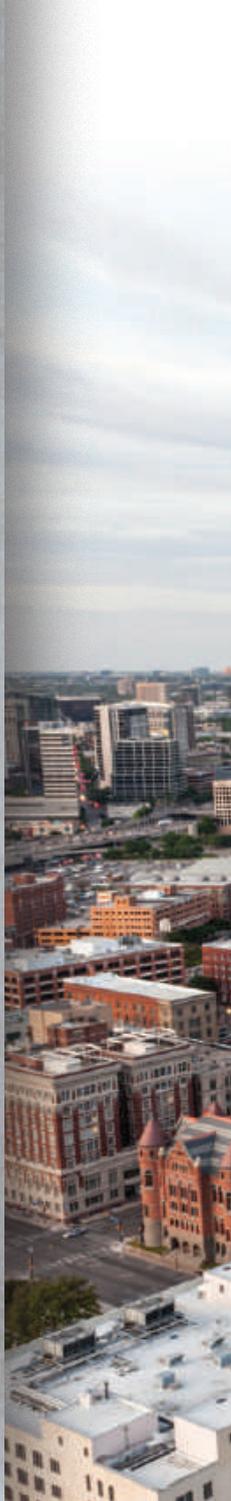
Frederic W. Heinke
Chief Executive Officer



William E. Lowe
President



Edward B. Tomlinson, II
Chairman of the Board



Transitions...

It's a fact – our population is growing. Texas has been the front-runner in population growth as compared to other states for the last decade. Every day, hundreds of people move into Dallas and the DFW metroplex. As a result of urban sprawl becoming less desirable, a big transition is in full swing. Millennials and baby-boomers are changing the way we live and conduct business.

The continued exceptional population growth and generational ideology shift necessitates that we think about how we can maximize our philosophy to remain a safe and sound locally-owned community bank while also remaining dedicated to building a strong local economy.

Several years ago, we looked at where this transition was having a great impact and how that impact was affecting our communities. We noted that the center city of Dallas is definitely in transition. We see this change as creating a spill-over opportunity for urban neighborhoods. Notable areas such as Uptown, The Cedars and Deep Ellum are places where all ages want to live, work, and play.



“To succeed, jump as quickly at opportunities as you do at conclusions.”

-Benjamin Franklin

Texas Brand Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

For the Years Ended December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and due from banks	\$1,837,791	\$2,182,126
Total cash and cash equivalents	1,837,791	2,182,126
Interest bearing deposits in other banks	40,843,740	19,759,891
Investment Securities AFS	7,309,598	10,238,130
Stock of Federal Home Loan Bank	269,589	266,200
Stock of Texas Independent Bank	117,121	117,121
Loans, net	151,259,547	143,678,549
Bank premises and equipment, net	733,509	651,894
Other real estate owned	-	-
Accrued interest receivable	458,062	483,477
Deferred tax asset	384,268	359,272
Other assets	<u>407,801</u>	<u>408,791</u>
Total Assets	\$203,621,026	\$178,145,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	\$38,114,533	\$37,215,217
Interest-bearing demand	7,001,096	6,842,418
Money market and savings	45,809,342	31,284,977
Time, \$100,000 and over	73,517,370	65,064,398
Other time, less than \$100,000	<u>10,522,881</u>	<u>11,279,983</u>
Total deposits	174,965,222	151,686,993
Accrued interest payable	289,605	154,113
Deferred loan fees	576,948	439,537
FHLB advances	-	-
Notes payable	-	-
Other liabilities	<u>552,833</u>	<u>549,600</u>
Total liabilities	176,384,608	152,830,243
Common stock- \$5 par value; authorized 5,000,000 shares; 1,841,087 and 1,841,087 shares issued in 2018 and 2017, respectively and 1,808,087 and 1,841,087 outstanding in 2018 and 2017 respectively	9,205,435	9,205,435
Additional paid-in capital	12,444,574	12,447,168
Treasury stock - 33,000 shares and 27,000 shares at cost as of 2018 and 2017, respectively	(395,800)	(311,800)
Retained earnings	6,033,571	4,017,169
Unrealized gain on investment securities available-for-sale	<u>(51,362)</u>	<u>(42,764)</u>
Total stockholders' equity	<u>27,236,418</u>	<u>25,315,208</u>
Total liabilities and stockholders' equity	\$203,621,026	\$178,145,451

