

S H A R E H O L D E R R E P O R T



10<sup>TH</sup> ANNIVERSARY EDITION

# TEXAS REGIONAL BANK SHAREHOLDER REPORT

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## OUR STORY

The idea for Texas Regional Bank emerged in 2008 when four businessmen recognized the banking void in their local region caused by the consolidation of privately-held community and regional banks. Over the years, locally-owned banks had decreased, reducing the banking choices in many parts of Texas.

Michael Scaief, Bobby Farris, Tudor Uhlhorn, and Bill Elliff, leaders in business and their community, set out to develop a regional banking franchise committed to the success of the community. The group identified what had worked among regional banks in the past and adopted these strategies as operating principles:

- Hire top bankers who know their customers and make good decisions
- Build a broad shareholder base and ownership structure, so no one family could control more than 10% of the bank
- Raise enough capital to be effective in the market
- Embrace technological advances to accommodate emerging and future banking trends

Initially, the group intended to establish a brand new banking operation in the area of the Rio Grande Valley of Texas. As their planning came together in mid-2009, the strategy changed, from chartering a new bank to acquiring an existing franchise. In September 2009, a revised business plan was submitted to regulators, and Texas State Bankshares, Inc. (TSBI) was organized to serve as the bank's holding company, in anticipation of an acquisition.

The TSBI Board soon was charged with raising capital to acquire Falfurrias State Bank. In February 2010, the capital raise began with a goal of \$20 million. The community response was overwhelming, and in less than six weeks, the holding company closed its capital raise with nearly \$24 million from approximately 160 different families.

On May 4, 2010, Texas State Bankshares, Inc. acquired 100% of the stock of Falfurrias State Bank. Ninety days into the acquisition, the charter was relocated to Harlingen, Texas. The bank was renamed Texas Regional Bank, and its relationship style of banking articulated in the new tag line, The People You Know. Texas Regional Bank celebrated another milestone on November 18, 2013 when Border Capital Bank was acquired. The merger added a trust department and four more locations in the Rio Grande Valley market. Texas Regional Bank continued to find opportunities to grow and be a leader in community banking. In February 2017, Texas Regional Bank completed the acquisition of Blanco National Bank.

The Texas Regional Bank Board of Directors and leadership team remain committed to the communities we serve through relationship banking, advanced technology solutions, diverse ownership, and community involvement. Each year, team members contribute thousands of hours to community service projects.

In late 2019, Texas Regional Bank crossed the billion-dollar mark in assets, three years ahead of projections when the bank first started. Today, Texas Regional Bank has assets of approximately \$1.080 billion and 20 locations across the Rio Grande Valley and the Texas Hill Country.

Texas Regional Bank is a wholly-owned subsidiary of Texas State Bankshares, Inc. with equity of more than \$110 million and more than 700 shareholders across Texas. Without a doubt, the influence of its broad shareholder base and team of well-known and seasoned bankers has made Texas Regional the "Bank of Choice" in many Texas markets.



# Message from the Chairman

Michael Scaief | Chairman of the Board

## To Our Shareholders:

While 2019 was an all-around successful year for Texas Regional Bank, I find it hard to focus on much of the past, but rather what is ahead. Michael Lamon, our Chief Credit Officer, sent out a letter to all lenders recently with some brilliant insight that not only applies to credit but applies to our company as well. That is, historical performance of our borrowers no longer indicates future outcomes, but rather, near-future outcomes will be determined by financial depth, liquidity, and a modified forward-looking vision. Even though our 2019 accomplishments are important, they do not provide the foundation going forward. Banking is in transition in many recognizable and unknown ways. Prior to discussing some of the opportunities and risks that may lie ahead, we will take a look at our 2019 highlights.

## 2019 and a 10-year Reflection

On May 4, 2020, Texas Regional Bank celebrated its 10th Anniversary. Our bank has accomplished a lot in a short time. Today, we have 20 locations in south and central Texas, wealth management, trust services, mortgage, international banking, and a suite of treasury and digital services that are second to none. Banking with “The People You Know” took Texas Regional Bank above the \$1 billion mark in October 2019. This is an amazing accomplishment in the industry. While we have a number of great community banks in the Rio Grande Valley and the Texas Hill Country, none of them can claim the accomplishments of TRB. Of course, this is my opinion, and I may be a little biased.

Texas Regional Bank had another record year in financial performance. Earnings exceeded \$8.3 million, and assets topped \$1.020 billion, an increase of 29% and 15% respectively, over prior year numbers.

## Our Upcoming Shareholder Meeting

Our regular annual shareholder meeting, normally held in early May, has been scheduled for June 25, 2020. If guidance from officials change between the release of this publication till June that will prohibit us from having an in-person meeting, we will call a special virtual meeting to present an abbreviated agenda for approval of the necessary items to govern the company.

Much has changed over the last ten (10) years regarding the size, scope, and complexion of the company. The regularly scheduled 2020 meeting agenda has a number of governance items to address the company’s needs as we continue our growth in markets and overall size. Our once small community bank has begun to attract attention, and changes to our Certificate of Formation are needed to continue to protect our independence and ensure long-term growth and opportunity. I look forward to having our meeting and seeing each and every one of you.

## Opportunities, Risks, and Management Adoption

As Mr. Farris often talks about, the markets provide unique opportunities in times of volatility. Between March 23 and March 27, Lincoln Talbert, our Chief Financial Officer, noticed specific markets experiencing a liquidity crunch. In other words, certain markets had an overwhelming number of funds that needed to sell assets to create cash. Texas Regional Bank, with a tremendous level of liquidity, took the opportunity and purchased \$80 million in undervalued AAA municipal bonds. These purchases are currently performing well, including healthy unrealized gains, and we believe they will go a long way to offset the 150-point reduction in rates by the Federal Reserve in March 2020. As we know and have taken advantage of since our beginning in 2010, disruption creates opportunity.

We completed the first quarter of 2020 with strong earnings and have entered into what economists are calling the next recession. As bankers, we think about risk all the time and are continually evaluating what we can do to mitigate the unknown. The first line of defense for a bank is credit quality, and from the beginning, we have been micro-focused on ensuring secure processes. A couple of key measurements would be the bank’s past-due ratio and loan-to-deposit ratio. Consistently, the bank ranks better than peer in these measurements. While it is obvious why we want past-due ratios low, a lower than peer loan-to-deposit ratio indicates a lower risk weighting for the total bank. In other words, we have a larger investment portfolio than peer, which is viewed as carrying less risk. Other means of risk mitigation is through diversification. In 2017, we expanded into the Texas Hill Country to complement an increasing concentration in the Rio Grande Valley. We believe this move will also add to risk diversification.

The Small Business Administration’s introduction of the Payroll Protection Program (PPP) authorized through the CARES Act is vital to continue an employed workforce for our communities. While we know unemployment will be historically high, this program provides a cushion for businesses as they manage through their financial landscape. The lending team, under the direction of Brent Baldrée, our Chief Lending Officer, has been a leader in originating loans for the program and anticipate 1,000 small business loans/grants providing in excess of \$100 million to businesses in our communities. This program will be financially beneficial to the bank through SBA paid fee income, and it will cushion economic impact to our customers.

Our employees have been champions throughout all of the dysfunction. To protect and reward our employees, Jason Leal, our Chief Administrative Officer, led initiatives to gradually introduce changes in operations and rewards to benefit our team. With the introduction of the Coronavirus (COVID-19) and its risks in early March, we issued additional ‘sick’ days for each employee. From March 23 through May 2, we closed our lobbies to minimize our employees’ exposure to COVID-19. An infected location could have elevated employee stress and cause us to close a location completely. Once the shortages in groceries, closings of schools and daycares, and other inconveniences started to disrupt our employees’ lives, we enacted a paid-time-off policy for all employees to give them the flexibility to take care of personal needs on their schedule. And finally, we paid a bonus to all employees, up to assistant vice-president, who worked on-site between April 6 and May 6, with less than two (2) absences. This bonus rewarded employees who continued to provide service to our customers during the peak period of the COVID-19. Our employees have been truly amazing and dedicated. If you see one, please thank them.

Our customers, all of you plus 25,000 more, can rest assured the bank is here to serve and solve financial challenges. In the last several weeks, we have extended notes or deferred payments for hundreds of customers. While our lobbies were temporarily closed, appointments with customers were arranged. Additionally, we helped many customers ‘turn-on’ their access to our digital services so they can bank from home or anywhere. Since the beginning of the pandemic, our digital/online services have tripled in volume. We believe the current events driving customer habits will continue going forward. During this time, I have been planted in my office chair, answering emails and phone calls, attending Zoom video conferences, interpreting guidance, giving direction, and driving nowhere. My schedule and work production are probably at its most efficient level. We have learned a lot about what we need and don’t need, and I wonder how this will change our company going forward.

