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ANNUAL REPORT



## OUR STORY

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.

- 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.

Initially, the group intended to establish a brand new banking operation in the Rio Grande Valley of Texas. But, 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 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.

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

Today, Texas Regional Bank has assets of approximately \$840 million and 16 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 more than \$80 million and more than 500 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 the Texas markets.

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## MESSAGE FROM THE CHAIRMAN

MICHAEL SCAIEF | CHAIRMAN OF THE BOARD

When you look at Texas Regional Bank's 2017 achievements, it's all about contributions of our customers, team, and shareholders. The year began with the Blanco National Bank (BNB) acquisition, welcoming over 7,000 new customer relationships. It ended with our third highly-successful capital raise, welcoming new shareholders from central and south Texas. For the year, we added seven locations in our new Texas Hill Country region and began construction of, or planning for, three new locations in the Rio Grande Valley. Our team successfully migrated the BNB customers to the bank's core platform, providing them with a new suite of technology and ancillary financial services. Average assets exceeded 37% growth for the year and earnings improved by more than 50%, year over year. Today, Texas Regional Bank has 16 offices between both regions, in excess of \$840 million in assets, and \$90 million in equity.

### 2017 GROWTH

Assets  
**37.6%**  
Growth

Loans  
**40.8%**  
Growth

Revenue  
**50.2%**  
Growth

The acquisition of BNB brought us four new central Texas locations and approximately \$165 million in deposits. Immediately after the BNB closing, TRB acquired a team of bankers who were instrumental in adding San Marcos and Lakeway locations, then opening our seventh banking center in Dripping Springs in March of this year. After settling into these new markets, and the typical "pruning" that results from an ownership change, deposits in the Hill Country are up 15%. Texas Regional Bank is on its way to becoming the "Bank of Choice" run by The People You Know in the Texas Hill Country.

With the continued maturing of the organization's footprint and management of more than 23,000 customer accounts, new opportunities for ancillary services have emerged. Trust, wealth management, and mortgage services have become ever more meaningful to the top line revenue of the bank. Today, the TRB Trust and Wealth Management Division has in excess of \$350 million in assets under management. This group, led by Chairman Bobby Farris, has a compelling history and investment strategy, and converts over 85% of potential clients. A majority of the bank's board, and of the bank's advisory board, are now TRB Trust or Wealth Management customers. We will continue to develop additional ancillary services as we complete our vision of a diversified financial services company.

Trust, wealth management, and mortgage services have become ever more meaningful to the top line revenue of the bank.

Technology and security continue to represent challenges and opportunities for the industry. We face increased competition from the many financial technology, or “fintech” companies that have entered the financial services sector without the regulatory burden faced by banks today. With TRB’s growing customer base, electronic delivery channels and security will continue to be a dominant focus. In 2017, we increased resources within our Information Technology (IT) Division, with an eye toward improving the customer experience. Chief Information Officer Ronda Johnson and her team have undertaken more than 20 strategic initiatives to improve TRB’s electronic banking, drive efficiency, and mitigate security risks. In the years ahead, we fully expect electronic banking channels to be the largest driver of transaction activity for customers.



While electronic banking will play an ever increasing role in the bank, physical location and people continue to drive decisions for banking customers. They may transact business online, but there is no replacement for relationships and meeting face-to-face with *The People You Know*. In this regard, after several years of planning, our new banking facility and corporate offices in Harlingen will be complete in October. With our McAllen headquarters at capacity, the new offices will provide much-needed relief and spread operations between Harlingen and McAllen. Based on the historical expansion of the company, the new facility should handle our growth through the next five to seven years. At some point in the future, as TRB continues to expand in the Hill Country, it may be prudent to further diversify operations geographically.

Texas Regional Bank will continue to look at expansion opportunities that make geographic and economic sense to the organization and its shareholders. With increasing net revenue from our growth, and maturing of the organization, we are confident the company will be prepared to initiate a dividend plan subsequent to our tenth year of operation.

As we always say, the success of the bank correlates directly with the size and influence of our shareholder base. Many thanks for your ongoing confidence in and support of Texas Regional Bank.



# The People You Know



# CHIEF EXECUTIVE OFFICER REPORT

PAUL MOXLEY | PRESIDENT/CEO

*The People You Know* continues to be our proven slogan, reflecting TRB's relationship-style of banking. I encourage each of our employees to wear their chamber of commerce hat at all times, providing quality customer service, and growing existing relationships while always seeking to gain new ones.

During the past two years we have combined all TRB lobby roles and responsibilities into one front-line position, the TRB Universal Banker. By mid-2018, we hope to have all front-line staff trained as TRB Universal Bankers, adept at providing both teller and new account services, and better prepared for career advancement. The next step will be development of TRB Private Bankers capable of providing a full-service experience from front-line to retail loan services.

Additionally, we plan on enhancing our suite of technical services. This past year we upgraded our internal platforms and made external applications more user-friendly with self-intuitive navigation. Rolling out these upgrades on the cusp of the 2017 acquisition was essential for a smooth transition. With access to technology within our lobbies, TRB Universal Bankers can encourage customers and guide them in becoming familiar with our online and mobile applications.

Our Hill Country market continues to evolve into the culture and brand that distinguishes Texas Regional Bank. Our slogan, *The People You Know*, rings true as we strengthen the Hill Country team with new members who are veteran bankers and native to their respective markets. In addition to the four locations we added last year, 2018 will increase the TRB brand as we break ground in San Marcos in March, provide a fully-operational Dripping Springs banking center in April, and identify a new location for our Lakeway banking center. We will build on our strong market presence in all seven locations as we grow the TRB footprint in this dynamic region.

## CONGRATULATIONS MR. MOXLEY ON YOUR AWARD



*McAllen Mayor Jim Darling presents Paul Moxley with the McAllen Chamber of Commerce 2017 McAllen Man of the Year.*

2010



**TEXAS REGIONAL BANK**  
The people you know.™

Falfurrias  
Harlingen  
McAllen 10th Street  
Brownsville

2013



**TRB** | Trust & Wealth Management



**TRB** | Merchant Services

McAllen McColl Road  
McAllen 23rd Street  
Edinburg  
Mission

2014

2015



**TRB** | **CONNECT BANKING**  
WORKPLACE SOLUTIONS



**TRB** | **COMMUNITY BANKING**  
NON-PROFIT & CIVIC ORGANIZATIONS SOLUTIONS



**TRB** | **HEALTHCARE ACCOUNTS**  
FOR HEALTHCARE PROFESSIONALS

Weslaco

2016



**TRB** | **MORTGAGE**

2017

Blanco  
Bulverde  
Fredericksburg  
Wimberley  
Harlingen Stuart Place Road  
San Marcos  
Lakeway



"Our banking relationship with Texas Regional Bank has been instrumental in helping Sun Valley Aviation take flight soaring from an idea to a growing and expanding business."