INTEREST INCOME	2018	2017
Interest and fees on loans	\$9,893,387	\$7,992,421
Interest on investment securities - taxable	33,102	29,739
Interest on investment securities - non taxable	106,486	111,856
Interest on federal funds sold	36,146	17,303
Interest on deposit accounts	<u>463,319</u>	<u>251,958</u>
Total interest income	10,532,440	8,403,277
Interest Expense		
Interest on Deposits		
Money market and savings	617,428	182,640
NOW accounts	20,496	13,695
Time, \$100,000 and over	1,237,683	778,569
Other Time	174,033	142,876
Other borrowings	<u>11,269</u>	<u>91,135</u>
Total Interest Expense	2,060,909	1,208,915
Net interest income	8,471,531	7,194,362
Provision for loan losses	300,000	300,000
Net interest income after provision for loan losses	8,171,531	6,894,362
Non-Interest Income		
Service fees	173,617	189,040
Other	5,040	12,883
Total Non-Interest Income	178,657	201,923
Non-Interest Expense		
Salaries and employee benefits	3,370,685	2,772,003
Occupancy expense	546,568	385,125
Advertising	171,814	130,921
Furniture and equipment	140,972	121,922
Data processing services	504,204	436,815
Other	<u>829,570</u>	<u>820,879</u>
Total Non-Interest Expense	5,563,813	4,667,665
Income before income taxes	2,786,375	2,428,620
Income tax expense	<u>547,271</u>	<u>901,189</u>
Net income	\$2,239,104	\$1,527,431
1. 2017 includes \$212,000 writedown of Deferred Tax Asset		

Texas Brand Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the Years Ended December 31, 2018 and 2017

A Look At Our Performance, Then and Now:

(in whole dollars except per share data)

OPERATING RESULTS

	2015	2016	2017	2018
Net interest income	\$5,644,622	\$6,423,351	\$7,194,362	\$8,471,531
Provision for loan losses	180,000	230,000	300,000	300,000
Non-interest income	190,962	193,083	201,923	178,657
Non-interest expense	<u>4,286,818</u>	<u>4,515,768</u>	<u>4,667,665</u>	<u>5,563,813</u>
Earnings before provision for income taxes	1,368,766	1,870,666	2,428,620	2,786,375
Federal income tax	<u>340,537</u>	<u>513,682</u>	<u>689,189</u> ¹	<u>547,271</u>
Net income (loss)	1,028,229	1,356,984 ²	1,739,431	2,239,104

AT YEAR END

Total Assets	147,366,269	166,240,948	178,145,451	203,621,026
Loans, Net of allowance	115,324,115	136,195,819	143,678,549	151,259,547
Investments	27,673,033	25,591,511	29,998,021	48,153,338
Deposits	126,461,361	148,040,716	151,686,993	174,965,222
Stockholders' equity	12,289,029	14,064,731	25,315,208	27,236,418
Common shares outstanding (net of treasury)	1,101,801	1,101,801	1,814,087	1,808,087

OTHER FINANCIAL DATA

Return on Avg. Assets	0.72%	0.87%	1.05%	1.15%
Return on Avg. Stockholder Equity	8.72%	9.94%	9.16%	8.81%
Loans to deposits	91.45%	91.99%	91.73%	95.88%
Allowance for loan losses to loans	1.20%	1.20%	1.26%	1.26%

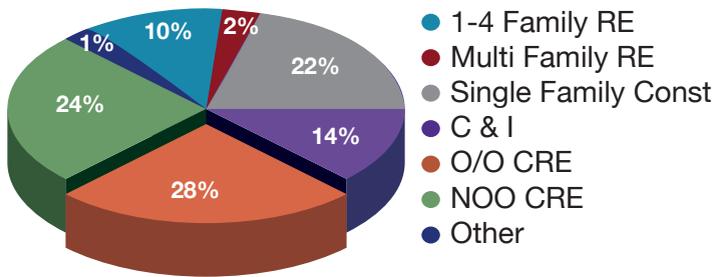
PER SHARE DATA

Net income \$	0.93	1.23 ²	1.36 ³	1.24
Book value	\$11.15	\$12.77	\$13.95	\$15.06

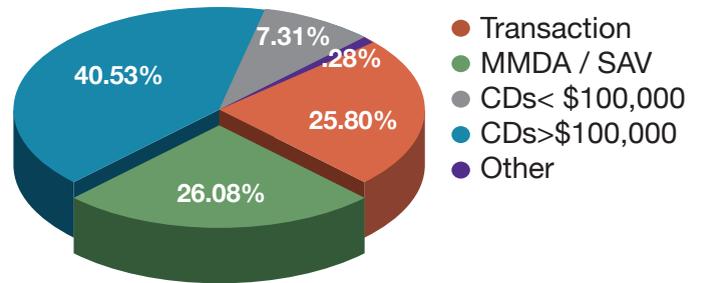
1. Federal income tax not including \$212,000 writedown of Deferred Tax Asset pursuant to Tax Cuts and Jobs Act of 2017.
2. 2016 Net income and Net income per share calculations do not include \$580,000 insurance recovery.
3. Reflects an additional 714,286 shares totalling \$10,000,004 issued in September 2017.

