

TEXAS REGIONAL BANK

**2015**

ANNUAL  
REPORT



SOUTH PADRE ISLAND SUNSET

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## MESSAGE FROM THE CHAIRMAN

MICHAEL SCAIEF | CHAIRMAN



### DEAR SHAREHOLDERS,

During our sixth year of operations, Texas Regional Bank continued to deliver growth in earnings, assets, and market share. In 2010 our bank was the smallest financial institution in our South Texas peer market. Today, out of sixteen commercial banks in the same markets, TRB is fourth in asset market share, and ranks above the 90th percentile in growth among our peer group of banks across the nation. As we always say, it's all about The People You Know including our broad shareholder base, dedicated board members, and a talented team of 150+ employees who are among the finest in the industry.

#### Growth and Revenue

In 2015 the bank focused on refining internal operations and acquiring new customers, with tremendous success. Michael Lamon in Bank Operations and Randy McLelland in Central Lending Operations spent much of the year re-engineering processes to improve efficiencies, while Brent Baldree was full throttle on client growth. Net results delivered relatively flat overhead expenses and a 24% growth in assets. Total assets grew an average of \$105 million, including 21% growth in loans funded by \$107 million in new deposits. Net revenue increased 29% to \$2.187 million for 2015, which included in excess of \$1 million the bank expensed to build reserves.

#### New Markets

In September, we opened our Weslaco location on the corner of Westgate and Panther Drives. Lincoln Talbert leads the Weslaco team as Market President. In six months of operations, Weslaco has gathered in excess of \$6 million in deposits and \$4 million in loans and generally ranks near the top in weekly account acquisitions.

In 2016 we are focused on expanding our Edinburg presence and will break ground late in the year on our Harlingen Banking and Corporate facility on Stuart Place Road.



# The People

### Building the Team

We could not be more pleased with the continued development of the TRB team and the ongoing refinement of policies, procedures, and processes. In 2015 we completed our first full scale examination by the Federal Reserve. This process, which began in October and finished in February, involved every TRB division. The successful result confirms our position and allows the bank to move forward with its strategic plans.

A special thanks to these division leaders for their preparation and execution of a successful exam: Paul Moxley, President & CEO; Brent Baldree, Chief Lending Officer; Michael Lamon, Chief Operations Officer; Mark Ramirez, Chief Financial Officer; Randy McLelland, Chief Credit Officer; and Ronda Johnson, Chief Information Officer. Rolando Carrasco, Chief Compliance Officer, did an outstanding job in leading the exam and has become an invaluable asset to the TRB organization.

### Community and Culture

Much of our success is due to a commitment to the communities in which we operate and a strong corporate culture that encourages involvement. Throughout this report are examples of the enthusiasm our team has for volunteer service. When there is a need, Texas Regional Bank shows up in force to support civic causes of all kinds. It's yet another way in which The People You Know are helping to build stronger communities.

### Looking Ahead

Every year brings new opportunities, and 2015 was no exception. Some opportunities we passed on and others we have embraced. At Texas Regional Bank we will continue to scan the horizon for opportunities that enhance shareholder value, build the TRB footprint in the Valley and other markets, and establish new products and divisions that build a strong, efficient, and profitable integrated financial services company.

Thank you for your continued support of and confidence in Texas Regional Bank!

# People You Know

## 2015 GROWTH

Assets  
**24%**  
Growth

Loans  
**21%**  
Growth

Revenue  
**29%**  
Growth

Assets  
**\$556**  
million

Loan Portfolio  
**\$313**  
million

Volunteer Hours  
**4,000**



At the start of 2015, our goal was to be the bank of choice in relationship banking. Since then, the culture within the bank has reflected our growing brand within South Texas. In addition to our excellent lending team and banking group, we now have a dedicated sales team to focus on providing ancillary solutions to both commercial and retail customers.

Merchant Services, led by Sylvia Huerta, has increased our processing volume by 38% over the past year. Our commercial lenders and banking center operation specialists together identify opportunities within each market and provide quality customer service.

Spearheaded by Beverly Speer and John Booth, the Public Funds Division launched in the latter part of 2015. Their expertise in the public funds market was a great contribution to the overall deposit growth of Texas Regional Bank. Through this initiative, we plan to be active in supporting various public entities throughout the Valley and South Texas.

The Texas Freedom Club, led by Jackie Russell, has established a presence in each of our markets. This specialty product for individuals 50 and over offers an interest-bearing checking account and specific discounts for other TRB products and services.

Our Business Development Officer, Felicia Villarreal, rolled out our volunteer program in 2012. She has seen an increase both in requests for TRB volunteers as well as employee philanthropy. The TRB brand continues to grow within South Texas with the help of our employees, who logged more than 4,000 volunteer hours in 2015. Additionally, we supported over 250 not-for-profit organizations that reinvested funds to help low-to-moderate-income families in the communities we serve.

