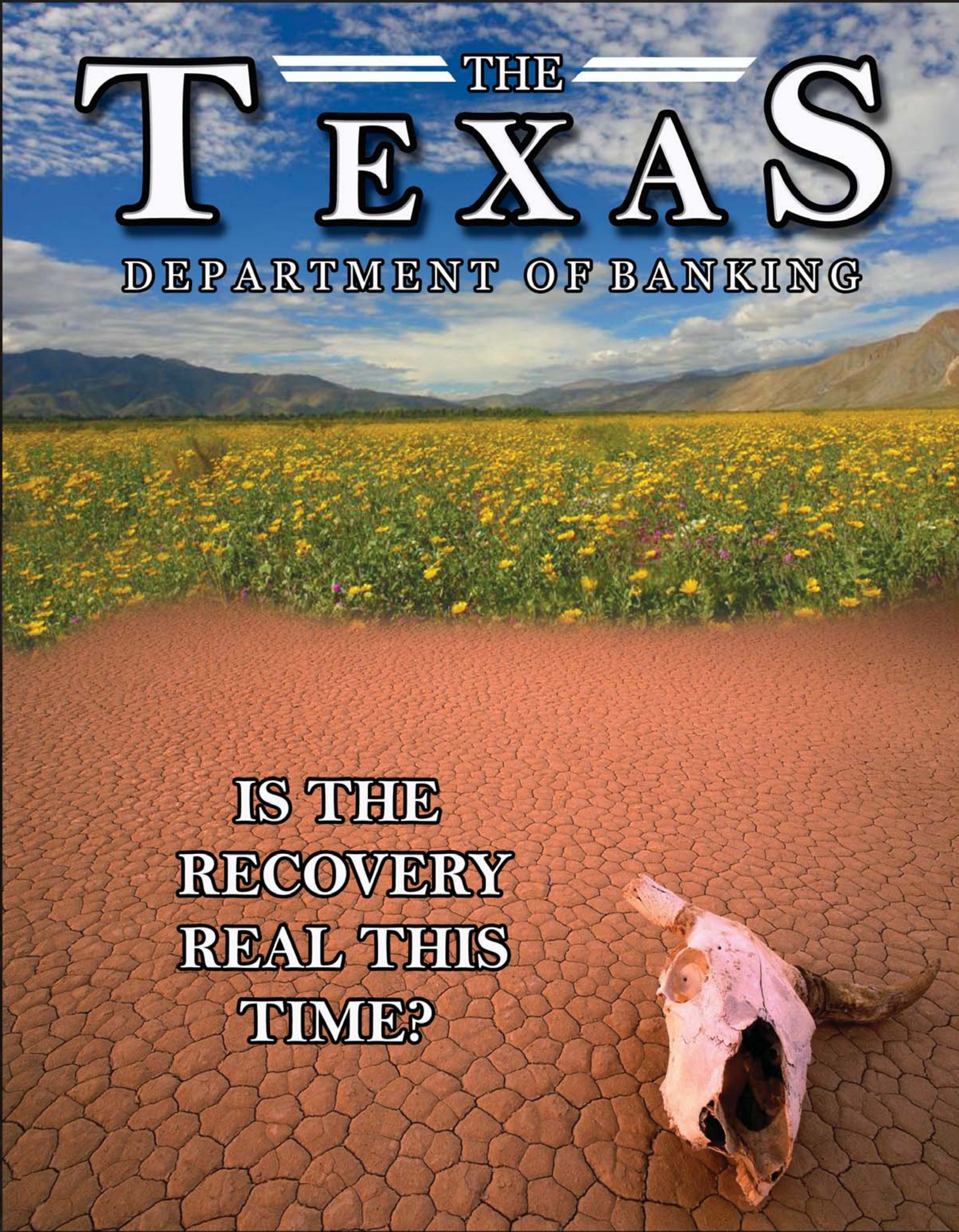

2011 ANNUAL REPORT

Agency Mission

To ensure Texas has a safe, sound and competitive financial services system.