Deposits, Loans, Assets & Equity

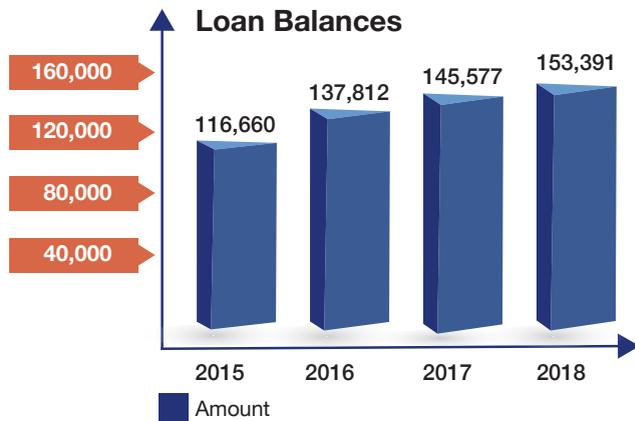
December 31, 2018 Loan Portfolio



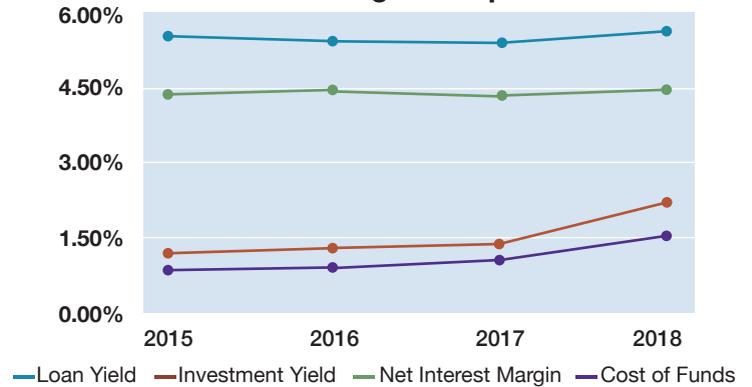
December 31, 2018 Deposit Portfolio



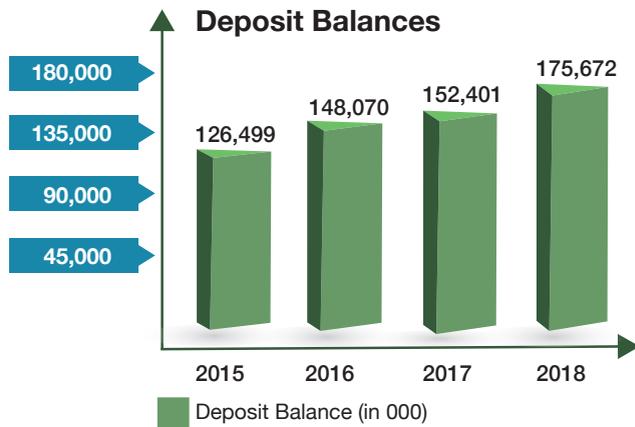
Loan Balances



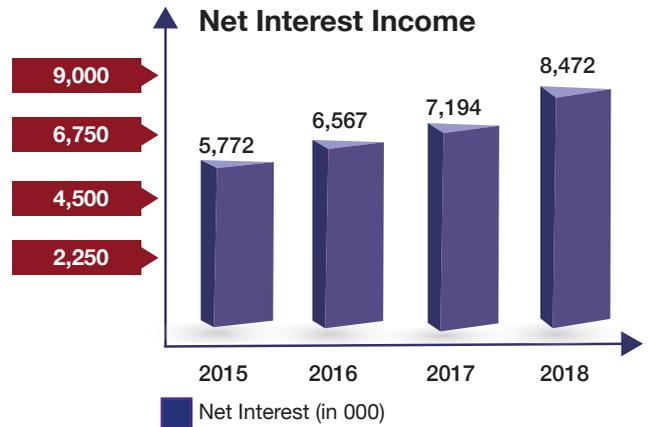
Net Interest Margin Component Ratio



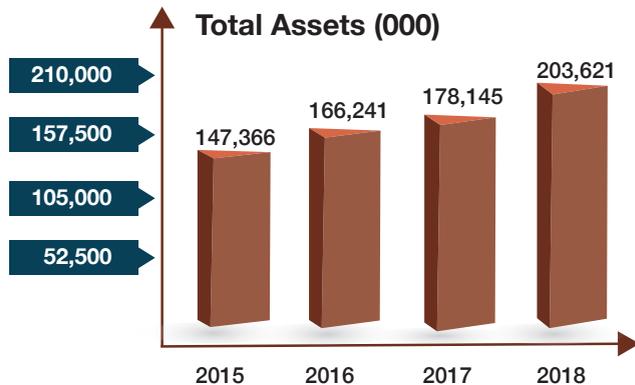
Deposit Balances



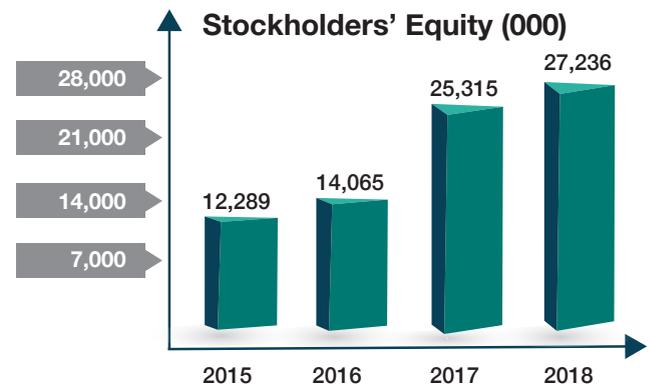
Net Interest Income



Total Assets (000)



Stockholders' Equity (000)



Where there is Activity...



Uptown

Although Uptown has been in transition for some time, it is still exploding with new and renewed development. Thousands of new residences, wonderful amenities that appeal to young professionals, and the close proximity to downtown make this area a place full of opportunity. These characteristics create opportunity that made Uptown an area where Texas Brand Bank wanted to be. Our office at McKinney and Fitzhugh has proven to be very successful.

The Cedars

“The Cedars,” located south of downtown, just beyond Interstate 30, is another rapidly emerging neighborhood. The Cedars neighborhood is home to Dallas Heritage Village, art studios, hundreds of new residential units, boutique hotels, exciting restaurants and entertainment venues. This neighborhood is roaring back to life. We opened our Cedars/Southside office on South Ervay Street in spring 2018.



Deep Ellum

Just east of Downtown, Deep Ellum is a historic neighborhood dating back to the 1920's. This neighborhood also is seeing a resurgence. For years, Deep Ellum was mainly noteworthy for bars and other entertainment establishments. Transition has now come to Deep Ellum bringing new restaurants, scores of small eclectic retail shops, extensive residential development, and popular entertainment venues. These businesses are transforming the area. New amenities and residential developments are bringing in new residents who are anxious to live close to the heart of the city. Texas Brand Bank expects to open its Deep Ellum office, which is currently under construction at Main and Hall Street, in early summer 2019.



Our plan has been to be part of this resurgence by strategically planting our offices where there is visible activity and no other banks. To be able to live, work, and play in these revitalized neighborhoods is appealing to a growing number of millennials, young professionals and others wishing to escape urban sprawl. The influx of residents to these neighborhoods as well as the increased retail traffic make these reinvented and vibrant neighborhoods become more and more desirable. The appeal intensifies. Transition and change result in more of the same.