As a word of caution, cybercrimes are expected to increase. Cybercrimes primarily result from human error, for example, clicking a link in an email that appears to be from a trusted source but is actually malware. Please be diligent with everything you do on your computer and be suspect of every email you receive. We have many resources available on the subject, so please don’t hesitate to contact us for more information.

As always, thank you for all you do as a shareholder. I encourage us all to focus on what we can control, utilize trusted sources for information, and stay out of harm’s way. I am looking hard for the light at the end of the tunnel and hope to see you all at the other end soon.

Regards,

Michael Scaief  
Chairman, Texas Regional Bank  
President and Chairman, Texas State Bankshares, Inc.

# A DECADE IN REVIEW

TEN YEARS OF BANKING TEXAS





FROM LEFT TO RIGHT:  
 MICHAEL LAMON - CHIEF CREDIT OFFICER  
 MICHAEL SCAIEF - CHAIRMAN  
 PAUL MOXLEY - CEO/PRESIDENT  
 BRENT BALDREE - CHIEF LENDING OFFICER



# Memories from the People You Know

The senior executive team reflects on 10 years of Texas Regional Bank.

## How long have you been with TRB?

Scaief: I'm one of the founding members. I put together the group that started the initial applications with the bank in 2008. We did a business plan and then consequently acquired Falfurrias State Bank. We closed that transaction May 4, 2010.

Moxley: I started with TRB in May 2012.

Lamon: I started with TRB on May 4, 2010. I was the first employee that TRB ever had. It's quite an honor to have been the first employee, and it's been even more of an honor to watch the bank and the team grow.

Baldree: Since May 2010.

## Why did you decide to join TRB back when you did?

Scaief: In 2008, we had the Great Recession, and we found ourselves in the Rio Grande Valley (RGV) with reduced banking choices to help us through the downturn. One of the super-regional banks with a large market share of the business relationships sold, which created a large number of displaced customers and a huge opportunity for us. We realized community banking is very important to the RGV. We needed to do this again and do it quickly to bring back relationships. In 2010, we built an organization that could have enough capital to make a difference.

Moxley: I had retired, and Brent Baldree and Michael Scaief talked to me about coming onboard as the CEO and help TRB build a regional bank in the RGV. I wanted to get back into banking and work with customers and people.

Lamon: It was an opportunity to work with some really smart people that I couldn't pass up. I knew that I needed and wanted to be a part of it.

Baldree: The bank that I worked for was bought by a large, international bank. The community banking side changed, so TRB was a good fit for me to get back to my roots. Also, I had known the gentleman that we bought the bank from in Falfurrias through my sister. Scaief and his group were looking for a bank. I was looking for a job. It all worked out.

## What were those early days like?

Scaief: My current office is the size of the banking office that we had in San Benito, Texas. It was in a little office complex I had. I had a round table and a couple of tables that the executives sat at. We started putting together all the policies and procedures. It was very interesting. Today, we have a bank with \$1.08 billion in assets and \$110 million in capital, pretty neat!

Lamon: Those early days were a bit chaotic. There were a lot of people wearing a lot of hats. We started with a clean slate and had the opportunity to choose great employees that were experienced and were known to provide exceptional customer service. It was a privilege to build the team and establish that foundation.

Baldree: Small. We were very limited in resources. We basically started in our trucks. I was under a "non-compete" so to ensure that was not violated, I had the pleasure of going to Falfurrias every day for nine months. I really got to know the Falfurrias State Bank team. I grew up in Corpus Christi, so it gave me some flexibility to call up some guys that I knew from my early days, and it also gave me the time to get through the transition of my non-compete.

## What are the biggest challenges you have faced?

Lamon: Managing growth and momentum and maintaining discipline in how we grow has been the biggest challenge.

Baldree: When we started the bank in 2010, the banking world had gone through a major crisis in '08/'09. We started at the bottom and have grown from one to twenty locations. We basically built the bank on relationships. The major challenges, in the beginning, were lack of locations and technology. Over the last ten years, we've fulfilled the technology gap for a small, community bank. We've also done a really good job of promoting the community service piece that we excel in. Most customers like to see a bank that supports the communities that it operates in.

## What have been TRB's top accomplishments?

Scaief: Twenty branches in ten years, trust services, wealth management services, mortgage services, international private banking, core banking systems, a gretreasury management platform and a digital platform. We're ten years old, and we've done this. We've been able to blend diversification, not only geographically, but in the different services that we offer. I think that's second to none in comparison to the other organizations. And we do it as a community bank.

Moxley: TRB's top accomplishment has been its growth. In a nine year period, TRB became a \$1 billion bank with twenty banks throughout the RGV and Hill Country. It has taken a lot of hard work and dedication by all the employees in the bank.

Lamon: The team and talent that the bank has established is the greatest accomplishment, and the accomplishment that will take us to the next level.

Baldree: At the end of last year, we hit \$1 billion in assets. If you go back and look at our business plan, we're ahead of schedule. Diversifying and expanding into the Hill Country allowed us to expand our footprint in a fast-growing MSA.

## What is a fond memory or moment you remember from those early TRB days?

Scaief: The moment that I remember most was getting into Tudor's Suburban and driving to Falfurrias to make our introduction with the team. I remember wiring the money over the phone to purchase Falfurrias State Bank. It was a \$3.2 million wire, the largest wire I had ever done in my life. I remember that like it was yesterday. It scared me to death. And when you have Tudor in the car with you, aka "Sky's Falling" Tudor, he will crack every joke and give you every reason why that money is going to get lost in cyberspace and never going to make it to its intended destination. Yeah, that was fun. We got it done, it was received, and we took ownership of Falfurrias State Bank.

Moxley: The excitement of being able to get up every morning and go to work to do something that I really enjoy doing. Every day, I look forward to helping customers and employees better themselves and build a great, local, regional bank.

Lamon: Building the Harlingen branch signified that our dream to put this together had actually come true and that we were going to be a bank.

Baldree: The ribbon-cutting ceremony after we acquired Falfurrias State Bank. Having multiple stock offers and being able to fulfill those commitments fairly easy was a true testament that people believed in our business plan. It gave us the ability to really propel the organization to get to where it's at today.

*"We started with a clean slate and had the opportunity to choose great employees that were experienced and were known to provide exceptional customer service."*

## How did the TRB founders come together?

Scaief: It is important that we surround ourselves with good people. The very first people that I brought into the mix were Bobby Farris and Tudor Uhlhorn. They had experience as bank directors and have provided great guidance. Later came in Bill Elliff. The first two people we hired were Michael Lamon and Brent Baldree.

## At what point did you know the bank was going to be a success?

Scaief: In 2008, we filled out applications with the State Banking Department and the FDIC. Since it was the middle of the Great Recession, they put a moratorium on issuing any new charters. One day, I was talking to our regulator, Patty Phelan, a little bit frustrated because we hadn't received our approval. Patty told me that we had all the experience to do this, but all new charter applications for approval go to Washington D.C. and can take many months. She suggested we buy a bank. We immediately switched gears, mended our business plan, and went shopping for a bank. We learned about a bank in Corpus Christi that owned an extra charter in Falfurrias. We struck a deal and bought it. When I signed the definitive agreement to purchase Falfurrias

State Bank, I thought, "Okay, this really can happen." I went from being the happiest person in the world to the most frightened because the next minute, I had to go out and raise \$18 million in capital to be approved to close the transaction. It was going to be difficult because we were in a recessionary period and weren't sure how the community would respond. We had great talent between the team and went out knocking on doors. We found that people had confidence in what we could do, and they really wanted something that they could touch and feel. They didn't want an online bank, and they didn't want a super-regional bank that wasn't from the area. In six weeks, we maximized our capital raise. We actually had to close the capital raise just shy of \$24 million because you can only exceed your targeted amount (\$19.2 million) by 20%.

## What expectations did you have for TRB ten years ago, and how do they compare to the facts and numbers today?

Scaief: The FDIC requires a 3-year, 5-year, and 7-year plan. We'd made projections that take us out to 2022. The initial budgets that we did are amazingly close to where we're at today. We've missed things here and there, but we did them to paint a forecast in the future. We knew we had the right people to make it work. If we focused on good business and took good care of our customers, they were going to reward us, and they did. Plus, we had 300 shareholders that were all interested in the bank's success. When you have that many interested in the organization's success, they're going to bring business, which was part of our strategy.





*The senior executive team focuses on the Texas Regional Bank of today.*

**MICHAEL SCAIEF, PAUL MOXLEY, MICHAEL LAMON, & BRENT BALDREE**

**How has your role changed since you've been here?**

Scaief: Being the organizer, my real intention was to start this bank, be the chairman, be involved, guide success but not be at the capacity that I'm at today. When we bought Falfurrias State Bank, we had to have a number of things in place. I had to have a President and a CFO with recency of experience. This can be a little difficult, but we found them. The President was Jim Green, a gentleman I worked with for years at my prior employer. Jim had just decided to retire from South Padre Bank, which he had started. I convinced Jim to come work for us as the President, and he started in May 2010. In early August, we planned to open our very first location in Harlingen, which was in a modular unit. The week we were ready to open, Jim had a personal matter and decided he was not going to be able to continue in his banking role. I became the interim President and CEO of the company. I got involved and was kind of forced into it because of Jim's vacancy. In 2012, I interviewed and hired Paul as the President. He took over, and I stepped into the Chairman's role. Paul and I have jointly managed the bank ever since.

