

BANKING



TEXAS

One Relationship At A Time

2021 ANNUAL REPORT



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The idea for Texas Regional Bank emerged in 2008 when four businessmen recognized the community 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 the 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.

Initially, the group intended to establish a brand new banking operation in 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 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 continues 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. In July 2021, Texas Regional Bank expanded into Houston.

The Board of Directors and Management of Texas Regional Bank remain committed to the communities we serve through high-touch banking relationships, advanced technology solutions, diverse ownership, and community involvement. Over the years, team members contribute thousands of hours to community service projects.

Key objectives in their business plan were to:

- Hire top bankers who know their customers and can make 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



MICHAEL SCAIEF
CHAIRMAN &
CHIEF EXECUTIVE OFFICER

To Our Shareholders

Texas Regional Bank had another outstanding year in 2021. Throughout the executive team commentaries, you will see earnings and growth continue to exceed our forecast, while new initiatives in technology, automation, and products and services continue to evolve. Our organization has become a diversified financial services company with offices in three major regions of the state offering trust, wealth, mortgage, international, and soon insurance to our suite of traditional banking services. TRB's vision, mission, and results in the communities we serve continue to place us at the top of the industry from a community and economic impact. With 11 years in the rear-view mirror, all of our shareholders and employees should be proud of what we have and continue to accomplish.

In 2020, TRB redefined its vision and mission to be both internally and externally focused, driven by its four strategic pillars of (1) Grow the Franchise, (2) Safety and Soundness, (3) Operational Excellence, and (4) Independence. Today, every initiative we deploy points back to a pillar giving us clarity on the strategy and our plan. With all the noise from political, economic, and world events, our bank's defined strategies have kept a focus on our vision of *"Banking Texas, One Relationship at a Time"*.

Since the end of 2019, pre-pandemic, our bank has doubled in size from \$1 billion to \$2 billion in assets and more than doubled in net revenue from \$6.5 million to \$20 million. While Grow the Franchise has many meanings, our best measurement will always tie back to the income we produce compared to the level of assets and equity we have to invest. Your bank has been successful in deploying the infrastructure we built from 2010, demonstrated by the results today while in very turbulent times. The leverage of our delivery channels (banking centers), our people, and our diversified services have allowed us to grow and strengthen customer relationships in all of the communities we serve.

Recently, our management team presented to the State Banking Department and the Federal Reserve

our bank's history, current state, and a forward-looking road map. Our ability to continue forward depends greatly on our second and fourth pillars of Safety and Soundness and Independence. Rolando Carasco, our Chief Compliance Officer, presented a chart comparing all our examinations since inception. The consistency and quality of examinations from the beginning give comfort to our safety and soundness position. You blend this with asset quality driven by Michael Lamon and Lincoln Talbert, and we have checked the box of safety and soundness.

Independence is a primary focus. In many ways, it measures the success of all our pillars and allows us to continue our independence as a company. We constantly focus on the continued success of regulatory compliance, shareholder value, a forward vision with succession, and shareholder liquidity. This focus allows our company to control its destiny and independence in the future.

And finally, Operational Excellence is at the heart of bridging all gaps in the organization between the backroom, technology, and delivery channels. Scalability, automation, and digital excellence drive our internal focus. Banking with TRB will become more automated and with less friction as our population continues its move to a more transient society.

In closing, we will continue to follow our vision *"Banking Texas, One Relationship At A Time"* and accomplish what's ahead through our mission to *"Be The People You Know In The Communities We Serve"*. We will look for opportunities and disruption to expand our markets and diversified services to regions that are growing organically at above state averages. It will take each one of us to insure we stay focused on our growth strategies. Our shareholder base is 900 plus strong and is a major contributor to the growth and success of the franchise. As always, thank you for all you do as a shareholder.



MICHAEL LAMON

PRESIDENT
BANKING ADMINISTRATION &
CHIEF CREDIT OFFICER

As the President of Banking Administration and Chief Credit Officer, I enjoy managing various departments of our organization that work together to bank Texas, one relationship at a time. It is an honor to work with such a team of seasoned professional bankers throughout the organization who are results driven, customer service oriented, and always focused on achieving desired results.