-Pat Kornegay

**Mr. Alan Johnson**  
Harlingen

**Mr. Alberto Vega**  
San Benito

**Mr. Andy Browder**  
Mission

**Mr. Bill Youngblood**  
Harlingen

**Mr. Bob Boggus**  
McAllen

**Mr. Bob Shepard**  
Harlingen

**Mr. Bryan Burke**  
Harlingen

**Mr. Charles Marina**  
McAllen

**Mr. Claude "Sonny" Hildreth**  
McAllen

**Mr. David Garza**  
San Benito

**Mr. Don "D. J." Johnson**  
Brownsville

**Mr. Ephraim Flores**  
Harlingen

**Mr. Fred Del Barrio, Jr.**  
McAllen

**Mr. Hector M. Rivera**  
Mission

**Mrs. Jane Burkholder**  
Harlingen

**Mr. Jasen Hardison**  
McAllen

**Mr. Jason Wolfe**  
Brownsville

**Mr. Jimmy Garza**  
Pharr

**Mr. John D. Guevara**  
Brownsville

**Mr. Jose E. Garcia**  
Edinburg

**Dr. Kalim Habet, M.D.**  
Rancho Viejo

**Mr. Keith Padilla**  
Mission

**Mr. Lance Neuhaus**  
Mercedes

**Mr. Lawrence "Chip" Gift**  
Houston

**Mr. Luis De La Garza**  
Brownsville

**Mr. Marion Lawler III**  
Brownsville

**Ms. Mary Lou Ray**  
Brownsville

**Mr. Michael Moore**  
McAllen

**Mr. Mike McLarty**  
Edinburg

**Mr. Mike Murphy**  
Harlingen

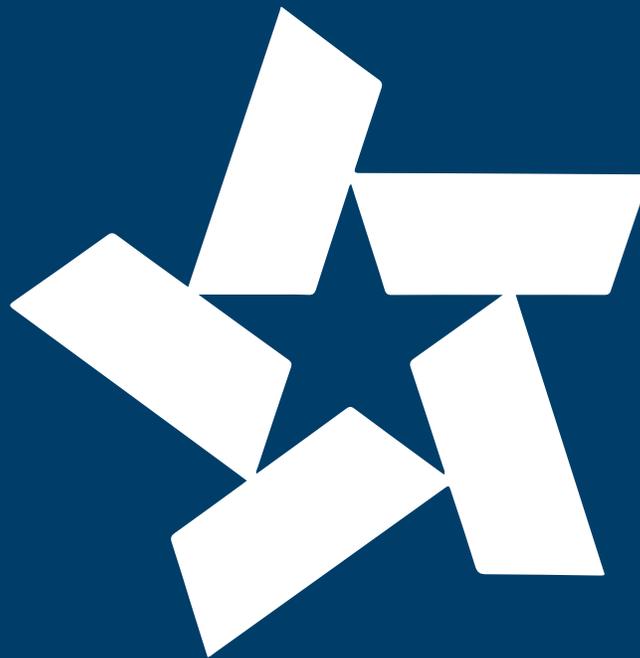
**Mr. Pat Kornegay**  
San Benito

**Ms. Reba Cardenas McNair**  
Brownsville

**Mr. Rolando Gonzalez**  
Brownsville

**Dr. Tony Falcon, M.D.**  
Rio Grande City

**Mr. Wendell Johnson**  
Harlingen



## **SENIOR ADVISORY BOARD MEMBERS**

### RIO GRANDE VALLEY



## MORTGAGE REPORT

RACHELLE CISNEROS | MORTGAGE SERVICES

At TRB Mortgage, we always are mindful that borrowers are entrusting us with one of their greatest financial commitments. We are proud to help them achieve the goal of homeownership by obtaining quality, long-term products at competitive market rates. Products we currently offer include FHA, VA, Conventional, USDA and Jumbo loans.

Our division continued to grow in 2017 with the addition of Bertha De La Garza as a Mortgage Loan Officer in Brownsville. With Bertha and Stephany Price's leadership, TRB Mortgage now has a very knowledgeable and experienced lending team to assist borrowers throughout the Rio Grande Valley and the Hill Country.

TRB Mortgage tripled its pipeline in 2017, and booked 41 loans totaling over \$10 million. Our pipeline continually grows through referrals, both from branches throughout our footprint and due to increased networking and relationships with realtors. Even with rising mortgage rates, we have seen a high demand for financing of primary residences, second homes, and investment properties. TRB Mortgage looks forward to expanding its production and operations to meet the demands of our customers and growing markets.



L to R: Bertha De La Garza, Rachelle Cisneros, Stephany Price

“  
TRB Mortgage tripled its pipeline in 2017, and booked 41 loans totaling over \$10 million.  
”



- Conventional Loans
- Federal Housing Administration (FHA) Loans
- Veterans Affairs (VA) Loans
- Rural Development Loans
- Jumbo Loans
- Fixed & Adjustable Rate Loans



## TRUST & WEALTH MANAGEMENT REPORT

BOBBY FARRIS | CHAIRMAN OF TRUST & WEALTH MANAGEMENT

At TRB Wealth Management, our goal is to provide you the financial freedom you've worked hard to earn. We act as fiduciaries and always put your interests first. Many studies show the majority of conventional wealth managers underperform the market over time. Conventional managers often ignore the hidden impact of high expenses and taxes, which reduce your overall portfolio return. TRB approaches wealth management differently, using an evidence-based investment strategy that is backed by over 60 years of academic research.

Our philosophy is simple yet effective: let the markets work for you. We believe it is best to be and stay fully invested in a proper asset allocation for your age and circumstances. Our investment portfolios are designed to reduce risk through global diversification, keep fees low, and be extremely tax efficient. Each portfolio is designed strategically to meet specific financial needs and goals. At the end of the day, we want our clients to be comfortable financially, so they can spend more time pursuing their other interests.

At TRB Trust, we have highly trained and skilled personnel to assist you with the various types of trust services we offer. Our staff is experienced in handling a wide range of personal trust products such as: Living Trusts, Testamentary Trusts, Standby Trusts, Charitable Trusts, Court Created Trusts and Life Insurance Trusts. We also handle Estate Administration for the disposition of your estate according to your Last Will and Testament. We will collect and inventory the assets, pay estate debts, file the necessary tax returns, and distribute the remaining assets to the named beneficiaries. We also offer Custodial type relationships which allow you to make the investment decisions, while we provide the asset custody, recordkeeping, income collection, and other administrative tasks.

Beginning with our first meeting, our approach is to tailor an investment solution to meet your objectives. We have customized, comprehensive strategies ready to discuss with you.

Currently we manage in excess of \$350 million for more than 600 families in the Rio Grande Valley and the State of Texas.