A vital component for an area's rebirth and reinvention is the retention of as much of its historical identity as possible. Studies have shown that older, vintage buildings not only have an aesthetic impact, but they often also offer flexible and more affordable space for new locally-owned, businesses. We understand the importance of community and historical significance, and we are actively participating in the effort to reuse older buildings at two of our locations. First, our Cedars/Southside office is housed in a former warehouse which was the long-ago home of The Yellow Cab Company. The warehouse had been abandoned for decades and was in huge disrepair, but our renovation of this historical building has helped to bring the street back to life.

In addition, our Deep Ellum office, which is now under construction and expected to open in early summer 2019, is located in an old building constructed in 1947. The building has seen many uses over the years with the most recent being the home of a well-known, locally famous barbeque restaurant. We are retaining much of the original building while also adding a modern 2nd story. The result will be a building that retains the old while bringing in the new. We believe that this symbolizes much of the transition in these neighborhoods. Looking ahead, we see signs of transition and resurgence in other parts of the city. We remain watchful and are waiting for our next opportunity.

We Support Our Community

As a locally owned and operated independent bank, Texas Brand Bank is very involved in supporting and giving back to our local community.



Board of Directors

Edward B. Tomlinson, II – Chairman of the Board

Fritz W. Heinke – Chief Executive Officer

William E. Lowe – President

James Bowen

Charles S. Leis

Stan Luckie

John Shackelford

D. Cecil Williams

Around Town...

Garland



Uptown



Deep Ellum



The Cedars





“Without continual growth and progress,
such words as improvement, achievement,
and success have no meaning.”

-Benjamin Franklin

Uptown
McKinney @ Fitzhugh

Cedars/Southside
Ervey @ Gano

Deep Ellum
Main @ Hall

Garland
Miller @ Shiloh

TEXAS BRAND BANK



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