At center stage of our organization is the consistent focus on safety and soundness. In plain English, safety and soundness can be described as the management of risk that is measured by asset quality, capital adequacy, earnings, and liquidity.

My primary focus, since day one, has been asset quality and the management of risk. I am proud to be part of an organization known for responsible banking, a characteristic that will set us apart over time and even sooner in an economic downturn. The landscape is competitive, but we continue to be disciplined in our credit decisions, loan category concentrations, and customer selection. We maintain an analytical approach to risk mitigation and consistently outperform our peers in loan growth and in loan portfolio quality.

Just as important has been our commitment to operational excellence and the desire to exceed expectations. Operational excellence allows us to sustain long-term growth by culture and through constant incremental improvements. Culture guides our behavior and establishes consistency within the organization while incremental improvement allows us to exceed what is expected of us by our clients and our shareholders.

In such a hyper-competitive industry, we must be able to provide more to our customers in a better, faster, and more efficient manner. Technology must continue to be top of mind in order to deliver best in class and have the automation to remain competitive. It is this technology that will also allow us to meet regulatory expectations and procedural consistencies in all areas of the bank.

Finally, at the core of our company is our need and desire to help and support the communities we call home. It is our corporate responsibility to be inclusive of all individuals, small business owners, and larger companies that have the desire or need for high-touch financial guidance and support. We take great pride in our client and community successes and must never lose sight that we can only be as strong as the communities we serve.

BRENT BALDREE

PRESIDENT COMMERCIAL BANKING & CHIEF LENDING OFFICER



2021 was a great year for Texas Regional Bank.

The Lending Team stayed true to our vision of growing the bank, one relationship at a time. The team did an excellent job of acquiring several new relationships and continues to focus on providing quality products to meet the needs of the communities we serve. TRB provided 13% loan growth for the year and continues to seek opportunities to enhance our presence in the markets we're in. With the attention to detail our team is known for, we continue to win over clients, helping grow our TRB family.

In 2021, we continued to provide support to small businesses by providing the tools needed to help with the "forgiveness process" of the Paycheck Protection Program (PPP). This was instrumental in developing long-term relationships for the organization and allowed us to showcase the TRB brand in support of the communities we serve. On the deposit side, our team did a tremendous job of growing by \$548 million, which translates to 44% growth. The Operations team

continues to provide an outstanding job by offering exceptional service, which can be seen in the numbers.

We also saw the expansion of the franchise into the Houston area. As we build out other regions, our primary focus is the team, and Houston is no different. Our "people first" mindset means that before we move forward, we find and secure an exceptional group of people who will not only help TRB grow, but also embrace our mission, vision, and core values.

As we continue to grow, our focus remains on being the bank of choice with "the people you know". We constantly strive for efficiency by providing our staff with the most innovative tools and training needed to handle current market dynamics. We aim to offer novel products and services to provide a positive banking experience that retains customers who in turn refer family and friends to the TRB brand. We set aggressive goals for the new year, and the team is laser focused and ready for 2022.



BRENT BALDREE
PRESIDENT
COMMERCIAL BANKING &
CHIEF LENDING OFFICER



In 2021, the South Texas Region saw new levels of growth and achievement.

The Lending Team remained dedicated to banking Texas with a superior level of service and continues to seek opportunities to enhance our presence in the markets we serve. Several new banking relationships contributed to the 9% loan growth the RGV achieved, which is a testament to our team's ability to build strong relationships and serve the business needs of our customers throughout South Texas.

On the deposit side, our team did a tremendous job of offering our products to new and existing customers, increasing business by 27% or \$221 million. Our team understands the value of planning, implementing, and executing, which enables us to provide exceptional customer service. The result is a solid business relationship with our local community.

Becoming a super-regional bank in Texas means that we assume the responsibility of investing in and contributing to the advancement of our community and region. In 2021, we proved our commitment to the TRB vision and mission by adding a Business Development Officer to our team. Our dedication to be present and active in our communities ensures that TRB is everywhere, all the time.