Lamon: My role has become more focused. I've been able to serve in quite a few capacities. I've been the Chief Lending Officer, President, Market President for Harlingen, Chief Credit Officer, Chief Operations Officer, and responsible for IT. Today, I'm focused on the Chief Credit Officer position, which is where I need to be in terms of my talents and strengths.

Baldree: Over the last ten years, it's been a pleasure to grow with the organization. I've been able to see the whole business model, so from a learning side, it's been tremendous for my career.



**What's your favorite part about TRB?**

Scaief: My favorite part about TRB is being able to influence the local economy through loans that support employment, goodwill, and success. The other side that I like is the 275 employees that make this company great. It's a cliché to say that we have a great corporate culture, but I will tell you that I will match our culture against any organization. I think we have a solid foundation of who we are, how we behave, and the way we treat our people, and it shows in how this bank has performed.

Moxley: The team and the people that I work with are my favorite part. I also enjoy representing Texas Regional Bank and calling it the "#1" bank.

Lamon: Being part of the team is my favorite part of TRB. When you get to look back at the accomplishments, it's hard not to be proud to be one of the bankers that helped make it happen.

Baldree: The people. The spirit of camaraderie at TRB makes it fun to come in to work. A good example is what we're going through today with COVID-19. We've taken on a special project of facilitating our small businesses with PPP loans, and it's nice to see the team come together and work hard. We all have the same mission, taking care of the clients and the community.

**What are the current goals TRB is focused on, and how does the team work to support hitting those goals?**

Scaief: At the end of last year and into the first quarter, management spent a ton of time on redefining our strategic plan. We have a new strategic plan that Carlos Varela helped us do. Carlos is a professional at strategic planning and very talented. We couldn't have done it without him. What came out of it was two things, our vision and our mission. Those say a ton about who we are. Our vision is 'Banking Texas, one relationship at a time.' Our mission is 'Be the people you know in the communities we serve.' The meaning of that is twofold. Some may think we only hire the people we know in the communities we serve. No. We hire people that have the drive, motivation, and ambition needed to excel at TRB and can become the 'people you know', and we hire people that are the 'people you know' in the communities we serve. As young people come aboard, it's important to us that they understand their civic and community responsibilities. It's essential that they become the people you know in the communities we serve by being involved, helpful, volunteering, and supporting whatever we need to support. The vision is very meaningful to me.

# A LOOK AT THE PRESENT



The Rio Grande Valley has always been an area of entrepreneurship. It's not like big cities where big corporate companies hire hundreds of people to do their warehousing and manufacturing. The RGV grows good businesses from scratch. It's truly my belief that somebody is going to create a very successful super-regional bank again, and there's no reason why it can't be us. I don't think that anybody is any better than anybody else. I think it's all about dedication and hard work, and I think we have a team that can do it. Banking Texas, one relationship at a time is all about building the franchise and organically growing communities throughout the state over the next ten years. Our strategic plan is to expand this franchise and become the bank of choice in the state. You heard it first here.

Moxley: Before COVID-19, we had set up some strategic planning to go forward into the next five to ten years and grow TRB into a \$1.5 to \$3 billion bank. In that growth, we would expand our footprint throughout Texas, take care of our customers, one customer at a time, and just grow the bank with the culture, brand, and what we had built over the last ten years. We also placed high importance on making sure everyone understands our culture, brand, and direction.

Lamon: I think growth of the franchise is going to be important to all of us in the success of the bank as a whole. We have to grow smart. The team needs to pull the wagon, give all they can to TRB, and jump in where they can help.

Baldree: I think there's opportunity for the bank to continue to grow throughout the state of Texas. We've been successful in the markets that we've reached. We build banking centers around bankers. From day one, our philosophy is that customers bank with people they know and trust. This has been part of our motto, and it has worked well for us.

**What is the single, largest challenge TRB faces today?**

Scaief: The single, largest challenge is safety and soundness. You just can't charge enough interest to cover credit losses. Credit losses are where the banks live and die. It's where we make the majority of our income, and it's where we lose the majority of our money. In times like today, with the events that were in, credit is out in front. It's one of the most important challenges we have.

Lamon: Managing growth and discipline. Making the right decision at a time when decisions need to be made. Opportunities and challenges come pretty quickly, and we have to maintain our focus.

Baldree: The largest challenge today is making sure that we're here for our communities, customers, and employees through the COVID-19 pandemic. We've always exceeded on the credit side, and we don't try to get ahead of ourselves. We are a relationship bank. This relationship piece will really help us succeed. Our biggest benefit is having an extensive shareholder base. Most banks are owned by a few, and our bank is owned by many. It has really helped us propel over the last ten years.

**What's TRB's culture like?**

Scaief: I like to talk about culture as the company's personality. The way you act, behave, your integrity, honesty, intuitiveness, and the way you treat others are all your personality. We hire people that have those attributes. When you add them all together, you get the bank's personality, which is the bank's culture. We have to be very careful that we hire well. I can teach someone how to be a great banker, but I can't teach them the character needed to be successful here. This is something that we learn from our moms and dads, and that's what we have to hire for.

Moxley: It's an outstanding culture. Culture is built by definition of what kind of bank you want, who you want in your bank, and what type of people make up the bank. TRB has an excellent team that understands the bank's direction and culture that we're trying to build to better support our economy, our communities, and our customers.

Lamon: From early on, the bank and everybody within the bank were able to start from scratch. I think we developed the culture very early in our process. When we chose the people that we chose, we got to choose the folks that had similar beliefs, work ethics, and, ultimately, culture. We come from an organization that has a culture of hard work, teamwork, and caring for each other.

Baldree: I think we try to lead by example. I'm not going to ask someone to do something I wouldn't do or haven't done myself. I think that sets us apart. We take care of our customers, but we also take care of our employees. Having employees that enjoy their jobs will make us very successful.

**What's your favorite office tradition?**

Scaief: My favorite thing about the company is the brand of the company. I think we've built a tradition behind our brand that is recognized throughout the

Rio Grande Valley and Hill Country. We've been in business for ten years, and I think it'd be fair to say that our brand is more recognizable than other banks that have been in business for more years.

Moxley: I enjoy the bank functions and bank parties where we gather with our customers or shareholders to reminisce and talk about the bank. It really helps grow the community, identify the friendships, and identify our involvement within those communities.

Lamon: Celebrating the bank's and its employee's milestones and successes is my favorite office tradition.

Baldree: I like to send a birthday wish to everyone in the organization. I think I do a fairly decent job. It's very meaningful and shows that we pay attention and care.

**What is different about TRB than anywhere else you've worked?**

Scaief: I've had two jobs in my life, First Valley Bank and TRB, other than the company that I owned and built. TRB is a reflection of the bank I used to work for because it is much like the way Cleve Breedlove, the gentleman that taught me about banking, ran a bank. It's all about humility, behavior, and helping the customer. There is no room in this organization for arrogance or pretension. This is the way this company is run, and the way First Valley was ran. Cleve is a friend of mine today who I talk to often. He's provided great guidance to me along with other mentors like Paul Moxley, Bob Walters, and other folks that I rely on as resources to help guide the success of the company. It's important for people to know that this bank's great and sure I'm in an important role, but the success of this company is because of who we surrounded ourselves with and the people that have been mentors. We haven't reinvented the wheel. We have just done what successful people have done in the past and just tried to do it a little bit better.

Moxley: The people. Even though we have brought on a lot of people that we have worked with in the past, no bank will ever be the same from one year to the next or decades from each other due to the changes that evolve and how fast we grow in technology. Everything that we're doing helps us outgrow ourselves every year. We always have to be on top of change and grow.

Lamon: It's ours, as simple as that. We did it. We, as a team, did it versus any of the other organizations that were there when I got there. It's neat to be a part of something that belongs to all of us.

Baldree: Transparency. You'll see the President or Chairman participate in events or drop in on a banking center. You don't usually see the management team jump out there and be visible in other places. If you have a problem, you can reach out, and they'll take your call. I think employees like that aspect. Also, the mission statement clearly tells you the organization's direction. TRB's focus is very prominent throughout the organization. Making sure that people understand the vision really helps drive the overall culture.

**How has TRB changed since you joined?**

Scaief: We've gone from five employees to 275 employees and from \$20 million in assets to \$1.1 billion in assets. We are not just a core bank. We're a full-service, financial services company, as I like to call us. We're a one-stop-shop. If you have a financial need, we can handle it. You don't have to go anywhere else. We have all solutions.

Moxley: TRB has grown up. We started as just a living-room thought. The directors, the shareholders that purchased our stock, and the team as a whole took the opportunity that was in front of them and moved forward. The employees have helped build the strong bank that we are today.