In 2015, we also introduced healthcare and non-profit products. We now offer a variety of accounts to fit the needs of both employers and employees within these respective industries. We have continuously grown our brand throughout the Rio Grande Valley. In mid-2015, we started the Connect Banking Workplace Solutions program. This program is designed to take the bank into businesses and offer innovative products to assist them and their employees.

Texas Regional Bank recently developed the TRB Room, a comfortable lobby environment that exudes warmth and offers a personal setting for customers. We continue to host mixers in our banks for the business community, providing opportunities for networking and sharing ideas on a personal level.

We continually strive to be the bank of choice in relationship banking. With the help of our team, we continue to fortify our call-program and pipeline. Working with market presidents and commercial lenders, our dedicated sales team creates a reliable banking relationship for our clients within South Texas.



## Senior Advisory Board Members

**Alan Johnson**  
Consulting

**Alberto Vega**  
Funeral Services

**Andy Browder**  
Telecommunications

**Bill Conner**  
Industrial Equipment & Supplies

**Bill Youngblood**  
Agriculture

**Bob Boggus**  
Automobile Dealership

**Bob Shepard**  
Insurance Services

**Bryan Burke**  
Accounting

**Claude "Sonny" Hildreth**  
Private Investigation & Consulting

**Charles Marina**  
Real Estate Investments

**David Garza**  
Pharmaceuticals

**Don "D.J." Johnson**  
Automobile Dealership

**Ephraim Flores**  
Software Development

**Fred Del Barrio, Jr.**  
Restaurant Industry

**Jane Burkholder**  
Insurance Services

**Jane Hardison**  
Real Estate Investments

**Hector M. Rivera**  
Business & Tax Services

Texas Regional Bank stands out because of our service-focused approach to banking. We succeed when our customers succeed. We leveraged our proven stability, sound banking, and competitive products and services to help our customers reach their goals. This past year, Connect Banking service was introduced and the TRB Room concept was introduced in two of our banking centers.

Meeting the needs of the market is an ongoing part of offering banking services and products. In 2015 we developed two new products designed for specific target markets. The new products - Healthcare Banking and Non-Profit Banking Solutions - are innovative offerings created specifically to help those who help their communities.



L to R: Jackie Russell, Sylvia Huerta, Paul Moxley, Felicia Villarreal, Beverly Speer

 **TRB ROOM**

It wasn't long ago that banks were built to reflect the strength of the bank which was a direct reflection on the communities they served. Strong banks, strong communities. Texas Regional Bank continues this banking tradition with the development of the TRB Room. The TRB Room has become an office away from the office. With computer workstations, complimentary WI-FI access, TV, and coffee, it's quickly replacing the need to go to a coffee shop to get work done. The TRB Room is a space where customers can work comfortably on the go and conduct essential banking tasks.



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

Connect Banking was developed for our business customers as a means to provide convenient access to banking solutions for themselves and their employees. When it comes to the work place, our team will meet face-to-face with employees to help provide financial solutions to meet their needs and give them an opportunity to start a banking relationship. As part of the Connect Banking program, TRB waives minimum opening deposits and helps employees enroll in direct deposit. "This is one of those win-win-win solutions that works for business owners, their employees, and TRB," said Paul Moxley, CEO of Texas Regional Bank.

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

The healthcare industry plays a major role in the local economy and improves the lives of the people in our communities. In order to grow our business with this market segment, we developed Healthcare Banking Accounts. There are two accounts available, one business and one personal, that offer great features with no monthly service fees. Our goal is to grow our market share within the healthcare community by offering great products and superior customer service.

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

We also designed two bank accounts to meet the needs of local non-profits and small community organizations. We already commit thousands of volunteer hours to our communities. The next step was to offer a banking relationship that provided these organizations with no monthly fees and reduced service fees. Local non-profits do so much, and this is another way we can help them meet their goals.



# COMMUNITY GIVING YOU CAN BANK ON



Texas Regional Bank continues to grow its footprint within South Texas. Along with growth comes responsibility and a commitment to give back to the communities we have the privilege to serve through volunteerism, leadership, and community investment.

During 2015, the Texas Regional Bank team logged over 4,000 volunteer hours in all four counties of our service area, from assisting at local festivals and fundraisers to distributing meals to needy families. This included participating in 45 different events as well as serving in leadership roles as members, officers and directors of various community organizations.

In 2015, we also made charitable contributions to more than 250 organizations and non-profits working to build a brighter future for those in our service areas. We emphasize investments in areas of education and the arts, agriculture, neighborhood stabilization, community revitalization, economic development, financial literacy and affordable housing. We look to strengthen and lengthen our philanthropy and volunteer service during 2016.

**THE PEOPLE YOU KNOW  
HELPING  
PEOPLE IN OUR COMMUNITIES**



South Texas is our home. We are proud to be from and part of the cities and towns that make this region one-of-a-kind. We like to celebrate the business community by bringing friends, customers, employees, investors, and community leaders together at hosted events that people truly enjoy attending.