L to R: John Tippit, Yolanda Torres, Rick Garcia, Bobby Farris, David Estes, Irma Murray, Vincent Richards, Hortencia Villarreal, Sal Garcia



**2017** | BEST OF COMMUNITY BANKING  
GOLDEN EAGLE AWARD

L to R: Darla Rooke (IBAT Chairman), Paul Moxley, Wayne Lowry (Habitat for Humanity), Felicia Villarreal, Michael Scaief, Christopher L. Williston, CAE

Texas Regional Bank was the recipient of the 2017 Best of Community Banking "Golden Eagle Award" at the Independent Bankers Association of Texas 43rd Annual Convention. The award recognized TRB's strong partnership with Habitat for Humanity of the Rio Grande Valley and its dedication to helping communities it serves.

"We are very proud of our outstanding team who made this award possible," said Michael Scaief, Chairman of Texas Regional Bank. "They truly put their hearts into this relationship, to make a difference in people's lives."

Over the past year, TRB set a goal of strengthening its relationship with Habitat for Humanity. From a pledge of \$30,000 to Habitat for Humanity of the Rio Grande Valley at the close of 2015, TRB has established a long-lasting relationship with this nonprofit organization that offers a "hand up" and not a "hand out" to worthy families in Hidalgo and Cameron Counties.

TRB's community service includes providing financial support through sponsorships, manpower through sweat equity volunteerism, knowledge by serving on Habitat's family selection committee, ongoing financial education to new homeowners, and a community development loan of \$250,000 to support both affordable housing rehabilitation and construction of new homes.

"The best part is, at the end of the day, two families have homes they now call their own," said Paul Moxley, President and CEO. "TRB will continue helping the communities it serves. Through the growing partnership with Habitat for Humanity of the Rio Grande Valley, TRB has the opportunity to make an impact, one nail, one home and one dream at a time."

**1** NAIL AT A TIME

**1** PAINT STROKE AT A TIME

**1** FAMILY AT A TIME





# THE PEOPLE YOU KNOW HELPING IN OUR COMMUNITIES



Texas Regional Bank is a strong supporter of organizations dedicated to making our communities better. In 2017, TRB partnered with numerous nonprofit organizations and sponsored hundreds of programs throughout Central and South Texas. In addition, our team generously took up the call of service and contributed 8,062 volunteer hours at various events to help improve the communities where they live and work.

**38** Events  
**332** Sponsorships  
**8,062** Volunteer hours





## SOUTH TEXAS MARKET REPORT

BRENT BALDREE | SOUTH TEXAS REGIONAL PRESIDENT/CHIEF LENDING OFFICER

TRB's South Texas presence continues to grow as we deepen our roots in existing markets. During 2017 TRB had a 41% loan increase, 12% of which was organic growth in the Rio Grande Valley. With an increase of such scale, we have reviewed, recommended and rewarded our staff with resourceful changes and upgrades. As we embark on a new level of production, our entire lending team is concentrated on tactics to support continued growth of our loan portfolio.

During 2017 our lending operations team applied new systems to streamline information and enhance communications, resulting in faster turnaround of loan requests. As the TRB credit and loan operations teams have grown across the Rio Grande Valley and the Hill Country, several team members have broadened their knowledge and skills through training in overall banking operations. We have a dedicated team of 26 commercial lenders in South Texas and, through our management trainee program, will continue to provide opportunities for upward career mobility.

Our lenders throughout South Texas continue to support the growing industries of construction, produce, transportation, and so much more. We also continue to explore new avenues to respond to customer requests and broaden their banking relationships. Our lenders work closely with TRB's front-line and sales teams to develop products and services to meet the needs of our business customers.

We expect our upward momentum to continue in 2018 with three new locations opening in existing markets. Completion of our corporate headquarters in Harlingen is expected in late 2018. This four-story facility will house our executive team, training center and a fully operational banking center. Additionally, we will open second locations in both Edinburg and Brownsville during the second quarter of 2018. We look forward to strengthening our culture within these new banking centers and increased branding for Texas Regional Bank in our existing markets.