Lamon: Size, maturity, and stability. It's quite a bit bigger now with 20 banks. It didn't have any when I first joined. The positive side is that even though it's a lot bigger, it feels quite a bit smaller than it really is. We've all matured and grown up a lot.

Baldree: We've come a long way, from one branch to 20 branches. Today we have a strategic plan in place to continue to grow. When we started, it was a tough time in banking, but it gave us a lot of opportunities to prove that it can be done. I think that's very rewarding.

"We hire people that have the drive, motivation, and ambition needed to excel in TRB and can become the 'people you know.'"



"We take care of our customers, but also take care of our employees. Having employees that enjoy their jobs will make us very successful."



"We are a relationship bank. This relationship piece will really help us succeed."





# THE VOICE OF MOX

There are ways to measure a lifetime of achievement. One way is by the impact a person has made on the people around them and the community they call home. No one exemplifies a fulfillment of one's own potential more than our very own Paul Moxley. Paul's banking career is only eclipsed by his love for his country and his people. For over 50 years, Paul has given a voice to his values through his actions. He has worked tirelessly to help those in need and has built influence through his hard work and unyielding ethics. He is dedicated to his community's well-being and has a focus on people rather than himself. Passion for his work, helping others, and giving back have become his life's missions and his voice.

Paul learned his value system from spending summers at Uncle Dexter's farm during his childhood. The meaning of dedication and commitment were mastered on those long, hot days getting up early, milking cows, and gathering eggs. Uncle Dexter even taught him how to drive when he put wooden blocks on an eight-year-old Paul so he could drive a truck. The most meaningful lesson came one evening when Paul arrived home late. Uncle Dexter told him that if he was going somewhere, he needed to get there on time. "If you're leaving point A, you want to get to point B as fast as you can," he said.

**"For the rest of my life, I've been running from point A to point B." - Paul Moxley**

Growing up in McAllen, Texas, Paul attended McAllen High School and continued his education at Trinity University in San Antonio, where he earned a Bachelor of Science in Construction Engineering. In 1968, Paul joined the United States Army as a 2nd Lieutenant in the Corp of Engineers and served as a Military Assistance Command Advisor to the Vietnamese in South Vietnam in 1969.

Paul began his banking career in 1970 with McAllen State Bank. In 1986, he joined Texas State Bank as President and Board Director, working alongside the late Glen E. Roney. He also served as Executive Vice President of Texas Regional Bancshares Inc. for 20 years, until Texas State Bank sold to BBVA in 2008. He retired from BBVA in 2011, but, as he jokes around, retirement was not a good fit for him. In 2012, Paul joined Texas Regional Bank (TRB) as President, CEO, and Board Director.

In addition to his professional accomplishments, Paul has a strong record of service to his community. He is a director of Hidalgo County Regional Mobility Authority and serves as Chairman for the McAllen Economic Development Corporation. He has also served on different capacities for over 16 organizational boards.

In view of his noteworthy reputation serving the residents of the Rio Grande Valley, Paul has been the recipient of numerous awards, including the Oscar Cardenas Humanitarian and Community Leadership Award for Easter Seals and being named "Distinguished Citizen of the Year" by the Rio Grande Council of the Boy Scouts of America in 2003. In 2017, he was honored as "McAllen Man of the Year" and was inducted into the Texas Bankers Hall of Fame in 2019 for his valuable contributions to the Texas banking industry.

You may recognize the sound of Paul's voice from our TRB commercials, radio spots, and on-hold messages, or you may have felt his integrity because of the moral clarity he conveys with his presence. Paul will transition from President & CEO to Co-Vice Chairman of the Board at the end of 2020. We thank him for his leadership and look forward to continuing working and growing together.

**MR. Moxley,**  
**THANK YOU for....**  
*being instrumental in our success.*  
*the knowledge you have imparted upon us.*  
*your integrity and always doing what's right.*  
*all of the jokes along the way.*  
*your perseverance and support.*  
*believing in us.*  
*all of the support you have extended to us.*  
*your generosity, kindness, and heart of gold.*  
*being caring and understanding.*  
*your strength and moral support.*  
*turning challenging times into fun moments.*  
*teaching us to learn from the past and move forward.*  
*keeping us motivated.*  
*setting the example of a wonderful leader.*  
*your role in our journey.*  
**BEING PART OF OUR FAMILY!**