“These events keep us engaged with our shareholders, customers, and communities,” said Michael Scaief, Chairman of the Board. “We have a strong brand promise that we are proud to be from South Texas and that we are interested not just in account growth but relationship banking that helps everyone succeed.”



WESLACO GRAND OPENING



WESLACO GROUND BREAKING



FALFURRIAS MIXER



FALFURRIAS MIXER



TRB COMPANY PICNIC



FALFURRIAS MIXER



WESLACO GROUND BREAKING



TRB KIDS CHRISTMAS PARTY



WESLACO GRAND OPENING



WESLACO GRAND OPENING



WESLACO GRAND OPENING

### Asset Growth

In 2015, Texas Regional Bank continued to focus on building its core assets by developing meaningful relationships and expanding the footprint of the organization. We ended the year at \$556.3 million in total assets, an increase of \$107.4 million or 23.9% growth over 2014. We believe in controlled profitable growth that makes sense for our business model and creation of true and lasting relationships with the people who live in our communities. As we continue to grow, we focus on building a team of the people you know and putting the right controls in place to 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. Fortunately, we were able to realize excellent growth in 2015, with the loan portfolio reaching \$309.3 million by December 31, 2015, a \$53.5 million or 20.9% increase from December 31, 2014. During the year, Texas Regional Bank increased its lending staff by adding seasoned loan officers and additional back-room staff to handle the increased volume. We anticipate even stronger loan growth this year and will continue to focus on small businesses and complete banking relationships that will build the core value of Texas Regional Bank.



L to R: Rutha Drawe, Mark Ramirez, Rosie Castillo

### Net Income and Shareholder Value

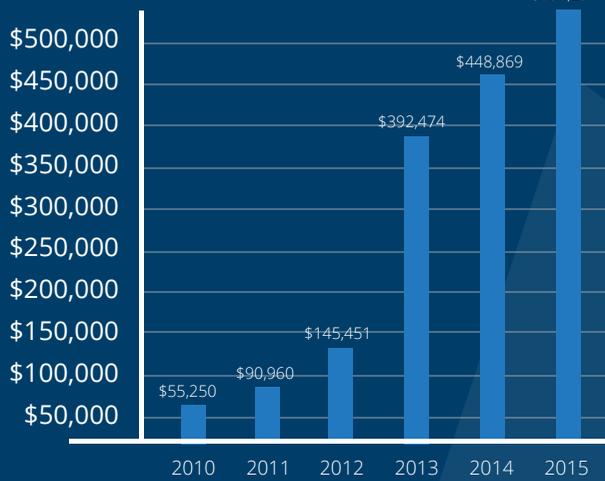
In 2015, Texas Regional Bank achieved record net income. Net income grew by over \$452 thousand, increasing from \$1.7 million in 2014 to net income of \$2.2 million in 2015. The improved earnings are a direct result of the strong loan growth mentioned above, the redeployment of very liquid and low-yielding investments into higher yielding securities, and control over operating expenses. The securities portfolio grew from \$132.3 million in 2014 to \$171.3 million in 2015, a \$39.0 million or 29.5% increase. In addition, in 2015, Texas Regional Bank enhanced operational efficiencies, improving the efficiency ratio by 2.68%. A bank's efficiency ratio is a measure of overhead as a percentage of its revenue. The lower the ratio, the better. The increased revenue from loan growth and higher yielding investments, coupled with reduced expenses, added significant income to the bottom line.

The Board has been focused on creating long-term shareholder value. We have invested in building infrastructure to support a sound organization and develop the critical mass necessary to support meaningful customer relationships. The result is a company owned by many not few, with tremendous momentum and solid franchise value. We hope to have a similar story to tell in 2016!



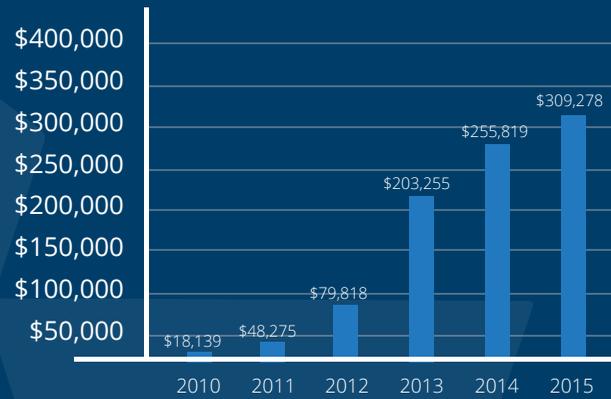
# FINANCIAL HIGHLIGHTS FOR TEXAS REGIONAL BANK

## Assets (in 000's)



Texas Regional Bank ended the year with a capitalization level of 9.13%, which is excellent.