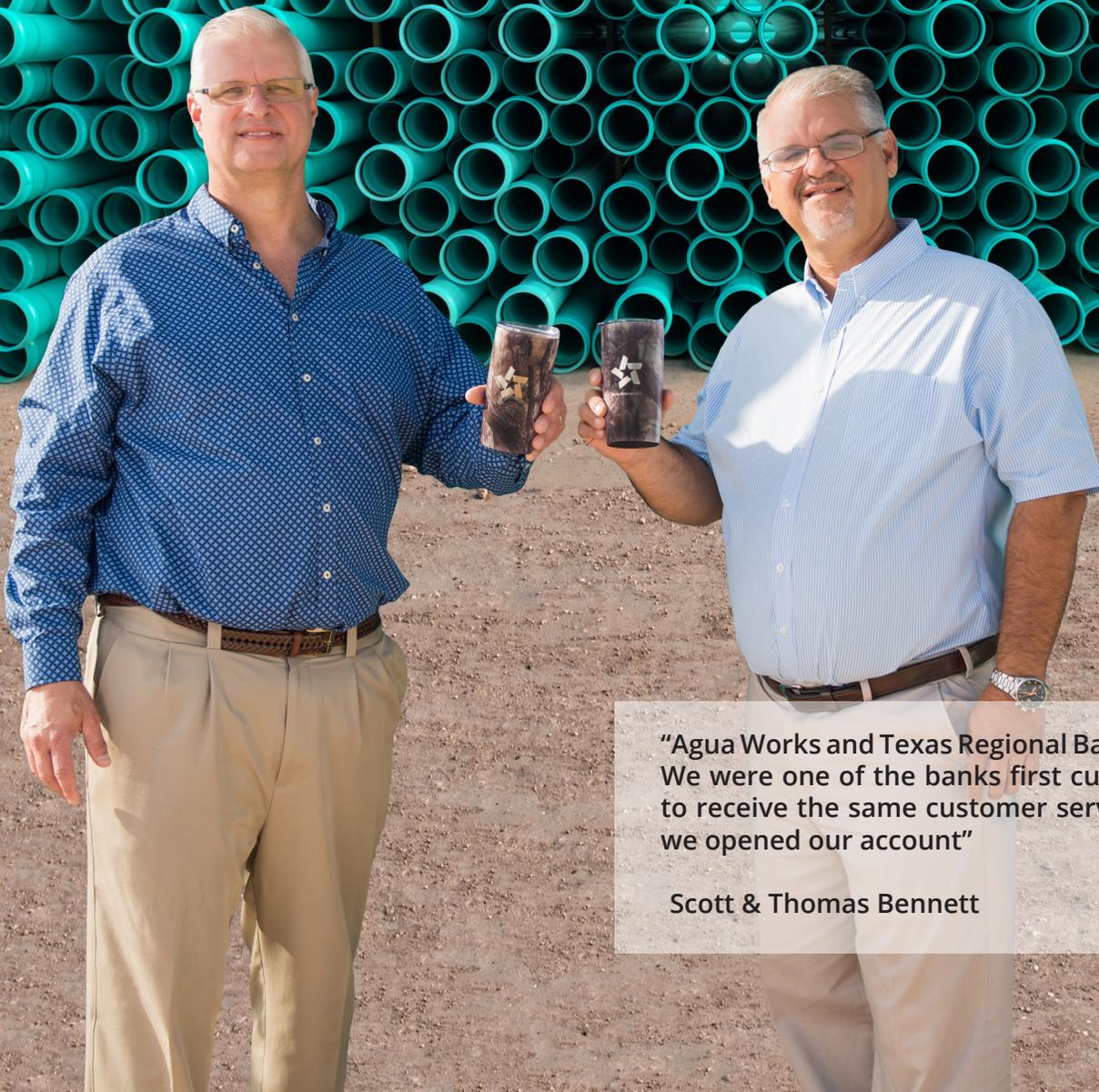
## HILL COUNTRY MARKET REPORT

LANCE SPRUIELL | HILL COUNTRY REGIONAL PRESIDENT

It's been a sprint in the Hill Country since early 2017. In February, we finalized our purchase of Blanco National Bank, a \$185 million asset bank based in Blanco, Texas. In April, we threw gas on the fire by adding two loan production offices: one in San Marcos and another in Lakeway. The result? In less than a year, the Hill Country market exploded with a 10% increase in deposits from \$165MM to \$185MM and an increase in loans from \$90MM to \$103MM. And, with the strong Central Texas economy, there aren't any signs of slowing down.

Equally impressive are the quality relationships we are building with top businesses in the Hill Country. For example, in Blanco, we have a strong relationship with Real Ale Brewing Company, the second largest brewery in Texas behind Shiner. In San Marcos, we've developed a banking relationship with La Cima, an exciting 2,000-acre master-planned community now under construction in a prime Hill Country location.

In late 2017, we announced the addition of a Dripping Springs banking center and a state-of-the-art regional flagship building in San Marcos. The 6,000-square foot San Marcos facility will be TRB's first new construction in the Hill Country, anchoring the busy intersection of Stagecoach and Wonder World. The building will have a TRB room, and an outdoor patio with an open-pit fireplace, the perfect sanctuary for morning coffee. Both new buildings are scheduled to open in 2018.



**"Agua Works and Texas Regional Bank make a great team. We were one of the banks first customers and continue to receive the same customer service as we did the day we opened our account"**

**Scott & Thomas Bennett**



## ECONOMIC REPORT

JOHN BOOTH | INVESTMENT OFFICER

### TEXAS ECONOMY FINISHES THE YEAR FIRING ON ALL CYLINDERS

The \$1.6 trillion Texas economy is the nation's second largest, behind only California. Texas ranks first for current economic climate thanks to strong employment and gross state product growth over the past five years. In addition, 100 of the 1,000 largest public and private companies in the U.S. are based in Texas.

The Texas economy continues to expand at a steady pace as employment rebounds strongly in the wake of Hurricane Harvey. Over a four-day period, Harvey dumped 40-50 inches of water along the Texas coast, equivalent to a year's worth of rainfall. A whopping 70% of densely-populated Harris County had at least 18 inches of flood water with an estimated 120,000 homes and businesses in the county experiencing some degree of flood damage. Adjusting for the hurricane effects, the Texas Employment Forecast now estimates 2.4% growth in 2017, slightly below its earlier 2.6% projection.

Job growth in 2018 is expected to be at a similar pace, above the state's long-term trend of 2.1%. While the Texas outlook remains optimistic, a lack of available labor may be a significant headwind to growth in the year ahead. The state unemployment rate reached a 40-year low of 3.9% in October 2017, well below the long-term average of 6%. With the current tightness of the U.S. labor market, finding workers to propel further job growth will present a greater challenge to businesses.

A strong U.S. economy and stable energy prices in 2017 supported growth in the Texas economy. The state accounted for 39% of national crude oil production and 84% of exports. The Texas economy posted a 5.2% quarterly annualized growth. The metropolitan business cycle indices were positive across the Texas Urban Triangle, led by Austin at 8.5%; Dallas and San Antonio maintained growth at 3.6% and 3.7%, respectively.