*Sincerely,*  
*Your TRB Family*



JESSICA ADAME RUTH ADDINGTON TIFFANY ALANIZ LISA ALCORTA CARMEN ALVAREZ FERNANDO ANCER ANTONIO ANDRADE  
ELIDA ANES MARGARITA ANGUIANO JOHN AOUEILLE DEBORAH ARFELE SEAN ARMISTEAD MARIANELIA ARREDONDO  
EDUARDO ARRELLANO GREG ASHLEY ALYSSA AYALA LAUREN BAILEY RUTH BALAGUER BRENT BALDREE JESSE BARTER  
VALERIA BARTHEL DAVID BEHREND HAILEE BELTRAN JANIE BENAVIDES DESTINEY BENAVIDEZ KYNDEL BENNETT JUDY BENSON  
BOB BOGGUS KIM BOREN CATHERINE BORREGO DORIS BOURGEOIS NYDIA BRAVO DARLENE BRIONES ANDY BROWDER CATHY BROWN  
GRANT BUCK KEVIN BUEKER BRYAN BURKE JANE BURKHOLDER BILL BURNETT STEPHANIE BURSON NATALIA BURY CLAUDIA CABRERA  
JANIE CADENAS JOHN CALKINS AMARA CANO BELINDA CANTU BRIANA CANTU PAMELA CANTU ROLANDO CARASSCO JR.  
REBA CARDENAS MCNAIR COREY CAROTHERS CRYSTAL CASAS EDUARDO CASO INDRA CASTENADA BLANCA CERDA RICK CERDA  
MARIA CHALICO DANIEL CHAPA VERONICA CHAPARRO ABEL CISNEROS RACHELLE CISNEROS QUINTON CLAYTON KATHERINE COLE  
JAIME COLLINS WILL CONLEY BILL CONNER NICK CONSIGLIO OLIVIA CONTRERAS DOMINGO CORTEZ ARMANDO COVARRUBIAS  
JESSICA CUELLAR ALLEN CURBELLO SHERRY DAY MARISSA DE LA CRUZ DIANA DE LA FUENTE BERTHA DE LA GARZA LUIS DE LA GARZA  
MICHAEL DE LA ROSA MARIE DE LEON FRED DEL BARRIO JR. DIANA DELAUNAY DESIREE DE LEON VALERIA DE LEON ANGIE DELGADO  
DAVID DESTEFANO CLINTON DEWOLFE GRACIELA DIAZ SUJEY DIAZ ROBERT DONALSON AURA ECHAVARRIA LAURA ELIZONDO  
KAITLYN ELLIFF DEAN ERICKSON MARY ESPINOZA DAVID ESTES IZAAC ESTRADA JANETTE ESTRADA ROEL ESTRINGEL SARAH EVANS  
TONY FALCON, M.D. BOBBY FARRIS CLAYTON FEARNEYHOUGH KIRK FELPS KIM FERNEA SUZANNE FISHER EPHRAIM FLORES  
JAMES FLORES JACQUELINE FRANCO MIRIAM FUENTES LAURA GAITAN MELINDA GAMEZ DANIEL GAONA BRIANNA GARCES ANA GARCIA  
ANA L. GARCIA CORINA GARCIA JAZMIN GARCIA MICKIE GARCIA RICARDO GARCIA RITA GARCIA SALOME GARCIA RAEGAN GARIBAY  
JOSE GARICA ADALBERTO GARZA CARLOS GARZA DAVID GARZA FRED GARZA GABY GARZA JIMMY GARZA OLIVIA GARZA VELMA GARZA  
TROY GEARHART CHARLES GEORG DEREK GEORGE TAYLOR GERLAND LAWRENCE "CHIP" GIFT CIARA GONZALEZ ELI GONZALEZ  
GRACIELA GONZALEZ LINDSAY GONZALEZ ROLANDO GONZALEZ SAVANNAH GONZALEZ LIZETTE GUERRA JOHN GUEVARA  
KALIM HABET, M.D. DIANE HACK PAIGE HALL JASEN HARDISON BARBARA HARPER RICHARD HARRELL VERONICA HARZ  
SHERRY HAWKINS JASON HENDRIX LETTY HERNANDEZ PRISCILLA HERNANDEZ ROGELIO HERNANDEZ JESSICA HERRERA LAURA HICKS  
CLAUDE HILDRETH DANIELLE HORNA CUBBY HUDLER ZACHARY HUDLER ALEXANDRA HUERTA SYLVIA HUERTA AARON HUMPHREY  
CATHY ITZ BYRNE JAMES JANE JANSEN ALAN JOHNSON DON D.J. JOHNSON RONDA JOHNSON SANDRA JOHNSON WENDELL JOHNSON  
WILLIAM JORN PATRICIA Y. JUARISTI JESSICA KOHANEK NORA KOITE PAT KORNEGAY MICHAEL LAMON JANICE LARGE  
MARION LAWLER III HILDA LAZOS JANETH LEAL JASON LEAL ARTURO LEDEZMA LANE LEE GREG LICK MARK LISERIO  
ELIAS LONGORIA JR. ENRIQUE "RICK" LOPEZ LORI LOPEZ MARTHA LOPEZ MIRIAM LOZANO JASON LUDLOW BARNEY LUKE JR MANATT  
KRISTAL MAR CHARLES MARINA HUMBERTO MARQUEZ DONNA MARTIN JANIE MARTINEZ JORGE MARTINEZ JOVANNA MARTINEZ  
LARISSA MARTINEZ MARCY MARTINEZ MARIA DE JESUS MARTINEZ LISA MCCARTY LEE MCKENNA MIKE MCLARTY RANDY MCLELLAND  
CALEN MCNETT CASEY MCNUTT COREY MCWHORTER ALEJANDRO MEADE ADRIANA MEDRANO CLAUDIA MEZA TAYDE MILLER  
MICHAEL MOORE RICK MORALES DIANA MORALES ADELLE MORELAND SANDRA MORENO PAUL MOXLEY GEORGE MUKHAR  
RUBEN MUNIZ MIKE MURPHY IRMA MURRAY CAROLYN NANCE ANABEL NAVARRO ENEYDA NAVARRO ERIN NEEDHAM  
LANCE NEUHAUS MONICA OBREGON JAVIER ORTIZ MIRTHA ORTIZ ALEXANDER OSBORNE MARIA ELENA OYERVIDES DANIEL PADILLA  
KEITH PADILLA DICLA PALACIOS MADELINE PARKER JOANNA PENA MARIA IDALIA PENA ROXANNE PENA VANESSA PENA  
CHRISTIAN PENARANDA MELISSA PEREZ REBECCA PEREZ SHELLY PEREZ ZYNTHIA PEREZ MARTIN PORTILLO KAY PRESSLER  
STEPHANY PRICE SUE PRIMEAUX NELSON QUINILLO CYNTHIA QUINTANILLA EMELY RAMIREZ ORLANDO RAMOS SADIE RANGEL  
MARY LOU RAY MARGIE REBOLLAR CHET REED WENDY REEH GINA REYES VINCENT RICHARDS JESSIE RIOS RITA RIVAS  
HECTOR M. RIVERA SYDNEE RIVERA LINDA ROBERTS MICHELE ROBINSON IRIS ROBLES CARLOS RODRIGUEZ JULIE RODRIGUEZ  
NELDA RODRIGUEZ NORMA RODRIGUEZ OMAR RODRIGUEZ REBECCA RODRIGUEZ SARAH RODRIGUEZ STEVEN RODRIGUEZ  
SUSAN ROGERS PATRICK ROSE MARIA RUIZ CHRISTINE SALAS CONSUELO SALAZAR ANNETTE SALINAS ANNIE SALINAS  
VICTORIA SANCHEZ KERI SANDVIG THELMA SANFORD CELIA SAUCEDO MICHAEL SCAIEF KEVIN SCHACH BARBARA SCHMITT  
BOB SHEPARD ERIC SILVA MARIBEL SILVA MIKE SLEDGE ERIC SMITH TABITHA SMITH MAYRA SOLIS AMANDA SOLOMAN ALMA SOTO  
LANCE SPRUIELL MEGAN STEUBE CESAR SUAREZ CRAIG SWANN LINCOLN TALBERT VERONICA TARANGO RYAN THOMASON  
MARK TIDWELL JOHN TIPPIT NINA TOOMER AIDA TORRES FLOR TORRES YOLANDA TORRES NORMA TREVINO SAMANTHA TREVINO  
LAUREN TRUEBA KAREN VALDEZ YVONNE VALDEZ CYNTHIA VARGAS YVETTE VASQUEZ ALBERTO VEGA ROBERT VEGA  
ROGELIO VELA ANDREA VICK ALMA LETICIA VILLARREAL CHRISTOPHER VILLARREAL DAVID VILLARREAL HORTENCIA VILLARREAL  
LAURA VILLARREAL ABIGAIL WALKER SHANE WATTS TRACY WEHMEYER MEGAN WELDON KEVIN WHITWORTH CARIE WILLIAMS  
CYNTHIA WOLFE JASON WOLFE DANA M. WRIGHT WILL YARNELL BILL YOUNGBLOOD MARIO YSAGUIRRE ORALIA ZUNIGA

## A BANK OF MANY

TO ALL THE DIRECTORS, EMPLOYEES, AND SENIOR ADVISORY BOARD MEMBERS  
THAT ARE PART OF THE MANY WHO TRUSTED US, SUPPORTED US, AND GUIDED US,  
**THANK YOU.**



# Chief Financial Officer Report

Lincoln Talbert | Chief Financial Officer

## Asset Growth

In 2019, Texas Regional Bank continued to expand the franchise with new locations in the Rio Grande Valley and the Hill Country. We had continued asset growth above peers in both regions, ending the year with \$1.020 billion in total assets, an increase of \$129.6 million, or 14.6%, over 2018.

We believe in safe, sound, profitable growth and creation of true and lasting relationships with the communities we serve. We focus continually on building our team with people you know, enhancing our balance sheet, and implementing the right controls to successfully expand the organization.

## Loan Growth

Our loan portfolio grew \$62.9 million, or 11.7%, from the prior year, through the addition of new customer relationships. We are well-positioned to increase and strengthen the loan portfolio with quality assets in the coming year.

## Net Income and Shareholder Value

This was another record year for profits with 30.2% growth in net earnings resulting in an \$8.31 million net income. Interest income increased by 14.4%, totaling over \$41.3 million, and non-interest income increased to over \$10.1 million, or 44.1%, over the prior year total.

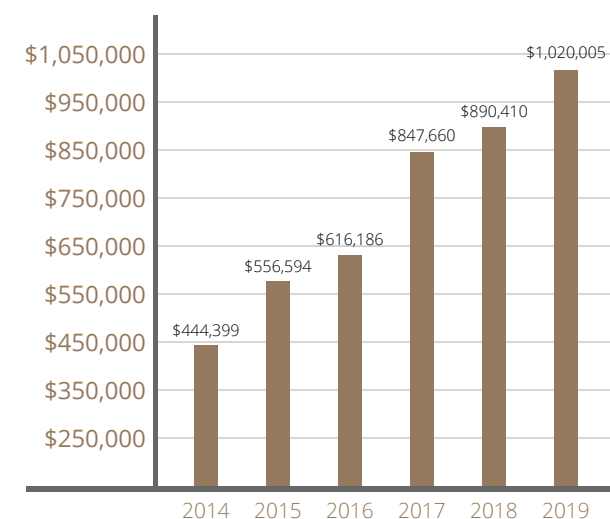
The gains in non-interest income are the result of enhanced income-generating strategies related to our deposit services and revenue generated from investments in human capital over the last several years in multiple business lines. The Wealth Management Group continued to experience great success and generated over \$3.3 million in revenue in 2019. TRB Mortgage increased revenue by over 88%, and International Private Banking Services increased its deposit portfolio to \$52.5 million, an increase of 263%, in 2019. We are beginning to realize revenue from these new divisions and expect strong returns on investment in the coming years.

By year-end, the total equity of Texas Regional Bank had increased from \$12.6 million to \$110.2 million. Strong earnings from the securities and loan portfolios, coupled with reduced expenses, added significant income to the bottom line.

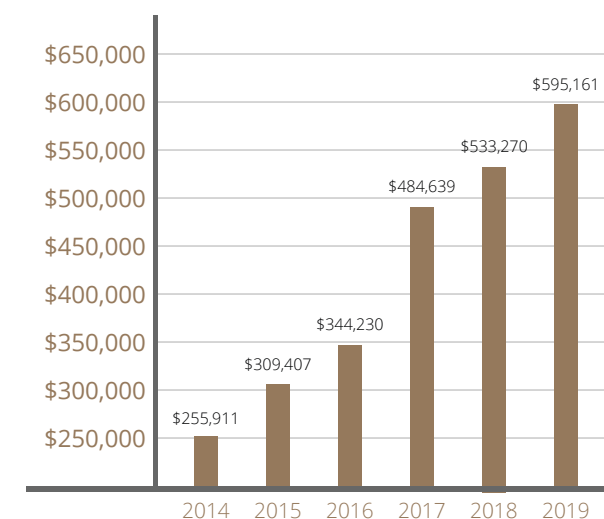
The Board is intent on creating long-term shareholder value. The company has tremendous momentum, multiple revenue streams, and solid franchise value. We look forward to additional growth and success in 2020.