As our state grows and expands, so does the TRB South Texas region. In 2021, we located and secured a site in Rio Grande City that will serve as our newest banking center and our first in Starr County. Its grand opening will take place in 2022, allowing TRB to bring increased convenience and service to our area.

New banking relationships and our ever-expanding service area are great examples of how the South Texas region continues to play a vital role in positioning TRB as a community and state-wide leader.



LANCE SPRUIELL
EXECUTIVE VP
REGIONAL PRESIDENT
COMMERCIAL BANKING



ERIN NEEDHAM
EXECUTIVE VP
REGIONAL PRESIDENT
BANKING ADMINISTRATION



Hill Country Region celebrates it's 5-year anniversary!

Five years ago, when TRB finalized our acquisition of Blanco National Bank, the Hill Country region started with four banking centers in Blanco, Wimberley, Bulverde, and Fredericksburg. Since then, we've added banking centers in San Marcos, Bee Cave, Dripping Springs, Johnson City, and a loan production office in Leander. We will continue our expansion into emerging markets that will benefit from our brand of banking. We are bullish on markets like Boerne, Lockhart, and New Braunfels. In 2017, Blanco National Bank was a \$12 million asset bank. Since then, the Hill Country Region has grown to \$273 million in total assets through December 31, 2021. Asset growth during this period was led by lending activity as loans grew from \$89 million to \$251 million, a 182% increase. In 2021, we had a record year: our lenders increased our loan portfolio by \$51 million which included helping 307 local business with \$39 million in Paycheck Protection Program (PPP) funds payoff.

On the other side of the balance sheet, we've nearly tripled our deposits from \$170 million to \$450 million since 2017, with an astounding \$108 million of that coming in 2021. Operating at a healthy 55% loan to deposit ratio, the Hill Country remained a strong funding source for loans.

Feeding our strong balance sheet was a record setting year on the region's income statement. The Hill Country contributed nearly \$5 million dollars of income to the bank. Interest on commercial loans was the largest contributor to net income; however, our mortgage division has established a foothold in the region. Our region's low cost of funds further improved our bank's performance.

In 2022, we will focus on automation and utilizing technology to increase efficiencies across all platforms to improve the overall banking experience for our customers. Staff will continue to train on these emerging technologies in an effort to find the best solutions for our customers. We look forward to strengthening the TRB culture within all of our branches and deepening existing relationships within the communities we serve.



GREGG BOOTH

EXECUTIVE VP
REGIONAL PRESIDENT
BANKING ADMINISTRATION

**LEWIS GISSEL**

EXECUTIVE VP
REGIONAL PRESIDENT
COMMERCIAL BANKING



Texas Regional Bank added another region with the addition of the Houston Region in June 2021 and the opening of the Houston-Memorial Branch in November 2021. The Houston Region, led by Gregg Booth and Lewis Gissel, wanted to build awareness in Houston and sought Houston-related investors to build a strong base. After multiple presentations, the bank added 52 Houston investors to TRB as part of the \$30 million 2021 capital raise where TRB was oversubscribed in the sale of stock once again.

The bank completed the build out of its first Houston banking center, consisting of approximately 6,100 square feet in the Memorial City Place building. It is located on the near west side of Houston, commonly referred to as the City Centre/Memorial area. The Houston-Memorial banking center opened its doors to the public on November 15, 2021 with three branch-related employees, two lenders, and new investors from the area.

By the end of 2021, the Houston Region exceeded goals with two lenders, \$15 million in loans, and over \$1.6 million in deposits. The team was also successful in directing wealth management prospects to TRB's Wealth Management Group. The referrals generated \$9.5 million in new wealth management clients, in addition to the capital that was raised for the Houston Region. As a strategic initiative, the team will focus on loan growth and talent acquisition in 2022.

Common values. Common goals.

Banking Texas, one relationship at a time.