## Net Loans (in 000's)



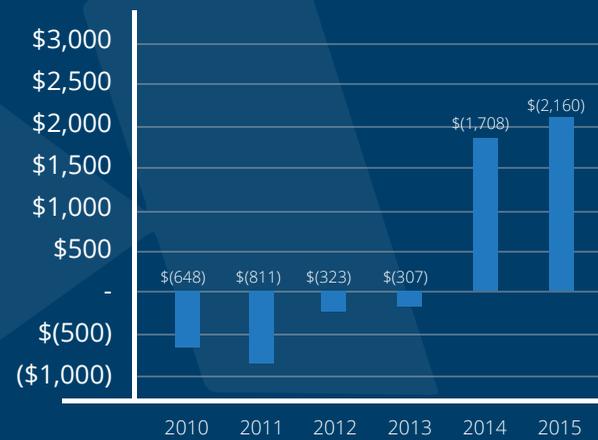
In the past year, Texas Regional Bank has increased net loans by \$53.5 million, resulting in 20.9% growth for the year.

## Deposits (in 000's)



In the past year, Texas Regional Bank has increased its total deposits by \$106.3 million, resulting in 26.8% growth for the year.

## Net Income (in 000's)



Texas Regional Bank ended the year with net income of \$2.2 million, a 26.5% increase over prior year.

	DEC-10	DEC-11	DEC-12	DEC-13	DEC-14	DEC-15
Assets	\$55,250	\$90,960	\$145,451	\$392,474	\$448,869	\$556,290
Net Loans	\$18,139	\$48,275	\$79,818	\$203,255	\$255,819	\$309,278
Deposits	\$33,115	\$68,720	\$123,653	\$342,118	\$396,576	\$502,829
Equity	\$21,892	\$21,946	\$21,667	\$46,590	\$49,208	\$50,794
Net Income	\$(648)	\$(811)	\$(323)	\$(307)	\$1,708	\$2,160
Loans to Assets	33%	53%	55%	52%	57%	56%
Loans to Deposits	55%	70%	65%	59%	65%	62%

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


**BALANCE SHEET FOR TEXAS REGIONAL BANK**

(Dollars in Thousands)

	2015	2014
<b>Assets</b>		
Cash and due from banks	\$ 25,740	\$ 19,038
Interest-bearing deposits in banks	8,741	5,278
Securities available for sale	169,469	130,292
Restricted investment securities	1,807	1,990
Loans - net of allowance for loan losses	309,278	255,819
Premises and equipment - net	29,671	25,891
Accrued interest receivable	1,491	1,260
Intangible assets - net	3,147	3,390
Prepaid expenses and other assets	1,903	1,008
Cash surrender value of life insurance	5,043	4,903
<b>Total Assets</b>	<b>556,290</b>	<b>448,869</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	141,281	118,717
Interest-bearing	361,548	277,859
Total deposits	502,829	396,576
Federal Home Loan Bank borrowings	1,213	1,339
Accrued interest payable and other liabilities	1,454	1,746
Total Liabilities	505,496	399,661
<b>Equity</b>		
Common stock	600	600
Surplus	48,937	48,829
Retained earnings	1,754	(386)
Accumulated other comprehensive income	(497)	165
Total Equity	50,794	49,208
<b>Total Liabilities and Equity</b>	<b>\$ 556,290</b>	<b>\$ 448,869</b>



# INCOME STATEMENT FOR TEXAS REGIONAL BANK

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
Interest income:		
Interest and fees on loans	\$ 16,125	\$ 14,138
Interest on investment securities	2,701	1,933
Interest on interest-bearing deposits in banks	<u>132</u>	<u>103</u>
Total interest income	18,958	16,174
Interest expense	<u>2,071</u>	<u>1,904</u>
Net interest income	16,887	14,270
Provision for loan losses	<u>1,082</u>	<u>460</u>
Net interest income after provision for loan losses	<u>15,805</u>	<u>13,810</u>
Total noninterest income - service charges, fees, and other	<u>4,951</u>	<u>3,797</u>
Noninterest expenses:		
Salaries and employee benefits	11,075	9,443
Occupancy and equipment expenses	2,128	1,990
Other operating expenses	<u>4,768</u>	<u>4,083</u>
Total noninterest expenses	<u>17,971</u>	<u>15,516</u>
Income before federal income tax expense	2,785	2,091
Federal income tax expense	<u>625</u>	<u>383</u>
Net income	<u>\$ 2,160</u>	<u>\$ 1,708</u>



To the Audit Committee:

## **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Texas State Bankshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas State Bankshares, Inc. and its subsidiary as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Padgett, Statemann + Co., L.L.P.*

Austin, Texas  
April 11, 2016

\*Audited financial statements available to Shareholders upon request.

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Texas State Bankshares, Inc. and Subsidiary  
Consolidated Annual Financial Report  
December 31, 2015 and 2014

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



 **COO TEAM**

L to R: Omar Rodriguez, Ronda Johnson, Michael Lamon, George Mukhar, Sylvia Shives

Texas Regional Bank Operations made great strides in 2015 with a focus on efficiencies, product development, improved service, and delivery of the technology expected in today's financial sector. We are proud of the changes we have made by department but strive to further improve the delivery of service to our clients through the continuous development of staff, process re-engineering, and electronic channels.