## FINANCIAL HIGHLIGHTS

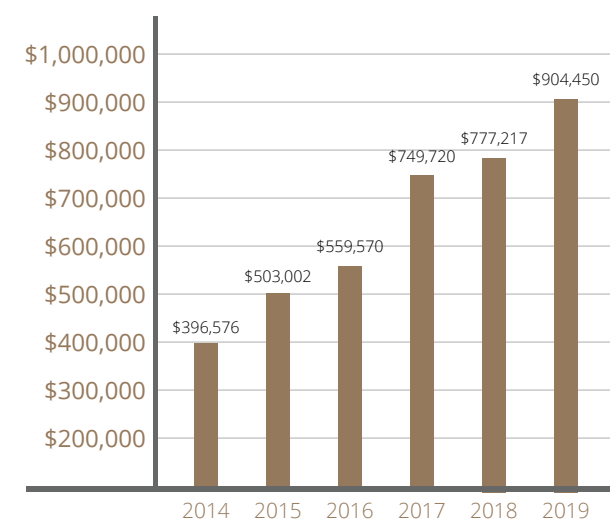
Assets (in millions)



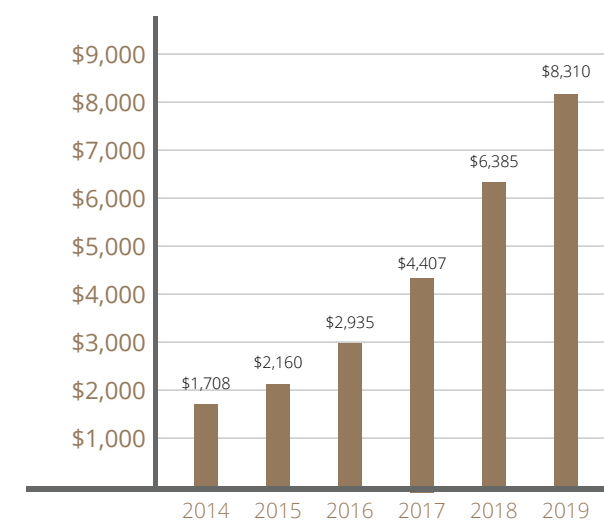
Net Loans (in millions)



Deposits (in millions)



Net Income (in millions)



	2014	2015	2016	2017	2018	2019
Assets	\$449,399	\$556,594	\$616,186	\$847,660	\$890,410	\$1,020,005
Net Loans	\$255,911	\$309,407	\$344,230	\$484,639	\$533,270	\$595,161
Deposits	\$396,576	\$503,002	\$559,570	\$749,720	\$777,217	\$904,450
Equity	\$49,187	\$50,795	\$52,225	\$93,738	\$97,577	\$110,226
Net Income	\$1,708	\$2,160	\$2,935	\$4,407	\$6,385	\$8,310
Loans to Assets	58%	56%	56%	57%	60%	58%
Loans to Deposits	65%	62%	62%	65%	69%	66%

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and due from banks	\$ 63,276	\$ 23,619
Interest-bearing deposits in banks	5,341	871
Securities available for sale	283,770	249,490
Restricted investment securities	4,501	4,455
Loans – net of allowance for loan losses of \$6,553 (\$5,887 in 2018)	597,036	533,270
Premises and equipment – net	59,959	54,171
Accrued interest receivable	2,648	2,850
Intangible assets – net	10,632	10,893
Prepaid expenses and other assets	2,876	4,160
Cash surrender value of life insurance	5,460	5,323
<b>Total assets</b>	<b>\$ 1,035,499</b>	<b>\$ 889,102</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 324,903	\$ 249,416
Interest-bearing	579,235	524,503
<b>Total deposits</b>	<b>904,138</b>	<b>773,919</b>
Federal funds purchased	1,050	0
Federal Home Loan Bank borrowings	648	11,799
Notes payable	0	19,000
Subordinated notes payable - net of unamortized debt issuance costs of \$610 (\$0 in 2018)	34,390	0
Junior subordinated debenture	2,578	2,578
Accrued interest payable and other liabilities	2,865	3,100
<b>Total liabilities</b>	<b>945,669</b>	<b>810,396</b>
Commitments and contingencies (notes 7, 14, 15 and 16)		
<b>Stockholders' Equity</b>		
Common stock – \$1 par value; 20,000,000 shares authorized; 5,653,996 shares issued, 5,298,927 shares outstanding (5,299,375 shares outstanding in 2018)	5,654	5,651
Surplus	74,287	73,948
Retained earnings	19,520	12,707
Treasury stock - 355,069 shares at cost (351,321 shares in 2018)	(8,464)	(8,370)
Accumulated other comprehensive income (loss)	(1,167)	(5,230)
<b>Total stockholders' equity</b>	<b>89,830</b>	<b>78,706</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,035,499</b>	<b>\$ 889,102</b>

	<u>2019</u>	<u>2018</u>
Interest income:		
Interest and fees on loans	\$ 34,547	\$ 30,238
Interest on investment securities	6,052	5,596
Interest on interest-bearing deposits in banks	682	257
<b>Total interest income</b>	<b>41,281</b>	<b>36,091</b>
Interest expense	7,794	5,248
<b>Net interest income</b>	<b>33,487</b>	<b>30,843</b>
Provision for loan losses	873	1,336
<b>Net interest income after provision for loan losses</b>	<b>32,614</b>	<b>29,507</b>
Noninterest income:		
Service charges and fees	3,857	2,894
Wealth management fees	3,353	3,051
Other	2,330	544
<b>Total noninterest income</b>	<b>9,540</b>	<b>6,489</b>
Noninterest expenses:		
Salaries and employee benefits	19,896	18,088
Occupancy and equipment expenses	4,982	3,794
Other operating expenses	8,874	7,561
<b>Total noninterest expenses</b>	<b>33,752</b>	<b>29,443</b>
<b>Income before federal income tax expense</b>	<b>8,402</b>	<b>6,553</b>
Federal income tax expense	1,589	980
<b>Net income</b>	<b>\$ 6,813</b>	<b>\$ 5,573</b>



Board of Directors and Stockholders  
Texas State Bankshares, Inc. and Subsidiary

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Texas State Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas State Bankshares, Inc. and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

San Antonio, Texas  
April 24, 2020

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Texas State Bankshares, Inc. and Subsidiary  
Consolidated Annual Financial Report  
December 31, 2019 and 2018

To request a copy of report, please contact Rebecca Perez:  
rperez@texasregionalbank.com | 956-507-4134

# LOOKING FORWARD

## NEW STRATEGIC PLAN HIGHLIGHTS

**W**e are guided and driven by our Vision, Mission, and Core Values. During our first ten years, our top priority has been to build our franchise by creating our physical plant and assemble the talent necessary to grow the company while maintaining safety and soundness. As we plan for TRB's next ten years, our strategic plan provides a roadmap to create franchise value. Given that an effective strategic plan is not about predicting but making the future, ours sets a direction and provides objectives and goals to assess progress across the organization. All in all, our next ten years will be driven by our Vision, which will be achieved by successfully executing four strategies we have set in place for the upcoming decade. It is our goal to communicate these strategic elements all-across our organization to ensure we align our team's daily tasks, activities, and initiatives to our Vision and strategies.

**"A strategy on a page simplifies the communication process, but it is meaningless without execution. It takes a collection of individuals, the entire team, to move in the same direction. This is the point when a strategic plan turns into actual results."**

- Carlos Varela, Director

**"TRB's strategic plan for the next decade focuses on where we want to go, what we hope to achieve, and how we plan to get there; hence, Banking Texas, one relationship at a time. As we move forward, it is very important that we engage our TRB family and align the resources needed to achieve our vision."**

- Jason Leal, Chief Administrative Officer

### Strategic Themes

Texas Regional Bank's strategic plan has four main areas of focus. These strategic themes will help guide our efforts to accomplish our Vision of "Banking Texas, one relationship at a time."

STRATEGIC THEME	STRATEGIC RESULT
Grow the Franchise	Increase shareholder value through acquisitions and organic growth
Safety and Soundness	Proactively manage the institution's risk to avoid failure
Operational Excellence	Timely, accurate, value-added, and cost-effective execution
Independence	Long-term, sustainable above peer performance

## INTRODUCING THE MOVING FORWARD VISION, MISSION, & CORE VALUES

### Vision

*Banking Texas, one relationship at a time.*

The next ten years are a new chapter in TRB's growth and development. We will continue building an efficient operation while expanding into new markets and regions that complement the overall risk profile of TRB and help us become a super-regional bank in Texas.

### Mission

*Be "The people you know" in the communities we serve.*

We live where our customers live and are active in the communities we call home. Relationship banking isn't a slogan; it's what we do. We work hard on a daily basis to be the bank of choice in the markets we serve.

### Core Values

#### Integrity

We live by the highest moral and ethical standards. In everything we do, we are open, honest, and respectful.

#### Community

We take pride in contributing our time and resources to make our communities a great place to live and work. We are successful when our communities are successful.