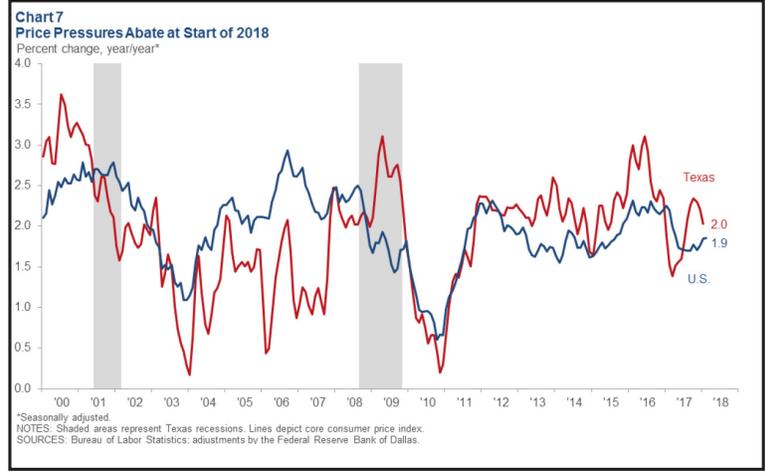
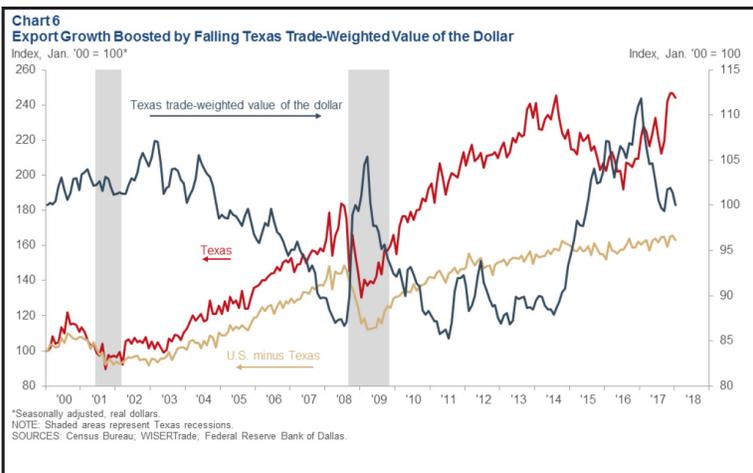
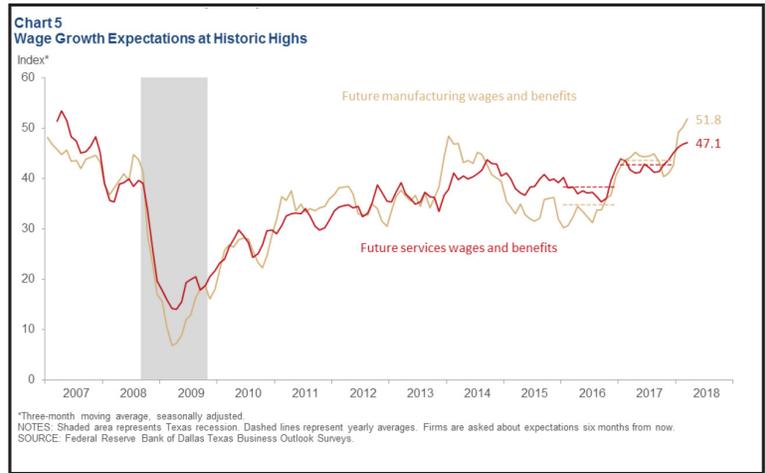
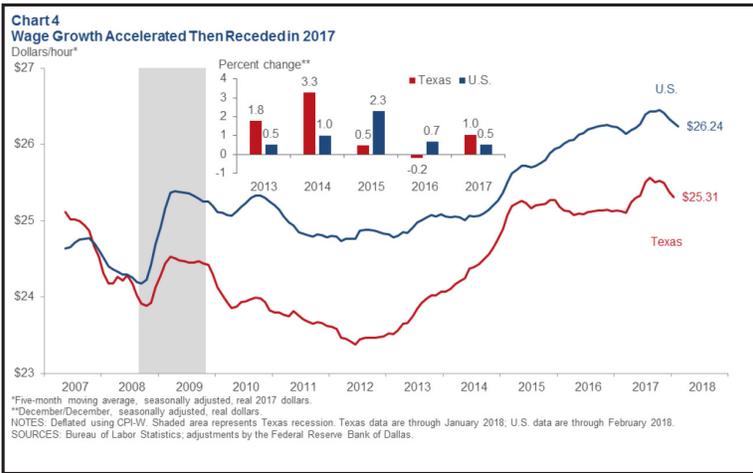
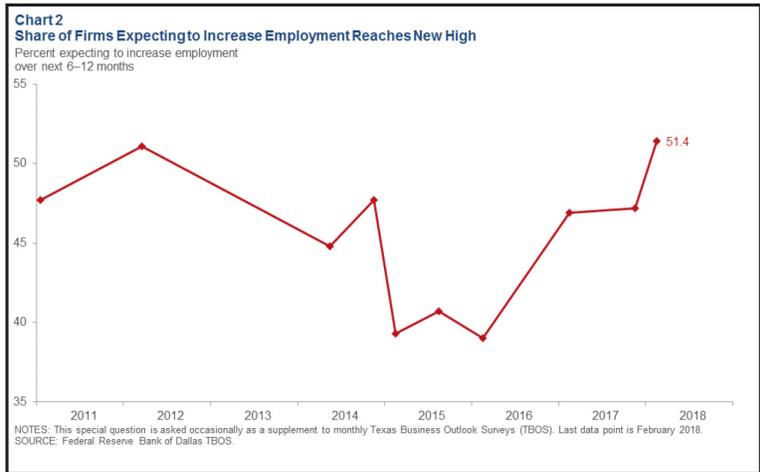
Population growth also continued to fuel the Texas economy. Recently-released 2017 data reveals a 1.4% increase in the Texas population, nearly double the national growth rate. The Dallas-Fort Worth (DFW) metropolitan area topped the nation in absolute population increase, adding 146,200 residents last year. Austin's population rose 2.7% (a 55,000 net increase), marking an eighth straight year as the nation's fastest-growing large metropolitan area.

Interest rates surged as increased fiscal spending and economic growth peaked inflation expectations and prompted concerns that the Fed would accelerate federal fund rate hikes. The Fed raised the overnight lending rate three times in 2017; that rate is now 1.5%. Since beginning to tighten monetary policy in 2016, the Fed has raised the rate five times. Markets are anticipating the Fed will raise rates another three times in 2018. Mortgage rates for a 30-year fixed loan have risen to above 4.3%. Rising mortgage rates, housing shortages, and rising home prices could hamper the housing market going forward.

Stock markets will continue to remain volatile in 2018 due to uncertainty about Fed actions, political jawboning about trade tariffs, and increased government borrowing. We continue to advise investors to stay well diversified and focused on long-term fundamentals. Fixed-income investors should move to take advantage of higher rates.



Texas Economic Update March 30, 2018

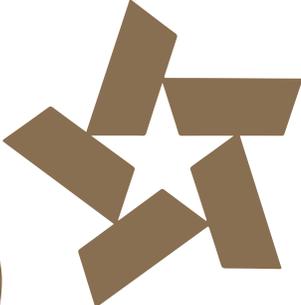




# Women TAKING CARE

# OF BUSINESS





THE  
*Women*  
OF TRB

The TRB team includes many strong women who are leaders in their professions and communities. All are dedicated to providing our customers with the highest level of service, setting and exceeding production goals, and implementing innovation solutions to everyday challenges. Their skills, abilities, and attitudes are essential to making TRB successful in the competitive financial services arena.

Following are their reflections on what makes their work meaningful to Texas Regional Bank.



**RONDA JOHNSON**  
Executive Vice President  
Chief Information Officer

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Experience: 35 years  
First Banking Position: Teller

“Our customers demand the best in banking and we work hard to deliver the diversity in technology that meets everyone’s banking needs. I am proud to lead these efforts for the bank. At the end of the day, providing industry-leading banking technology is great for our customers and community.”



**JANE JANSEN**  
Senior Vice President  
Compliance

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Experience: 47 years  
First Banking Position: Bookkeeping

“In the ever-changing regulatory environment of the banking world, it is imperative that I ensure that we accurately identify the risks, and establish regulatory processes and security practices that protect the bank and our customers. When we balance that, we have contributed towards making Texas Regional Bank even stronger and more successful.”



**MARGIE KARST**  
Senior Vice President  
Loan Administration

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Experience: 44 years  
First Banking Position: Customer Service Representative

“With the number of years I have in banking it is my great pleasure to share and train the young talent Texas Regional Bank recruits. I know Texas Regional Bank will continue to grow and with that comes lots of opportunity for the young ladies I see coming into the bank.”



**ADALIA MORENO**  
Senior Vice President  
Senior Operations Officer/HR

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Experience: 32 years  
First Banking Position: Consumer Lending Assistant

“Our customers are some of the most innovative business and community leaders in the markets we serve. They expect us to provide them with the latest in banking services, products, and technology. We work hard to meet and exceed those expectations while delivering the ‘relationship’ style of banking we are known for.”



**ANABEL NAVARRO**  
Senior Vice President  
Falfurrias Market President

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Experience: 34 years  
First Banking Position: Bookkeeping

“Our customers know we care about them and that is what motivates me every day. I know I have the full support of the Executive team and the trust of my team to always provide the one on one experience our customers deserve.”



**MICHELE ROBINSON**  
Senior Vice President  
Harlingen Market President

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Experience: 21 years  
First Banking Position: Switchboard

“When you say the name Texas Regional Bank people think of integrity and success. I am proud to be a part of an organization that is built on a commitment to its customers, community and employees.”