The Dallas Morning News

BUSINESS > BANKING

Texas Regional Bank enters Dallas-Fort Worth market with merger

The bank will gain access to six AccessBank Texas locations in Dallas, Fort Worth and Denton.



Texas Regional Bank's corporate office is in Harlingen in South Texas. The bank is moving into the Dallas-Fort Worth market after merging with AccessBank Texas, which has locations in Dallas, Fort Worth and Denton.

By **Natalie Walters**
1:26 PM on Jan 4, 2022

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A South Texas-based bank is entering the Dallas-Fort Worth market via merger.

Harlingen-based Texas State Bankshares Inc. and its Texas Regional Bank are merging with Denton-based Access Bancorp Inc. and its AccessBank Texas.

AccessBank Texas has six banking centers in the Denton, Fort Worth and Dallas markets, giving Texas Regional Bank an instant footprint in a new region. Texas Regional Bank has an existing network of 23 banking centers in South Texas, the Texas Hill Country and Houston.

"We were looking for a bank to acquire in the Dallas area because it's one of the fastest organically growing metroplexes in the state," Texas Regional Bank CEO Michael Scaief said.





LINCOLN TALBERT

SENIOR EXECUTIVE VP
CHIEF FINANCIAL OFFICER

In 2021, Texas Regional Bank continued to leverage its strong brand in community banking to produce asset growth above peer. Total assets at year-end 2021 totaled \$1.96 billion, an increase of \$452.47 million, or 30.0%, over 2020. The strong asset growth continues to be driven by our commitment to relationship banking in our communities, which inherently results in deposit growth. In 2021, the Bank grew deposits by \$548.89 million, or 44.4%, over the prior year with the highest dollar volume of growth generated from non-interest bearing accounts.

Our loan portfolio grew \$28.99 million, or 3.9%, from the prior year; however, this was impacted by the natural progression of the bank's portfolio related to the Small Business Administration's Paycheck Protection loan program (PPP Loans). In 2021, the portfolio balance of PPP Loans was reduced from \$66.56 million to \$5.80 million, representing a \$60.76 million reduction in overall loan portfolio balances. Considering this planned occurrence, traditional loan growth totaled an \$89.75 million, or a 13.1%, increase over the prior year.

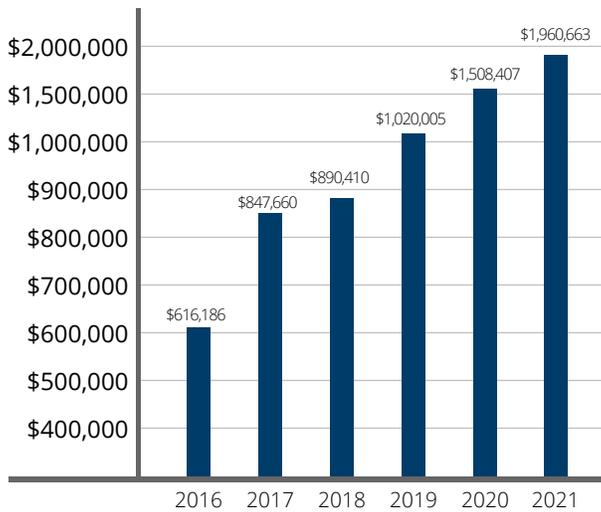
Total revenue increased to \$73.88 million, an increase of \$11.27 million, or 18%, over the prior year. The increased revenue is attributed to material increase in both interest and non-interest revenue streams,

with the revenue types increasing by 13.19% and 35.16% respectively. These revenue increases coupled with a strategic commitment to operational excellence, resulted in a net income of \$20.28 million for 2021, an increase of \$6.27 million, or 44.8%, over the prior year.