#### Safety

We operate within a sound risk management system that leads to prudent decisions ensuring we are able to meet our communities' needs and protect our value.

#### Success

We constantly focus on improvement and forward-looking solutions. We surround ourselves with a team that wins through planning, implementing, and executing. Our processes are consistent, accurate, and without waste. This enables us to respond to market changes faster while providing better service to customers.

#### Innovation

We identify, develop, and deploy customer value through leading technology and process improvement tools. This increases our productivity, improves the customer experience, and drives the sustainability of the company long-term.

#### Teamwork

We collaborate and work collectively to deliver a better outcome for our employees, customers, and stakeholders. Through a spirit of cooperation, we embrace each individual's unique talents, diverse work styles, and contributions.

# MOVING FORWARD

BANKING TEXAS, ONE RELATIONSHIP AT A TIME

Photo: Hill Country - North of Fredericksburg

## Where do you see TRB in the next few years?

Scaief: Our 10-year strategic plan has us growing to certain sizes and certain regions. In ten years, we will be in two new regions, and we will probably have an acquisition or two. I would say in ten years, we will be banking Texas.

Moxley: In the next two to three years, I think TRB will be \$1.5 to \$2 billion in assets with growth in banking facilities in the Hill Country and possibly expansion into other parts of Texas.

Lamon: I see TRB in more communities than we are currently in, and hopefully in more regions that we are today. TRB will be quite a bit bigger than it is today.

Baldree: I see us throughout the state of Texas, whether it'd be Dallas, Corpus Christi, Houston, or San Antonio. There's opportunity for our bank to continue to grow our culture through those markets with the right employees.

## What can you tell me about future products/services or plans for growth?

Lamon: I think that future products/services will be tied to technology. The events that we're going through now with social distancing and the virus issues are going to stay with us in terms of how we conduct our business. We are getting very comfortable doing things that we weren't as comfortable doing just a few months ago, such as signing documents electronically, conducting meetings electronically, and working from home. We're going to be doing different things because of this that are going to make us more effective and efficient.

Baldree: I think we do a really good job on the lending side. We've maintained a really clean portfolio through various downturns and growth opportunities. All in all, technology is going to drive banking. It's a big part of our focus. We've definitely put the resources there to make sure that we offer great mobile banking products as well as online banking.

## What challenges do you foresee in the future?

Scaief: The challenge I perceive in the future deals with the competitive environment. The fintech companies, credit quality, government regulation, and sapping are all legitimate concerns. Some days some of them are more frightening than others, but all of those are concerns that we have.

Lamon: I think maintaining culture is going to be the hardest thing to do in regions that we're not in. The further away we get from our base, the harder it is to maintain that culture. It's going to be very important for us to set those expectations early and choose our team wisely that can buy in to our culture and be a part of who we are and how we support our communities.

Baldree: Coming out of this pandemic is going to be an interesting time. Working with our clients to ensure their financial goals are met will be key. I think that's our job. Our customers believe in us. They bank with us because they know that we're there in the good and the bad times.

## What gets you most excited about TRB's future?

Scaief: Change and disruption. Wherever you have change and disruption, you have opportunities. While what we are going through right now is unfortunate, it has presented some unique opportunities for the bank. It is important to look at challenging situations from a positive standpoint in order to be better off when we get to the light at the other end of the tunnel.

Lamon: Being at the right place at the right time and taking advantage of opportunities.

Baldree: The leadership, the overall strategic plan, the mission, and the vision gets me the most excited. We have done what we said we were going to do from day one, and I think we'll continue to work off of that and continue to grow the bank.



## Administration & Operations

Jason Leal | Chief Administrative Officer



## Trust & Wealth Management

Bobby Farris  
Chairman, Trust & Wealth Management

As 2019 came to an end, Bank Operations continued to drive positive results, and we found efficient ways to improve processes and procedures. For 2020, we plan to implement new strategic initiatives designed to meet our goals for productivity and profitability across all departments. Along with an increase in technology, we will focus on product offerings and our digital platform, which will improve the customer experience and increase our shareholder value.

Working with Human Resources, we continue to attract and retain talent. We will increase our employee training programs and enhance career development for all. Improving our employees' skills and knowledge will not only benefit them but all clients they assist. With the addition of Johnson City, we now have 20 banking centers with plans to grow in key markets through the end of 2020.

As we look to the rest of the year, the key to our continued success will be our unique culture, our personality. TRB has evolved into an exceptionally strong service brand with a great reputation. We will continue to be focused on organic, sustainable growth propelled by consistent, effective, and efficient procedures. Our employees operate within an environment that exemplifies our vision, mission, and core values. We will continue to welcome new relationships and opportunities, as well as new regions and acquisitions. We want to grow smart, maintain our focus, and embrace our "new normal".

### Welcome, Karen Valdez!

Karen began with TRB in September 2019. Since then, Karen has been instrumental in working with executive and senior management on corporate initiatives. Karen has over 39 years of experience in bank operations and HR management. She graduated from UT and has lived in the RGV for almost 30 years. She has served on many nonprofit organizations and is currently in a McAllen Rotary Club and the McAllen Community Development Council.

In the past, Karen was acknowledged as Rotarian of the Year, McAllen Chamber of Commerce "Woman of the Year", and in the McAllen Monitor's "Women We Love." As our Senior Operations Officer, she is in charge of bank operations, including Central Operations, Branch Administration, and Human Resources.

With her knowledge and experience, Karen provides the culture, expertise, and management that will enable these departments to accomplish needed goals and initiatives.



**KAREN VALDEZ**  
Senior Vice President  
Senior Operations Officer

**"My time at TRB has been some of the most rewarding in my career, and I know the sky is the limit with the team and leadership we have."**

- Karen Valdez



Life is a journey where there are a wide array of professional and personal milestones that can result in financial opportunities or challenges. At TRB Trust and Wealth Management, we dedicate our extensive industry knowledge to implement thoughtful, financial planning and develop strategies to see our customers through life's most important milestones. We believe that with proper asset allocation and staying fully invested around the world, you are letting the markets work for you.

Successful investing requires a long-term perspective and discipline to avoid making short-term, emotional mistakes. We build custom global investment strategies designed to meet our customers' specific cash flow needs, time horizon, growth requirements, tax objectives, and risk tolerance. We believe prudently managed wealth serves as a means to get our customers to where they want to go, and we're committed to delivering our best advice to help them get there.

Our investment portfolios are designed to take advantage of market opportunities through global diversification while also managing our clients' exposure to investment risk, keeping fees low, and being extremely tax efficient. Each and every portfolio is designed strategically to meet specific financial needs and goals. We will be there for our customers to adjust the plan as life continues to evolve.

Our philosophy does not change regardless of markets being at all-time highs, trade wars with foreign countries, or global pandemics. Despite any challenges or obstacles, our approach of focusing on our clients' liquidity needs, financial goals, and their tolerance for risk remains the same. At the end of the day, we want our clients to be comfortable financially so they can spend more time doing what they love.

**TRB Trust & Wealth Management would like to thank all shareholders and employees who sent new clients our way in 2019.**

**Our investment philosophy and your referrals enabled us to grow our assets under management to record numbers.**



**LINDA ROBERTS**  
Financial Advisor  
Wealth Management

**"We fundamentally change the way people see the markets."**

- Linda Roberts







# International Private Banking

Eduardo Caso | Senior Vice President

The International Private Banking Division (IPB) had a highly successful year. Deposits and loan referrals experienced robust growth. The numbers reflect well the achievements this division has made this year. We are privileged to serve accomplished clients who see us as trusted advisors.

The source of our success continues to be our unique culture, which is based on the daily execution of a long-term oriented, high-touch, client-centric service model.

## Bank's Commitment

Since joining Texas Regional Bank in May 2018, we have experienced first-hand the deep commitment and support this firm and its Executive Management have towards the success of the IPB division and its high-net-worth international and bi-national customers.

## Extraordinary Client Service

Our main objective is to build deep, lasting relationships by providing our customers exceptional banking experiences through a highly, personalized service. Taking outstanding care of existing clients and prioritizing their interests above all has been the driver of our steady growth.

## Exceptional Team

The cornerstone of our division is a team-oriented structure that places highly-skilled IPB bankers at the center of all client relationships, supported by a team of internal and external experts. The international team has worked together for decades, helping affluent international and bi-national customers meet all their financial objectives, whether they are protecting, growing, or passing on their wealth.

## Integrated Products and Services

IPB division offers an extensive range of services from standardized to tailor financial solutions. Our focus is to provide our customers access to a full product suite and connect them to the bank's wider capabilities.