In 2015, we turned five, grew deposits by 26%, ended the year with over \$500,000,000 in deposits, and continued our version of bank transformation with the opening of Weslaco, our ninth banking center. Our lobbies continue to be refined into environments that meet client expectations. As clients request a more self-service approach to banking, we must be able to deliver this technology effectively and efficiently.

Our branch concierge offers a universal banker to address your needs, or you may choose the TRB Room that offers the privacy and technology to complete your banking at your pace. We must be able to react quickly to the more complex requests made in person but be innovative to service other customers wherever they may be.

The banking industry is not without its major challenges. We continue to face greater regulatory burden, cybersecurity risks, increased competition, and margin compression. We must continue to be proactive in our approach as we enhance customer relationships, deliver mobility, understand and leverage our data, manage risk, and reduce our delivery costs. Gone are the days of doing things because we have always done them that way. We must re-engineer our processes, invest in technology, and develop our employees in order to differentiate ourselves from others.

We remain committed to our vision and core values as we strive to outperform our own expectations, those of our customers, and those of our shareholders.

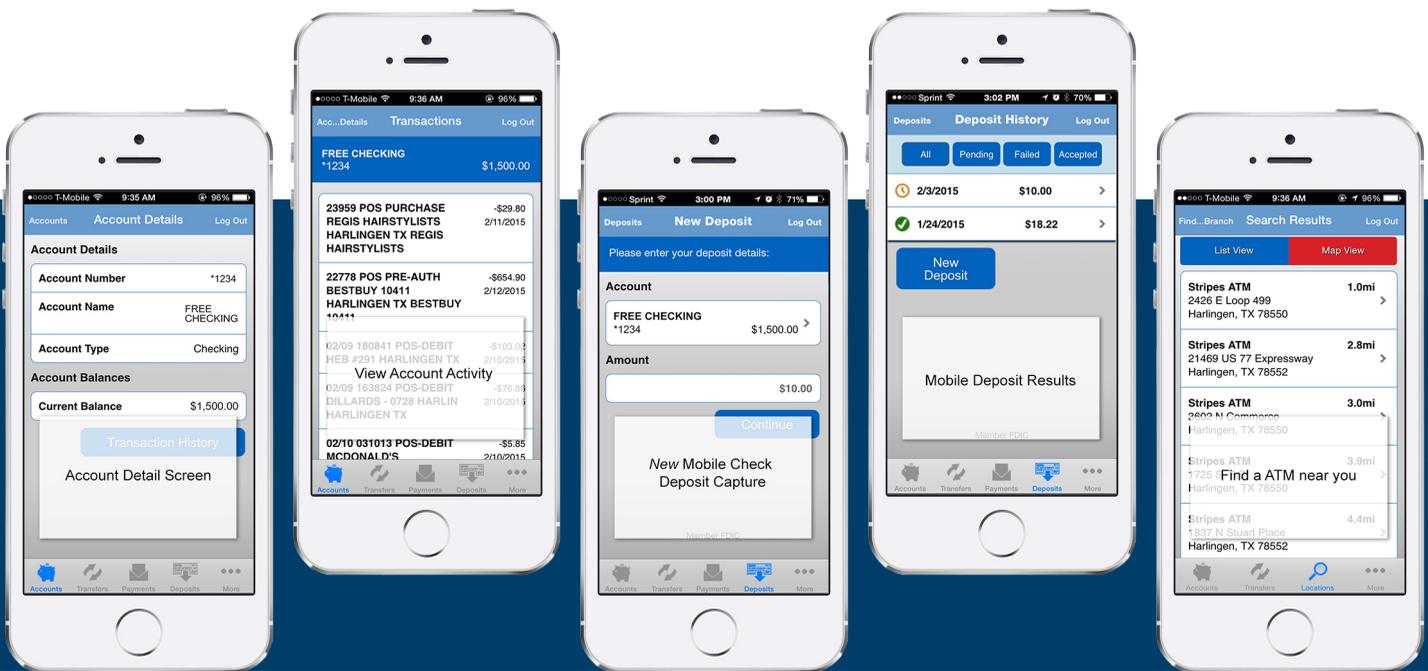
**“ GONE ARE THE DAYS OF DOING THINGS BECAUSE WE HAVE ALWAYS DONE THEM THAT WAY. ”**

# TEXT ALERT, MOBILE DEPOSIT & UPDATED MOBILE INTERFACE WERE DEPLOYED IN 2015



TEXT ALERT

MOBILE DEPOSIT



UPDATED MOBILE INTERFACE



L to R: Natalia Bury, Gaby Garza, Brent Baldree, Margie Karst, Randy McLelland

Over the past few years, one of our goals has been to increase our market presence. As a new bank in the area, we are exceeding our peer groups well beyond both what we had planned and what we expected. We finished out the loan portfolio for Texas Regional Bank at \$313 million in 2015, a 21% increase from the previous year. This is another year of double digit growth, well above peer.