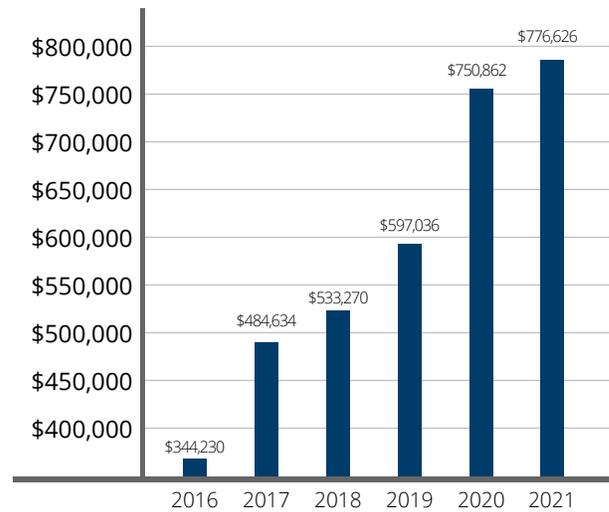
At year end, the total equity of Texas Regional Bank was \$168.01 million, an increase of \$27.65 million, or 19.7%, over the prior year. The increase in equity position is a result of continued strong earnings and the execution of capital strategies by Texas State Bankshares, Inc (TSBI) to support the growth and success of the Bank. In 2021, TSBI successfully completed a subordinated debt raise of \$25 million at a favorable interest rate and a capital raise in excess of \$32 million through the sale of common shares at \$38 per share.

The Board is intent on creating long-term shareholder value through its commitment to our mission of "Banking Texas, One Relationship at a Time." As we move into 2022, and with our expansions into the Houston and Dallas/Fort Worth areas, we look forward to additional growth and success.

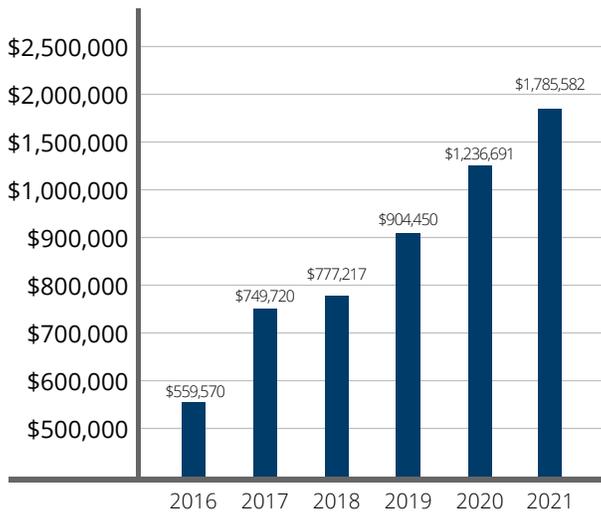
Assets (in thousands)



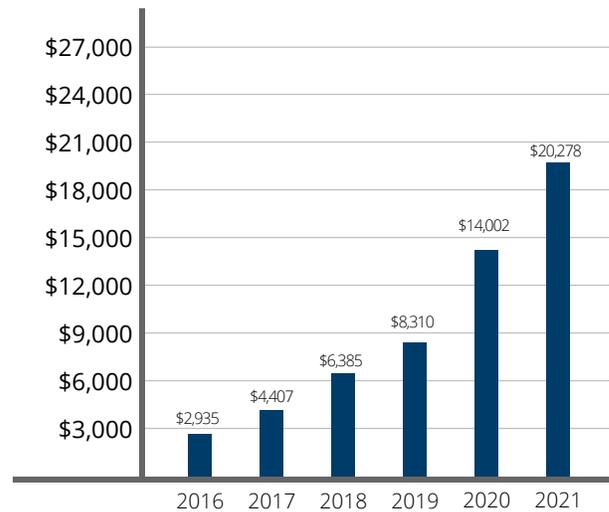
Net Loans (in thousands)



Deposits (in thousands)



Net Income (in thousands)



	2016	2017	2018	2019	2020	2021
Assets	\$616,186	\$847,660	\$890,410	\$1,020,005	\$1,508,407	\$1,960,663
Net Loans	\$344,230	\$484,634	\$533,270	\$597,036	\$750,862	\$776,626
Deposits	\$559,570	\$749,720	\$777,217	\$904,450	\$1,236,691	\$1,785,582
Equity	\$52,225	\$93,738	\$97,577	\$110,226	\$140,367	\$168,013
Net Income	\$2,935	\$4,407	\$6,385	\$8,310	\$14,002	\$20,278
Loans to Assets	56%	57%	60%	59%	50%	40%
Loans to Deposits	62%	65%	69%	66%	61%	43%