## Our principal activities are:

- Banking
- Lending
- Foreign Exchange
- Brokerage
- Wealth Management
- Trust & Estate Services

## Year Ended Results Summary:

Net Deposits: **\$37,998,746**  
 Annual Growth Rate: **258%**  
 YE Total Deposits: **\$52,721,770**  
 Total Accounts: **110**  
 Total Relationships: **41**  
 Average Deposits per Month: **\$3,166,562**  
 Average Amount per Account: **\$479,289**  
 Average Amount per Relationship: **\$1,285,897**  
 Number of Loans Referred: **14**  
 Loan Volume: **\$26,044,283**  
 Total Number of Loans Booked and Funded: **9**  
 Total Loan Amount Dispersed: **\$8,434,783**

## FX Platform

Finally, we are preparing to launch our Foreign Exchange Services (FX) at the end of May 2020. Armando Covarrubias and Nelly Arredondo will head this new department. We are excited to expand our division with this new service and continue contributing to the success of Texas Regional Bank.



# Mortgage Division

Erin Needham | Senior Vice President

TRB Mortgage continues to execute on a growth strategy with a focus on providing a quality mortgage experience to customers within the communities we serve. To put that into perspective, in 2019, the mortgage team closed \$40 million in loan transactions as compared to \$20 million in 2018. With great rates, great products, and an outstanding team covering all 20 branches in our footprint, our pipeline continually grows.

In addition to the strong growth recognized in 2019, the team was focused on improving the process, from initial loan application to closing, in an effort to provide a quality customer experience. As a result of these efforts, the team has recognized efficiencies and enhanced communication with other team members and customers throughout the loan process. The improved results have been confirmed and documented from post-closing customer surveys. These surveys have been overwhelmingly positive and confirm our customers' willingness to refer their family and friends. The results are not only being confirmed on the surveys but also in actual closed business. As of early 2020, we have experienced similar growth, and we look forward to building upon that referral business throughout the rest of the year.

Another key development in 2019 was establishing in-house underwriting, eliminating our reliance on third parties. This provides more control of the process and an improved customer experience with faster turnaround times.

**Mortgage done locally by the people you know is yet another way of strengthening the TRB brand, distinguishing us in the marketplace, and adding value to our relationships.**

We continue to expand our Mortgage Sales Team. With the addition of Quinton Clayton in the Hill Country and Maria Elena Oyervides in the Rio Grande Valley, the team has grown to five sales representatives. Our increased representation and sales efforts are starting to yield results. Sources of referrals have grown to include realtors, builders, and other community members, in addition to the steady stream of leads we receive from staff, customers, and shareholders. We expect our numbers to increase in the coming year, and we will hire more loan officers as needed to meet the demands of our markets and the expectations of our customers.



RACHELLE CISNEROS  
 Vice President  
 Mortgage Operations Officer

**"We are proud of the growth we have had year over year. We provide competitive rates and our team delivers excellent service."**

- Rachelle Cisneros





**FROM LEFT TO RIGHT: MICHAEL FALLEK, BOBBY FARRIS, CARLOS VARELA, BRAD WOLFE, MICHAEL SCAIEF, TUDOR UHLHORN, BILL ELLIFF, PAUL MOXLEY, MARK RICHARDS**



**FROM LEFT TO RIGHT: LINCOLN TALBERT, MICHAEL LAMON, PAUL MOXLEY, MICHAEL SCAIEF, JASON LEAL, BRENT BALDREE**

**Executive Vice President**

Rolando Carrasco – Chief Compliance Officer  
David Estes - Executive Trust Officer  
Ronda Johnson – Chief Innovation Officer  
Jason Leal – Chief Administrative Officer  
Craig Swann – Chief Information Officer  
Lincoln Talbert – Chief Financial Officer

**Senior Vice President**

Belinda Cantu – Senior BSA Officer  
Eduardo Caso – International Private Banking Officer  
Jane Jansen – Compliance  
Alex Meade - Economic Development and Public Finance  
George Mukhar – Security & Senior Central Operations Manager  
Karen Valdez – Senior Operations Officer  
Hortencia Villarreal - Senior Trust Officer

**First Vice President**

Diana Delaunay – Senior Branch Administration Officer  
Sylvia Huerta – Merchant Services Sales Manager  
Ricardo Morales – Branch Administration  
Rita Rivas – Senior Financial Accounting Manager/CPA

**Vice President**

Ruth Balanguer - Trust  
Nydia Bravo – Compliance Officer  
Nick Consiglio – Marketing Director  
Mary Espinoza – Central Operations  
Irma Murray - Trust  
Nelda Rodriguez – Business Development Officer  
John Tippit, IV - Wealth Management  
Flor Torres – Senior IT Manager  
Yolanda Torres - Trust  
Norma L. Trevino – Banking Center Operations Manager  
Alma L. Villarreal – International Private Banking

**Assistant Vice President**

Deborah Arfele – Central Operations  
Judy Benson – Branch Operations  
Kimberly Boren – Banking Center Operations Manager  
Roel J. Estringel – Senior Accounting Analyst  
Lori Lopez – Banking Center Operations Manager  
Adriana Medrano – Banking Center Operations Manager  
Omar Rodriguez – IT Officer  
Yvette Vasquez – Banking Center Operations Manager  
Rogelio Vela – International Private Banking  
Tracy Wehmeyer – Regional Branch Administration Officer  
Carie Williams – Human Resources Manager

**Administrative Officer**

Cathy Brown – Central Operations  
Amara Cano – Banking Center Operations Manager  
Briana Cantu – Branch Operations  
Indra Castaneda – Banking Center Operations Manager  
Jannette Estrada - Banking Center Operations Manager  
Ana Garcia – Branch Administration  
Corina S. Garcia – Branch Operations  
Rita Garcia – Central Operations  
Taylor Gerland – Banking Center Operations Manager  
Lizette Guerra – Banking Center Operations Manager  
Kevin Casey McNutt - Collateral Management Officer  
Donna F. Martin – Branch Operations  
Marcy Martinez – Banking Center Operations Manager  
Adelle Moreland – Banking Center Operations Manager  
Monica Obregon – BSA International Private Banking  
Nelson Quinillo – Information Technology  
Kevin Schach – Desktop IT Support Tech Manager  
Amanda Soloman – Banking Center Operations Manager  
Chet Reed – Banking Center Operations Manager  
Vincent Richards - Trust  
Steven Rodriguez – Branch Administration Field Operative  
Veronica Tarango – Branch Administration Field Operative  
Lauren Trueba - Banking Center Operations Manager  
Megan Weldon – Regional Banking Center Operations Officer  
Dana Marie Wright – Banking Center Operations Manager

**Executive Vice President**

Randy McLelland – Special Assets Officer  
Cubby Hudler – Johnson City Market President

**Senior Vice President**

David DeStefano – Lakeway Market President  
Fred L. Garza – Edinburg Market President  
JR Manatt – Leander Market President  
Anabel Navarro – Falfurrias Market President  
Erin Needham – Dripping Springs Market President/ Sr. Credit Officer  
Michele Robinson – Harlingen Market President  
Carlos A. Rodriguez – Brownsville Market President  
Keri Sandvig – Bulverde Market President  
Lance Spruiell – Hill Country Regional President  
Cesar Suarez – Mission Market President  
Mario Ysaguirre – Loan Officer

**First Vice President**

Natalia Bury – Loan Officer  
Gaby Garza – South Texas Credit Officer  
Troy Gearhart – Loan Officer  
Elias Longoria – Loan Officer  
Laura Villarreal – McAllen Market Manager

**Vice President**

Grant Buck – Digital & Product Development  
Rachelle Cisneros – Mortgage Operations  
Diana De La Fuente – Lending Assistant  
Nora L. Koite – Loan Officer  
Carlos Garza – Loan Officer  
Margarita A. Garza – Loan Officer  
Olivia Garza – Loan Officer  
Sherry Hawkins – Loan Administration  
Jason R. Hendrix – Loan Officer  
Zachary Hudler – Johnson City  
Annette Salinas – Loan Officer  
Rebecca Rodriguez – Loan Administration Manager

**Assistant Vice President**

Jessica Adame – Credit Analyst  
Olivia Contreras – Lending Assistant  
Robert Donalson – Loan Officer  
Laura Elizondo – Software & Project Specialist  
Micaela Garcia – Lending Assistant  
Patricia Juaristi – Loan Review Officer  
Gregory Lick – Loan Officer  
Janie Martinez – Lending Assistant  
Calen McNett – Blanco Market Manager  
Tayde Miller – Lending Assistant  
Daniel Padilla – Loan Officer  
Idalia Pena – Loan Officer  
Margarita Rebollar – Lending Assistant

**Administrative Officer**

Stephanie Burson – Lending Assistant  
Miriam Fuentes – Portfolio Manager/Credit  
Danielle Horna – Lending Assistant  
Hilda Lazo – Lending Assistant  
Miriam Lozano – Lending Assistant  
Barbara Schmidt – Lending Assistant

**Loan Officer**

Quinton Clayton – Mortgage Loan Officer  
Bertha De La Garza – Mortgage Loan Officer  
Aaron Humphreys – Loan Officer  
Robert James, IV – Loan Officer  
Stephany Price – Mortgage Loan Officer  
Chris Villarreal – Loan Officer