Understanding that each market TRB serves is unique, we have lenders with ties to each community in which they focus. Brownsville, McAllen, and Mission all finished out 2015 at the top of the lending portfolio for Texas Regional Bank, each with their respective areas of focus and growth. Brownsville's two lenders, Carlos Rodriguez and Carlos Garza, led the pack with an increase of 49% from the prior year. McAllen, our largest served market, finished the year with 14% growth, while Mission far exceeded its first full year projections.

As we grow our footprint within existing markets, we have enhanced our roster of players in several locations. In early 2016, we promoted Michele Robinson, a senior lender, to manage the Harlingen Market and promoted Anabel Navarro to Falfurrias Market President. Both lenders are native to their respective markets, have taken on their new roles with enthusiasm, and have a strong team of individuals to help them reach the goals set for 2016.

In McAllen and Edinburg, some senior lenders were repositioned to support our increasing presence within these growing markets. Mario Ysaguirre, Senior Vice President, has moved his portfolio to the North McAllen banking center, providing that location with three strong commercial lenders. Fred Garza was promoted to Edinburg Market President, giving that market two strong senior commercial lenders.

With the movement of commercial lenders throughout McAllen, we made an addition to the South McColl location. Joel Gonzalez, with 28 years of experience and roots within the Pharr market, was brought on at the start of 2016. We expect Joel to broaden our brand within the South McAllen and PSJA markets.

**“ UNDERSTANDING THAT EACH MARKET TRB SERVES IS UNIQUE, WE HAVE LENDERS WITH TIES TO EACH COMMUNITY IN WHICH THEY FOCUS.”**

Our newest location opened its doors on October 12, 2015 and features a team of veteran bankers who are familiar with the Mid-Valley Market. They have completed their first two quarters of operation above expectations. Lincoln Talbert continues to lead the efforts for the Mid-Valley out of our Weslaco Banking Center.

The loan increase we experienced in 2015 is also due to the hard work of our loan operations team behind the scenes. The backbone of our growth and strength is the part you don't see every day. Our focus in 2015 was to build efficiencies within our loan operations area. We made several transitions, which placed many veteran bankers as the leads for loan operations.

Additionally, the Texas Regional Bank credit team is made up of a group of analysts who have worked together for many years and can understand the functionality behind each request. The combined tenure and experience of both teams should result in increased productivity in 2016.

We have already begun strategically identifying opportunities in the community where we can strengthen existing relationships and create new ones.

Simultaneously, we will enhance internal operations to reduce turnaround time and increase customer satisfaction. Lastly, we will continue hiring and retaining the best lending talent in South Texas.

“ OUR FOCUS IN 2015 WAS TO BUILD EFFICIENCIES WITHIN OUR LOAN OPERATIONS AREA. WE MADE SEVERAL TRANSITIONS, WHICH PLACED MANY VETERAN BANKERS AS THE LEADS FOR LOAN OPERATIONS. ”



L to R: Carlos Rodriguez, Lincoln Talbert, Cesar Suarez, Brent Baldree, Michelle Robinson, Paul Moxley, Michael Lamon, Anabel Navarro, Fred Garza, Curtis Brockman Jr.



L to R: Rick Garcia, Hortencia Villarreal, David Estes, Bobby Farris, Sal Garcia, Juan Garcia, Irma Murray

There is no greater cause of confusion to the small investor than the difference between the health of the economy and stock returns. It's natural to assume that when the economy is in good shape, future stock returns will be high, and vice versa. In fact, the exact opposite is true.

Market history shows that when there's economic blue sky, future returns are low, and when the economy is on the skids, future returns are high. That is why staying invested can be profitable even if highly counterintuitive.

Does the ability to recognize excessive market optimism or pessimism mean that you can time the market? No, it does not. Rather, you should use your knowledge of financial history simply as an emotional stabilizer to prevent you from going all-in to the market when everyone is euphoric and selling your shares when the world seems headed for disaster.

At Texas Regional Bank, we don't believe in trying to beat the market to achieve your financial goals. Trying to beat the market is a huge distraction from the mission of building wealth, and it lowers the probability of reaching that objective.

Our investment philosophy is simple. We believe capital markets work, if you are fully invested at all times in the proper asset allocation. We invest for market-based returns, reduce risk through global diversification, and keep costs to a minimum.

Successful investing hinges on three key elements: Our portfolios are the best in modern portfolio theory, optimizing expected returns for the amount of risk you want to take. Because small-cap value stocks don't always move in tandem with large-cap growth stocks, owning the whole market reduces the risk involved with owning only one asset class. Our portfolios also have the lowest fees around and provide yet another bonus: extreme tax efficiency.

Wealth management is all about having money, which is of course the end game of investing. Having money allows us to worry less about money, gives us the freedom to pursue our passions, and can buy us time with friends and family – all of which help improve our lives and boost our happiness.