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and due from banks	\$ 242,937	\$ 77,559
Interest-bearing deposits in banks	3,360	94,775
Securities available for sale	833,927	485,715
Securities held to maturity	5,000	4,000
Restricted investment securities	5,846	5,226
Mortgage loans held for sale, net	4,389	7,071
Loans – net of allowance for loan losses of \$9,354 (\$9,032 in 2020)	772,237	743,791
Premises and equipment – net	67,455	68,082
Accrued interest receivable	6,831	7,027
Goodwill	9,956	9,956
Other intangible assets – net	208	366
Prepaid expenses and other assets	4,394	3,302
Cash surrender value of life insurance	5,733	5,596
	<u>1,962,273</u>	<u>1,512,466</u>
Total assets	\$ 1,962,273	\$ 1,512,466
Liabilities		
Deposits:		
Noninterest-bearing	\$ 628,400	\$ 497,196
Interest-bearing	<u>1,108,318</u>	<u>724,125</u>
	1,736,718	1,221,321
Total deposits	1,736,718	1,221,321
Federal Home Loan Bank borrowings	324	50,489
Federal Reserve Bank borrowings	-	76,349
Subordinated notes payable - net of unamortized debt issuance costs of \$766 (\$472 in 2020)	59,234	34,528
Junior subordinated debenture	2,578	2,578
Accrued interest payable and other liabilities	<u>6,749</u>	<u>9,707</u>
	1,805,603	1,394,972
Total liabilities	<u>1,805,603</u>	<u>1,394,972</u>
Commitments and contingencies (notes 5, 16, 17 and 18)		
Stockholders' Equity		
Common stock – \$1 par value; 50,000,000 shares authorized; 6,854,867 shares issued, 6,451,063 shares outstanding (5,800,796 shares issued, 5,393,692 shares outstanding in 2020)	6,855	5,801
Surplus	111,529	76,177
Retained earnings	48,101	31,659
Notes receivable from stockholders	(1,503)	(1,019)
Treasury stock - 406,804 shares at cost (406,804 shares in 2020)	(9,731)	(9,731)
Accumulated other comprehensive income	<u>1,419</u>	<u>14,607</u>
	156,670	117,494
Total stockholders' equity	<u>156,670</u>	<u>117,494</u>
Total liabilities and stockholders' equity	\$ <u>1,962,273</u>	\$ <u>1,512,466</u>

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Interest income:		
Interest and fees on loans	\$ 43,643	\$ 39,906
Interest on investment securities	11,302	8,542
Interest on interest-bearing deposits in banks	<u>264</u>	<u>344</u>
Total interest income	55,209	48,792
Interest expense	<u>6,136</u>	<u>6,977</u>
Net interest income	49,073	41,815
Provision for loan losses	<u>447</u>	<u>2,713</u>
Net interest income after provision for loan losses	<u>48,626</u>	<u>39,102</u>
Noninterest income:		
Service charges and fees	5,516	4,310
Wealth management fees	5,043	3,514
Gain on sale of securities	4,285	3,783
Gain on termination of derivatives	1,050	-
Other	<u>2,073</u>	<u>1,503</u>
	<u>17,967</u>	<u>13,110</u>
Noninterest expenses:		
Salaries and employee benefits	26,235	22,077
Occupancy and equipment expenses	6,027	5,150
Other operating expenses	<u>12,278</u>	<u>10,270</u>
Total noninterest expenses	<u>44,540</u>	<u>37,497</u>
Income before federal income tax expense	22,053	14,715
Federal income tax expense	<u>4,060</u>	<u>2,576</u>
Net income	<u>\$ 17,993</u>	<u>\$ 12,139</u>