**HORTENCIA VILLARREAL**

Senior Vice President  
Senior Trust Officer

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Experience: 35 years  
First Banking Position: Note  
Department

“There have been many changes in the way banking is done, however, when customers need a face to face meeting to discuss their specific financial needs, we are committed to listening and providing that kind of personal service.”



**BELINDA CANTU**

First Vice President  
BSA Officer

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Experience: 38 years  
First Banking Position: Bookkeeping

“My customers are all the employees of Texas Regional Bank. I keep the balance of meeting our customer’s expectations while applying the regulations required of us. I enjoy the opportunity this gives us to work as a team to ensure we protect both our customer and TRB in each transaction; it’s challenging but very rewarding.”



**GABY GARZA**

First Vice President  
Senior Credit Analyst

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Experience: 19 years  
First Banking Position: Customer  
Service Representative

“I feel proud when I see ‘financed by’ signs on construction projects across the Rio Grande Valley; it’s a way for us to see our work contributing to TRB’s mission. The Bank is committed to helping our communities grow and it is a privilege being a part of that commitment.”



**RACHELLE CISNEROS**

Vice President  
Mortgage Services

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Experience: 20 years  
First Banking Position: Teller

“I find the most satisfying part of my job is helping borrowers see their dreams of a first home or a new home come to life. You see the excitement on their faces or hear it in their voices, and it’s wonderful. Working at TRB gives me the opportunity to lead our Mortgage Division to make sure we can help as many people as possible reach homeownership.”



**SHERRY HAWKINS**

Vice President  
Loan Servicing

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Experience: 36 years  
First Banking Position: Bookkeeping

“I find it very satisfying working with a customer who is having an issue and by the time we have the issue resolved they have a better understanding of TRB and they walk away happy. TRB empowers me to help our customers because it’s a community-focused bank.”



**FELICIA VILLARREAL**

Vice President  
Business Development

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Experience: 13 years  
First Banking Position: Drive Thru  
Teller

“Bringing people and resources together to make an impact in the communities we serve is a great responsibility. Texas Regional Bank is committed to helping others, and I am surrounded by a team who believes in what we stand for.”



**SYLVIA HUERTA**  
First Vice President  
Merchant Services Sales Manager

Experience: 31 years  
First Banking Position: Research Clerk

“Every day is a new opportunity to grow the merchant services department. There are thousands of potential businesses that need this service and lots of competition. Our ability to offer our business customers a range of services that includes merchant services gives us a competitive advantage.”



**ADRIANA MCELRATH**  
First Vice President  
Administration

Experience: 16 years  
First Banking Position: Human Resources Specialist

“I have the unique position of working with different departments on special projects and serving our shareholders. Driving shareholder value is key to our success. Motivating our team to be successful and supporting a culture that allows all ideas to be heard, so the best one wins, will continue to give TRB a competitive advantage.”



**RITA RIVAS**  
First Vice President  
Senior Financial Accounting Manager

Experience: 13 years  
First Banking Position: Senior Financial Accounting Manager

“The Finance Department may not interact directly with our customers, but we do impact all areas of TRB. I enjoy empowering my colleagues and educating them on how their responsibilities directly affect the workflow for departments and how that plays an integral part in the success of the Bank as a whole.”

“It’s all about the leadership of “the WOMEN you know”, that makes Texas Regional Bank a great place to work and grow professionally.”  
MICHAEL SCAIEF | CHAIRMAN OF THE BOARD



# CHIEF FINANCIAL OFFICER REPORT

LINCOLN TALBERT | CHIEF FINANCIAL OFFICER

## Asset Growth

In 2017, Texas Regional Bank continued to build its core assets and expanded the franchise into the Texas Hill Country. With the acquisition of Blanco National Bank, Texas Regional Bank acquired \$189.7 million. We ended the year at \$847.6 million in total assets, an increase of \$231.5 million, or 37.6% growth. We believe in controlled, profitable growth in line with our business model and creation of true and lasting relationships with the communities we serve. We focus continually on building our team with people you know and implementing the right controls to successfully expand the organization.

## Loan Growth

Loans continue to be the highest yielding investment for Texas Regional Bank. Growing the loan portfolio with quality assets is important for our continued success. In 2017, the loan portfolio reached \$484.6 million, an increase of \$140.4 million, or 40.8%, over the \$344.2 million reported as of December 31, 2017. We will continue to focus on complete banking relationships to build the core value of Texas Regional Bank and anticipate strong loan growth in the coming year.

## Net Income and Shareholder Value

Texas Regional Bank achieved excellent earnings results in 2017. We produced \$4.4 million in net income for the year, an increase of \$1.5 million over earnings in 2016. This 50.2% increase in earnings includes over \$1.5 million in one-time, extraordinary expenses incurred as a result of the Blanco National Bank acquisition. These improved earnings are a direct result of the strong loan growth mentioned above, continuing redeployment of very liquid and low-yielding investments into higher-yielding securities, and control over operating expenses. The securities portfolio grew from \$197.7 million in 2016 to \$248.9 million in 2017, a \$51.2 million, or 25.9% increase, while the average portfolio yield increased 11.56%. TRB also enhanced operational efficiencies in 2017, improving our efficiency ratio by 3.08%, despite the aforementioned expenses related to the BNB acquisition. Efficiency ratio is a measure of a bank's overhead relative to its revenue: the lower the ratio, the better. The total equity of Texas Regional Bank increased by \$40.9 million, or 77.3%, to \$93.7 million as a result of strong earnings, the acquisition of Blanco National Bank, and the successful capital raise completed in late 2017. The increased revenue from loan growth and higher-yielding investments, coupled with reduced expenses, added significant income to the bottom line.

The Board is intent on creating long-term shareholder value. We have invested in building infrastructure to support a sound organization and meaningful customer relationships. The result is a company owned by many not few, with tremendous momentum and solid franchise value. We look forward to additional milestones in 2018.

**Assets (in 000's)**

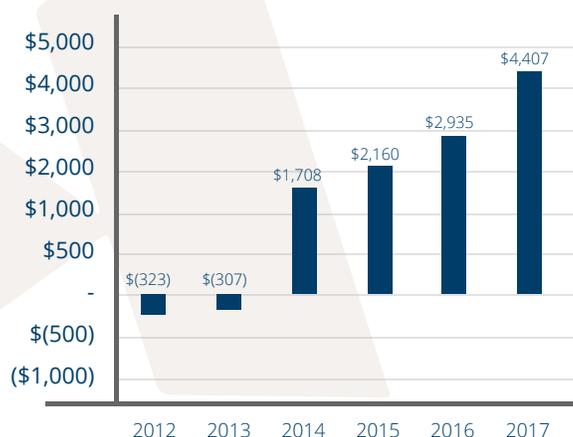

Texas Regional Bank ended the year with a capitalization level of 11.08%, which is excellent.