As a fiduciary, we always put our clients' interests first. We want to help you meet your wealth and estate planning goals and look forward to meeting and discussing those with you soon.

## Senior Advisory Board Members

**Keith Padilla**  
Insurance Services

**John D. Guevara**  
Legal Services

**Jimmy Garza**  
Produce Distribution

**John Cowen**  
Import/Export

**Jose E. Garcia**  
Produce Distribution

**Kalim Habet, M.D.**  
Medical

**Lance Neuhaus**  
Agriculture Equipment  
& Supplies

**Lawrence "Chip" Gift**  
Financial Investments

**Mary Lou Ray**  
Legal Services

**Michael Moore**  
Legal Services

**Mike McLarty**  
Insurance Services

**Mike Murphy**  
Pharmaceuticals

**Pat Kornegay**  
Aviation

**Reba Cardenas McNair**  
Real Estate Development

**Rolando Gonzalez**  
Real Estate Investments

**Tony Falcon, M.D.**  
Medical

**Wendell Johnson**  
Real Estate Investments

**HARLINGEN IWO JIMA MEMORIAL**



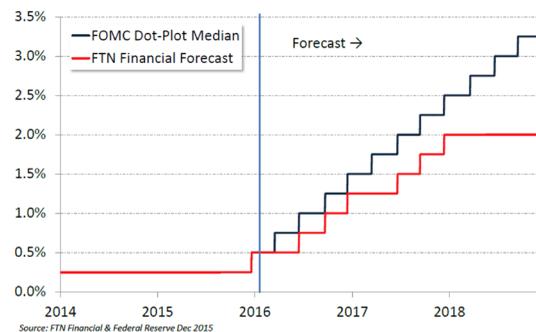
# Regional Economic Update

The Texas economy continued its modest growth through the end of 2015, even as the near-term outlook dimmed. The Texas service sector was the brightly shining light while the manufacturing sector saw persistent softness in 2015. The service sector employment rate points to sustained moderate growth in services, which make up about three-quarters of the state economy. The state's unemployment rate ticked up for the fourth consecutive month in December. The employment growth forecast for 2016 currently stands at 1.1%, 0.4 percentage points below 2015's growth and 2.5 percentage points below 2014's. Overall, there was a gradual downshifting in economic growth over the course of 2015. While no one would predict a recession in Texas at this time, growth has taken a noticeable dip in recent months, consistent with the negative state economic impact of lower energy prices.

Overall 2015 was marked by significant moves in the capital markets, especially commodity and currency markets. Oil's drop of 40% for the year and the US dollar's rise of 9.9% were just part of the story. China's stock market volatility escalated over the summer months, and US markets saw their first correction since 2011 with a drop of 12% from peak to trough. After two consecutive years of double-digit returns as measured by the S&P 500, returns in 2015 were at 0.73%. The markets' first correction in nearly four years was spurred by economic concerns with China as well as uncertainty about domestic earnings and revenue growth. 2015 marked real GDP growth of 2.1%, virtually unchanged from 2014. The decline in the unemployment rate in the US continues to act as a pillar of strength and optimism for our economy. Low energy prices will continue to help consumers. As widely anticipated, the Federal Open Market Committee decided to raise the federal funds target by 0.25% at its meeting in December. While modest, this increase after seven years of near zero rates, is a vote of confidence in the resiliency and sustainability of the current economic expansion. Forecasts anticipate that they will continue to raise rates into 2016. The Fed noted that rate hikes will be data dependent, but excitement should abound in 2016 as we head into a presidential election year.

Interest rates in 2015 continued to flatten as market participants believe economic indicators are sending mixed signals. We saw interest rates rise on the short end of the curve as investors anticipated additional Fed tightening, while longer term rates actually decreased as inflation remains subdued from lower commodity prices. Stock markets will continue to remain volatile in 2016 with global uncertainty and unrest as well as domestic economic concerns. Stay well diversified and focused on long term fundamentals.

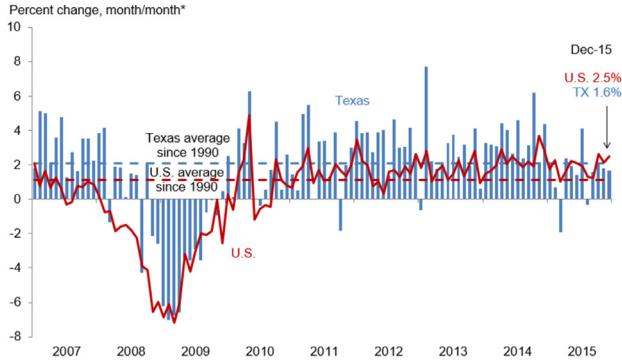
**Federal Funds Rate**



### Texas Monthly Job Growth Trails Nations

Overall job growth for the state was 1.5 percent in 2015 (December over December), less than half the 3.6 percent rate seen in 2014.