Agency Philosophy

Adhere to the highest ethical and professional standards;

Be statutorily accountable and responsible;

Anticipate and respond to a dynamic environment;

Identify and promote innovative practices;

Operate efficiently;

Communicate effectively;

Foster teamwork while encouraging individual excellence and career development;

Provide a desirable work environment that values cultural and individual differences; and,

Seek input from and be responsive to the public, our supervised entities, and State leadership.

Over 105 years of History ...

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Over 105 years of Experience.

A Message from the Commissioner

Whether attending a meeting or a banking-related event, I am frequently asked my opinion on the Texas' economy and the banking industry. We have all heard that Texas is the place to be, and I wholeheartedly agree. Over the years, investors have recognized the opportunities for growth in the Lone Star State. Those interested in expanding their businesses continue to flock to our state. If you ask anyone for their thoughts, the response is likely to be "Life in Texas is good."

In retrospect during 2011 the banking industry began to show signs of stabilization and recovery from the economic downturn. Balance sheets improved, and the number of problem banks began to gradually decline. For the most part bankers have managed the disruptions well. However community banks continue to wrestle with new regulations and the increasing costs to ensure compliance. Profits are effectively being squeezed as a result of these new mandates and the low interest rate environment.

Through all the challenges, the Department continues with its tough but fair regulatory approach. Our focus is to ensure bankers have the guidance and tools they need to be successful, while remaining cognizant of our regulatory responsibilities. Maintaining a knowledgeable and experienced staff has always been imperative to monitor problem institutions, to anticipate and respond to regulatory issues, and when necessary to provide guidance that strengthens institutional management and its financial condition.

Historically examiner retention has been an issue. In 2011, after several years of struggling to preserve and retain examiners, we made considerable strides. This goal could not have been attained without the support of our bankers and trade groups. Within the five-to-ten year range, examiner retention has improved steadily. We continue to strive to maintain and improve our examiner staff.

Community banking in Texas has been recognized by many as a successful and engaging industry where bankers and regulators work together to achieve the same goal. The Department looks forward to the opportunities of the future brings and will endeavor to be here when you need us the most.

Charles G. Cooper
Banking Commissioner

SERVING THE PEOPLE OF TEXAS

Quick Facts As of December 31, 2012

There are 302 State-chartered banks in Texas.

They employ approximately 35,736 Texans.

They safeguard $138.5 billion in deposits and $170.4 billion in assets.

22 Independent Trust Companies manage $20.4 billion in fiduciary assets.

10 Foreign Bank Agencies located in Texas control in excess of $92.9 billion in assets.

396 Prepaid Funeral Licensees oversee 865,032 contracts worth $3.1 billion.

243 Perpetual Care Cemeteries with $244 million in trust assets care for our loved ones.

130 Money Services Businesses with $81.0 billion in assets annually transmit $80 billion dollars for Texans.

Texas businesses serving Texans today ... and tomorrow

2011 THE YEAR IN REVIEW

January 1, 2011 - Charles G. Cooper, Texas Banking Commissioner, announces the appointment of Jim Yarbro to Chief Trust Examiner.

January 24, 2011 - S.A.F.E. Act and Mortgage Loan Originators (MLOs) Training. The new mortgage loan originator registration system for bank MLOs began operation at which time the banks had six months to complete their MLO registration. To help financial institutions prepare for registration, the NMLS Resource Center hosts training sessions for institutions and mortgage loan originators (MLOs).

February 16, 2011 - The Texas Department of Banking releases Law and Guidance Manual desktop version replacing previous CD-ROMs. Once installed, the desktop version allows access without an internet connection.

February 23, 2011 - Commissioner Cooper issues letter for the FDIC regarding Final Overdraft Payment Supervisory Guidance, FIL-81-2010.

May 17, 2011 - Department issues notice to state-chartered banks regarding deadline for Mortgage Loan Originators (MLOs), sometimes referred to as residential loan officers. They must be registered with the Nationwide Mortgage Licensing System (NMLS) database by July 29, 2011.

MLOs are prohibited from originating residential mortgage loans until they successfully complete the federal registration process.

May 27, 2011 - Commissioner Cooper recognizes American State Bank, Arp, Texas, for 100 years of service.

2011 Year in Review

June 1, 2011 - Department issues notice requesting state-chartered banks and trust companies to review and if necessary, update, all emergency contact information.