**Net Loans (in 000's)**


In the past year, Texas Regional Bank has increased net loans by \$140 million, resulting in 40.8% growth for the year.

**Deposits (in 000's)**


In the past year, Texas Regional Bank has increased its total deposits by \$189.5 million, resulting in 33.9% growth for the year.

**Net Income (in 000's)**


Texas Regional Bank ended the year with net income of \$4.4 million, a 50.2% increase over prior year.

(Dollars in Thousands)

	DEC-12	DEC-13	DEC-14	DEC-15	DEC-16	DEC-17
Assets	\$145,451	\$392,474	\$449,399	\$556,594	\$616,186	\$847,660
Net Loans	\$79,818	\$203,255	\$255,911	\$309,407	\$344,230	\$484,639
Deposits	\$123,653	\$342,118	\$396,576	\$503,002	\$559,570	\$749,720
Equity	\$21,667	\$46,590	\$49,187	\$50,795	\$52,225	\$93,738
Net Income	\$(323)	\$(307)	\$(1,708)	\$2,160	\$2,935	\$4,407
Loans to Assets	55%	52%	57%	56%	56%	57%
Loans to Deposits	65%	59%	65%	62%	62%	65%

The financial information above was derived from quarterly FFIEC Call Report filings to the Federal Reserve and is unaudited.

(Dollars in Thousands)

	2017	2016
<b>Assets</b>		
Cash and due from banks	\$ 33,025	\$ 18,550
Interest-bearing deposits in banks	22,125	12,809
Securities available for sale	245,301	194,981
Restricted investment securities	3,602	2,670
Loans - net of allowance for loan losses of \$3,788 (2,956 in 2015)	484,634	344,230
Premises and equipment - net	35,268	29,768
Accrued interest receivable	2,501	1,584
Intangible assets - net	11,283	2,939
Prepaid expenses and other assets	2,832	3,363
Cash surrender value of life insurance	5,187	5,180
<b>Total assets</b>	<b>845,758</b>	<b>616,074</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	238,650	155,341
Interest-bearing	506,273	397,121
<b>Total deposits</b>	<b>744,923</b>	<b>552,462</b>
Junior subordinated debenture	2,578	-
Federal Home Loan Bank borrowings	943	1,081
Notes Payable	19,010	-
Accrued interest payable and other liabilities	2,977	3,313
<b>Total liabilities</b>	<b>770,431</b>	<b>556,856</b>
Commitments and contingencies (notes 7 and 14)		
<b>Stockholders' Equity</b>		
Common stock - \$1 par value; 20,000,000 shares authorized; 5,640,483 shares issued, 5,289,162 shares outstanding (4,796,947 shares issued 4,781,518 share outstanding in 2016)	5,641	4,797
Surplus	73,345	53,212
Retained earnings	7,134	3,665
Treasury stock - 351,321 shares at cost	(8,370)	(309)
Accumulated other comprehensive income (loss)	(2,423)	(2,147)
<b>Total Stockholders' Equity</b>	<b>75,327</b>	<b>59,218</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 845,758</b>	<b>\$ 616,074</b>

(Dollars in Thousands)

	2017	2016
Interest income:		
Interest and fees on loans	\$ 25,807	\$ 19,100
Interest on investment securities	4,962	3,624
Interest on interest-bearing deposits in banks	397	157
	<hr/>	<hr/>
Total interest income	31,166	22,881
Interest expense	3,725	2,610
	<hr/>	<hr/>
Net interest income	27,441	20,271
Provision for loan losses	1,475	1,399
	<hr/>	<hr/>
Net interest income after provision for loan losses	25,966	18,872
	<hr/>	<hr/>
Noninterest income:		
Service charges and fees	3,538	2,063
Wealth management fees	2,734	2,316
Other	468	290
	<hr/>	<hr/>
Total noninterest income	6,740	4,669
Noninterest expenses:		
Salaries and employee benefits	15,641	11,400
Occupancy and equipment expenses	3,293	2,600
Other operating expenses	8,686	6,234
	<hr/>	<hr/>
Total noninterest expenses	27,620	20,234
	<hr/>	<hr/>
Income before federal income tax expense	5,086	3,307
Federal income tax expense	2,016	444
	<hr/>	<hr/>
Net income	\$ 3,070	\$ 2,863
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To the 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, 2017 and 2016; 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, 2017 and 2016, 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 9, 2018

\*Audited financial statements available to Shareholders upon request.

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Texas State Bankshares, Inc. and Subsidiary  
Consolidated Annual Financial Report  
December 31, 2017 and 2016

To request a copy of report, please contact Adriana McElrath:  
[amcelrath@texasregionalbank.com](mailto:amcelrath@texasregionalbank.com) | 956-972-5421



“We have had a close banking relationship with Blanco National Bank and now Texas Regional Bank since we started our farm in 1990. As we’ve grown, we’ve counted on TRB for the backing we’ve needed to build our business. From greenhouse construction, building and expanding our farm stand, or keeping our delivery fleet up to date, we’ve turned to TRB for support. TRB understands the nature of our business and supports agricultural operations in the local community. We consider that TRB is a real partner in our business. Thanks for being there”

- Frank & Pamela Arnoksy



**Mr. Charles Georg**  
Bulverde

**Mr. David Behrends**  
Blanco

**Mr. Eric Smith**  
Stonewall

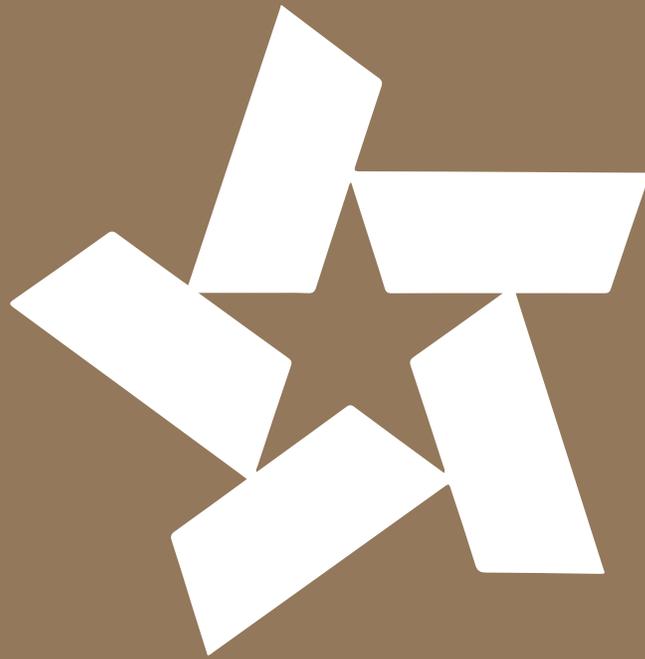
**Mr. John Calkins**  
Boerne

**Mr. Richard Harrell**  
Spring Branch

**Mrs. Wendy Reeh**  
Fredericksburg

**Mr. Bill Burnett**  
San Marcos

**Dr. Corey Carothers**  
San Marcos



**Mr. Jimmy Fife, Sr.**  
San Marcos

**Mr. Patrick Rose**  
San Marcos

**Mr. Ryan Thomason**  
San Marcos

**Mr. Derek George**  
Austin

**Mr. John Aouelle**  
Lakeway

**Mr. Kyndel Bennett**  
Austin

**Mr. Shane Watts**  
Driftwood

**SENIOR ADVISORY  
BOARD MEMBERS**  
HILL COUNTRY



"I have had the pleasure of working with Mark Tidwell for almost 20 years.... He was there in '98 when we needed our first fork lift and he was instrumental in our most recent brewhouse expansion project, pictured here.