Independent Auditor's Report

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of Texas State Bankshares, Inc. and Subsidiary (Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and 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. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company, as of December 31, 2021 and 2020, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on COSO.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control over Financial Reporting" section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements and Internal Control over Financial Reporting

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

Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity’s internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management’s assessment and our audit were conducted to meet the reporting requirements of Section 112 of the *Federal Deposit Insurance Corporation Improvement Act* (FDICIA), our audit of the Company’s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Parent Company-Only Financial Statements for Small Holding Companies (Form FR Y-9SP). An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BKD, LLP

San Antonio, Texas
April 28, 2022

BOBBY FARRIS

**DIVISION PRESIDENT
TRUST & WEALTH MANAGEMENT**



Our philosophy is simple yet effective. Our investment portfolios are designed to reduce risk through global diversification and we never attempt to time markets. This disciplined approach is time-tested and helps our clients grow wealth over time.

Our portfolios are designed strategically to meet client specific financial needs and goals. There are all sorts of challenges associated with making progress toward financial goals, one of which is our mindset. Emotionally investing can have a big impact on an investment plan especially if you allow your emotions to get the best of you. We create an effective investment plan by breaking down our client’s financial goals into clear discrete tasks, which is an important step in helping our clients navigate the emotions of investing. The plan is designed to take advantage of market opportunities through global diversification, while also managing our client’s exposure to investment risk, keeping fees low, and being extremely tax efficient. We will be there for our clients to adjust the plan and focus on the things we can control as life continues to evolve.

Our philosophy does not change regardless of markets being at all-time highs, wars with foreign countries, or global pandemics. Despite any challenges or obstacles, our approach of focusing on our client’s goals 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.



In addition to our growth, we have added two new advisors. Taylor Hansen will be covering our Hill Country market and Lorena Garza will be covering International Wealth Management, while Kevin Whitworth has been promoted

to Assistant Vice President and is now covering the Houston Market.

TRB Trust and Wealth Management would like to thank all shareholders and employees who referred new clients in 2021.



EDUARDO CASO

SENIOR VP INTERNATIONAL PRIVATE BANKING

2021 continued to be a challenging year for International Private Banking (IPB). The team was not able to travel to Mexico as frequently as it used to, due to the pandemic restrictions imposed in this country and the closure of the Mexico-United States border. As a result, IPB’s business development efforts and the face-to-face meetings with prospects and customers were affected during this particular year. Despite this challenge, the International Private Banking team excelled through dedication, determination, and exceptional client service via zoom meetings and phone calls.

IPB is a special type of “concierge” service for successful, affluent, international (Mexico) individuals and company owners, that provides comprehensive personal and commercial financial solutions. These solutions are delivered through a dedicated, service-oriented relationship manager in a Customer Centric approach. The convenience of this high level of service is having a single point of contact, supported by a fully coordinated team of specialists with the knowledge and expertise to fulfill financial goals.

By December 31, 2021, total deposits were \$81.6 million, a \$13.8 million or 20.4% increase from 2020’s \$67.8 million. The increase in total deposits reflected increases in non-interest and interest-bearing accounts, savings, and time deposits.

The average deposit balance per account stood at \$270,000, while the average deposit balance per time deposit was \$670,000.

The deposit composition at the end of December 2021 was 43% in time deposits and 57% in DDAs.

Working in close collaboration with our commercial business lending partners, the IPB team was able to generate \$19.2 million in new loans for Texas Regional Bank. Most of these were commercial real-estate loans.

Within IPB, the Foreign Exchange (FX) Department is a solution for Texas Regional Bank customers, individuals and/or businesses, who need to send an international wire transfer with foreign currency conversion to pay international tuition fees, make payments to suppliers, or send a deposit to a bank account outside of the U.S. Presently, the FX department has access to 26 different currencies.

In 2021, the Foreign Exchange department (FX) experienced tremendous growth compared to 2020. By December 31, 2021, the FX department operated 1,178 transactions contrasted to 270 operations at the end of 2020, a Year Over Year (YOY) growth of 908 operations or 336%. Total income for 2021 amounted to \$318,110 as compared to \$62,394 in 2020, a YOY increase of \$255,715 or 410%.