**Texas Monthly Job Growth Trails Nation**

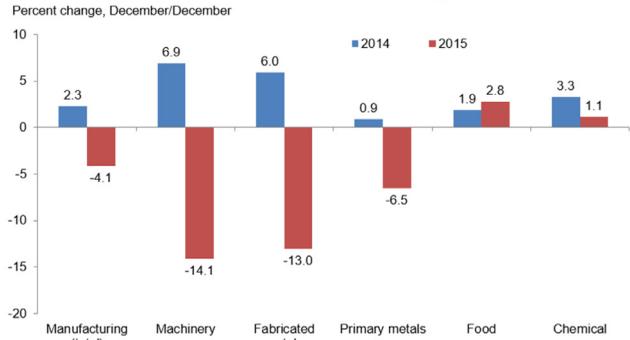


\*Seasonally adjusted, annualized rate.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

### Manufacturing Employment in Industries Tied to Energy Suffer the Most

Breaking manufacturing out by some of its subsectors shows that nondurable goods manufacturing fared better than durable goods—such as primary metals, fabricated metals and machinery manufacturing.

**Manufacturing Employment in Industries Tied to Energy Suffer the Most**

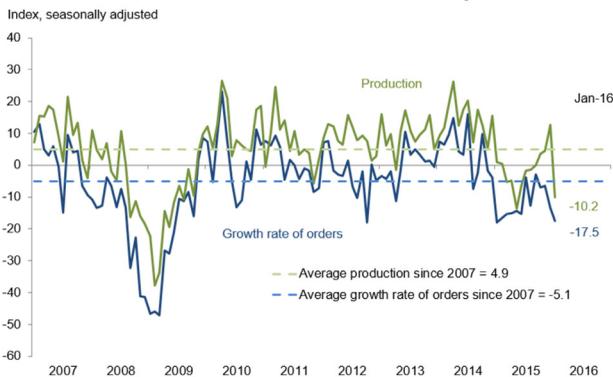


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

### TMOS Production & Order Growth Indexes Fall in January

TMOS production index plummeted 23 points to -10.2 in January, while the growth rate of orders remained in negative territory, where it has been since November 2014.

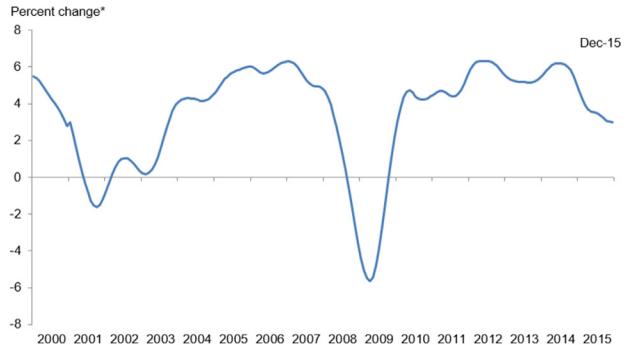
**TMOS Production and Order Growth Indexes Fall in January**



SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS).

### Texas Business-Cycle Index Remains Positive but Illustrates Downshifting to More Modest Growth

**Texas Business-Cycle Index Remains Positive but Illustrates Downshifting to More Modest Growth**



\*Annualized rate.  
SOURCE: Federal Reserve Bank of Dallas.



Our marketing plan in 2015 was to connect TRB with families and businesses who love this region as much as we do. We celebrated the many sights, sounds, and flavors that make the people, places, and events of South Texas special.



**WEBSITE UPDATE**



**PRODUCT & SERVICES BROCHURES**



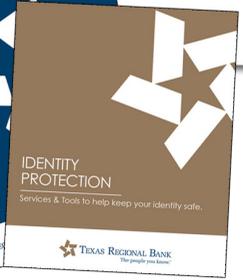
**LOBBY DIGITAL SIGNAGE**



**TELEVISION COMMERCIALS**



**PRINT ADS**





L to R: Michael Fallek, Bobby Farris, Bill Elliff, Tudor Uhlhorn, Michael Scaief, Brad Wolfe, Paul Moxley, Mark Richards, Carlos Valera

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Ronda Johnson - Chief Information Officer

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Sylvia Shives - Senior Branch Administration Officer

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Ricardo Morales - Branch Administration  
Sylvia Huerta - Merchant Services Sales Manager

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Nick Consiglio - Marketing Director  
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Roslinda Castillo - Finance Accounting  
Sandra Lewis - Banking Center Operations Manager  
Teresa E. Miller - Lobby Services  
Yvette Vasquez - Banking Center Operations Manager

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Donna F. Martin - Teller Supervisor  
Kevin Schach - Teller Supervisor  
Lori Lopez - Banking Center Operations Manager  
Roel J. Estringel - Accounting Analyst





L to R: Brent Baldree, Michael Scaief, Paul Moxley, Mark Ramirez, Michael Lamon

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Curtis Brockman - Senior Loan Officer

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Natalia Bury - Collateral Management  
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Diana De La Fuente - Lending Assistant  
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People You Know



**TEXAS REGIONAL BANK**  
**2015 ANNUAL REPORT**