It is nice to know that I can always count our small town bank to support our family business !"

- Chad Stoner

# LOOKING AHEAD

In 2016, the Board of Directors announced plans to construct a new Texas Regional Bank Headquarters. Building a corporate headquarters anchored by Texas Regional Bank has been a vision of the founders since the beginning. "Our goal was to be building a facility like this by 2020," said Michael Scaief, Chairman.

Work on the four-story building is expected to commence in the summer of 2017. It will be part of the large commercial development now underway at Stuart Place Road and I-2/Expressway 83 in Harlingen.

Our strong growth is driving the need for more office space and an additional banking center in Harlingen. The building's first floor will be devoted to a full-service bank with a drive-through. It also will feature a TRB Room, and Wealth Management and Mortgage offices. Offices on the second floor will house the TRB Marketing, Finance, Human Resources, and Credit departments, along with team members who provide essential services and redundancy for operating systems. The third floor will be lease space and the fourth floor will office Senior Management, serve the Board of Directors, and customers.





 **BOARD OF DIRECTORS**



 **SENIOR EXECUTIVE TEAM**

**Board of Directors**  
*(Above L to R)*

- Michael Fallek
- Bobby Farris
- Bill Elliff
- Tudor Uhlhorn
- Michael Scaief
- Brad Wolfe
- Paul Moxley
- Mark Richards
- Carlos Varela

**Senior Executive Team**  
*(Below L to R)*

- Brent Baldree - Chief Lending Officer
- Michael Scaief - Chariman
- Paul Moxley - CEO/President
- Michael Lamon - Chief Credit Officer

 **The People You Know**

## OPERATIONS

### Executive Vice President

Rolando Carrasco – Chief Compliance Officer  
Ronda Johnson – Chief Information Officer  
Lincoln Talbert – Chief Financial Officer

### Senior Vice President

Jane Jansen – Compliance  
Adalia Moreno – Senior Operations Officer/HR Director  
George Mukhar – Security & Central Operations Manager

### First Vice President

Belinda Cantu – BSA Officer  
Sylvia Huerta – Merchant Services Sales Manager  
Adriana McElrath – Administration  
Ricardo Morales – Branch Administration  
Rita Rivas – Senior Financial Accounting Manager

### Vice President

Nick Consiglio – Marketing Director  
Ramona Covey – Banking Center Operations Manager  
Diana Delaunay – Business Development  
Mary Espinoza – Electronic Banking Manager  
Penny Lieck – Teller Operations  
Nelda Rodriguez – Executive Assistant  
Jackie Russell- Texas Freedom Club Director  
Norma L. Trevino – Banking Center Operations Manager  
Felicia Villarreal – Business Development

### Assistant Vice President

Deborah Arfele – Central Operations Manager  
Judy Benson – New Accounts  
Kimberly Boren – Banking Center Operations Manager  
Roel J. Estringel – Accounting Analyst  
Sandra Lewis – Banking Center Operations Manager  
Lori Lopez – Banking Center Operations Manager  
Omar Rodriguez – IT Officer  
Yvette Vasquez – Banking Center Operations Manager

### Administrative Officer

Dina Alcantar – Banking Center Operations Manager  
Ana Garcia – Branch Administration  
Cathy Brown – Administrative Officer  
Amanda DeGraw – Branch Administration Field Operative  
Roel J. Estringel – Accounting Analyst  
Debby Finch – Executive Assistant  
Corina S. Garcia – New Accounts Representative  
Elizabeth M. Garcia – Teller Supervisor  
Meghann Howell – Banking Center Operations Manager  
Donna F. Martin – Teller Supervisor  
Felipe Ortiz – Banking Center Operations Manager  
Kevin Schach – Management Trainee  
Veronica Tarango – Branch Administration Field Operative  
Megan Weldon – Banking Center Operations Manager

## LENDING

### Executive Vice President

Randy McLelland – South Texas Senior Credit Officer  
Mark Tidwell – Blanco Market President

### Senior Vice President

Chris Callan – Fredericksburg Market President  
David DeStefano – Lakeway Market President  
Fred L. Garza – Edinburg Market President  
Margie Karst – Loan Administration  
Jason Leal – Hill Country Senior Credit Officer  
Anabel Navarro – Falfurrias Market President  
Michele Robinson – Harlingen Market President  
Carlos A. Rodriguez – Brownsville Market President  
Lance Spruiell – Hill Country Regional Market President  
Cesar Suarez – Mission Market President  
Jamie D. Whittemore – Loan Officer  
Mario Ysaguirre – Loan Officer

### First Vice President

Natalia Bury – Loan Officer  
Gaby Garza – Senior Credit Analyst  
Troy Gearhart – Loan Officer  
Elias Longoria – Loan Officer

### Vice President

Larry Todd Adams – Loan Officer  
Grant Buck – Loan Officer  
Rachelle Cisneros – Mortgage Services  
Diana De La Fuente – Lending Assistant  
Carlos Garza – Loan Officer  
Olivia Garza – Loan Officer  
Sherry Hawkins – Loan Servicing  
Jason R. Hendrix – Loan Officer  
Nora L. Koite – Lending Assistant  
Annette Salinas – Loan Officer  
Laura Villarreal – Loan Officer

### Assistant Vice President

Jessica Adame – Credit Analyst  
Olivia Contreras – Lending Assistant  
Laura Elizondo – Software & Project Specialist  
Micaela Garcia – Lending Assistant  
Jake Mann – Loan Officer  
Janie Martinez – Lending Assistant  
Tayde Miller – Lending Assistant  
Margarita Rebollar – Lending Assistant

### Administrative Officer

Nydia Bravo – Collateral Management Officer  
Danielle Horna – Lending Assistant  
Hilda Lazo – Lending Assistant  
Miriam Lozano – Lending Assistant

### Loan Officer

Bertha De La Garza – Mortgage Loan Officer  
Robert Donalson – Loan Officer  
Stephany Price – Mortgage Loan Officer  
Robert J. Smith – Loan Officer  
Chris Villarreal – Loan Officer



**TEXAS REGIONAL BANK**  
**2017 ANNUAL REPORT**