JASON LEAL

EXECUTIVE VP CHIEF ADMINISTRATIVE OFFICER



Texas Regional Bank added Mortgage to its portfolio in 2016, and in the past five years, we have seen tremendous growth. At the end of 2017, in the short six months from launching, 16 loans totaling \$3.7 million were booked. In 2021, TRB booked 263 loans totaling \$83.4 million, an increase of 24% from 2020.

The year 2021 will be known as the year of increasing home prices, yet we saw strong demand due to historical low mortgage rates. According to the Texas Realtors Year in Review Report, the months of inventory dropped from 1.6 to 1.2 in 2021, and the average days on market was 34 days less or less in 2021.

The low supply led to 21 of the state's 25 largest metropolitan areas to report median price rate increases in the double digits. Statewide, the median price rose to \$300,000, a 15.7% increase from 2020, and the median price per square foot has increased 35.6%. The greatest year-over-year hike in median price was seen in the Austin-Round Rock area where the amount jumped 30.8% to \$450,000. This was followed by the Brownsville-Harlingen area where the median price increased 24.4% to \$215,000.

Mortgage rates rose slightly at the end of 2021, and rates are expected to be higher in 2022 due to changes in the Federal Reserve's policy and inflationary

pressures. Along with an increasing rate environment, affordability is going to be an issue that may weaken demand in 2022 to more sustainable levels that we saw before the pandemic. TRB's primary goal is to facilitate the American dream of homeownership for customers by providing affordable, common-sense financing.

In 2022, new home construction is projected to grow but at a slower rate than the previous two years as the housing market stabilizes. The housing market will move toward a more sustainable long-run path as the pandemic housing market frenzy dissipates. Supply chain issues and current increasing levels of inflation will likely impact how quickly new homes can be built.

The TRB Mortgage team anticipates the housing market to remain strong, and we look forward to the meeting expectation of our customers, while meeting the demands of the market.



ALEX MEADE

EXECUTIVE VP
PUBLIC FINANCE &
ECONOMIC DEVELOPMENT

The Public Finance and Economic Development (PFED) team is responsible for the success of business development within the public sector. The PFED team serves as a resource and relationship manager for local, state, and federal leadership and continually invests in developing relationships to grow the public funds segment of TRB.

The PFED team takes an indirect approach to offering bank services to local governments by becoming a resource, which allows TRB to establish and maintain a relationship year-round. The PFED team utilizes two approaches to engage the public sector: real estate and public affairs.

- Real Estate/Site Selection – As TRB looks to expand throughout the state of Texas, the PFED team uses this opportunity to establish a relationship with mayors, city managers, economic development directors, and/or planning directors and visits with them about the bank’s expansion plans and includes them in the site selection process.
- Public Affairs – As the bank grows, so do its responsibilities to communities. The PFED team works closely with each community TRB serves to understand

their needs at the state and/or federal level. The PFED team helps advocate for not only these communities but issues that affect community banking throughout the state of the Texas. Visiting with local elected officials about their needs in Austin allows TRB to have constant communication with all levels of government.

These two approaches allow TRB to become very familiar with the communities it serves and, as a result, is often asked to help provide solutions to both the private and public sectors.

2021 Highlights:

Public Funds

- Total accounts grew by 51%
- 296 accounts in 2020
- 447 accounts in 2021
- Total deposits grew by 159%
 - \$172,703,285 in 2020
 - \$447,086,052 in 2021

EXECUTIVE TEAM



Jason Leal, Cesar Suarez, Michael Lamon, Michael Scaief, Brent Baldree, Lincoln Talbert, Karen Valdez

BOARD OF DIRECTORS



Michael Fallek, Carlos Varela, Tudor Uhlhorn, Brad Wolfe, Bobby Farris, Michael Scaief, Paul Moxley, Bill Elliff, Mark Richards, David Garza, John Guevara. Not pictured: Dr. Antonio Falcon.



TEXAS REGIONAL BANK

The people you know.™