June 29, 2011 - The Department issues Emergency Cease and Desist and Seizure Order against Howell-Doran Funeral Home, Inc., San Saba, Texas, relating to the sale of prepaid funeral benefit contracts.

July 14, 2011 - The 337th Harris County Court convicts Larry W. Payette on June 29, 2011 for the misapplication of fiduciary property and pronounces sentence of 10 years in prison.

In February 2009, the Department takes administrative action against Payette and his company, Dignified Affordable Cremation and Funerals for selling prepaid funeral benefit contracts without a valid permit.

September 27, 2011 - Pursuant to SB 249 of the 82nd Legislature, two new members are appointed by the Governor to the Finance Commission. Now consisting of 11 members, the new members are banking executive Larry Patton of El Paso and public member Susan Burton of Addison.

September 30, 2011 - Commissioner Charles G. Cooper announces the closure of First International Bank, Plano, Texas. The Federal Deposit Insurance Corporation (FDIC) is appointed receiver. In a bidding process, American First National Bank, Houston acquires all of the deposits of the failed institution.

October 25, 2011 - On May 5, 2011, an Emergency Cease and Desist Order is issued to Emmitt Lewis, Jr., dba Lewis Funeral Home and Chapel, Brenham, Texas, for the sale of a trust-funded preneed funeral contract without the required state permit and the mishandling of funds as required by Texas Finance Code Chapter 154.

2011 Year in Review

October 27, 2011 -Final Year of Benchmarking Financial Literacy Study. In 2007, the Texas Department of Banking, the Texas Bankers Foundation and the IBAT Education Foundation began an effort to benchmark the financial literacy community actions of the Texas banking industry. 2011 marks the fifth year of the five-year study.

November 10, 2011 - Commissioner Cooper recognizes Pilgrim Bank, Pittsburg, Texas, for 100 years of service.

November 10, 2011 - The Texas Department of Banking and the Federal Deposit Insurance Corporation co-hosts a webinar to promote the new Texas Saves, share best practices, and identify ways for organizations to plug into a statewide savings campaign.

December 15, 2011 - Commissioner Outreach Comments - "The Department is continually monitoring the regulatory and economic environments. It is important to seek the input of our financial institutions to identify areas that are affecting community banks in today's marketplace. Our goal is to obtain meaningful feedback to improve the reasonableness and effectiveness of regulations for community banks."

REGIONAL OUTLOOK

"In many respects, 2011 was a record year for Texas; however, not all of these records were desirable."

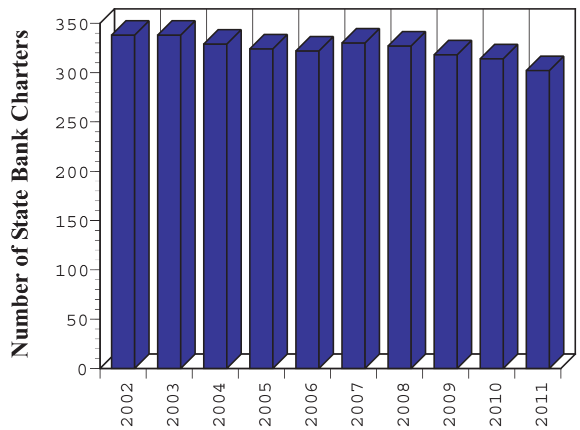
ECONOMIC AND BANKING CONDITIONS

Texas weathered blistering, record-setting heat, resulting in the single most severe one-year drought on record. The combined lack of rainfall and withering hot and dry conditions created a "perfect storm" for statewide wildfires. The Texas Forest Service reported 30,000 separate outbreaks, burning a record-breaking four-million acres; put into perspective, fires would engulf a total land mass exceeding the size of the State of Connecticut. Intrepid firefighting crews battled what would later be classified as seven of the ten largest wildfires in Texas history. Fires in the Bastrop area of central Texas were especially destructive, destroying 1,600 homes and hundreds of thousands of acres of forest, camping and recreational grounds. As reported by the Texas AgriLife Extension Service, agricultural losses attributed to the blazes totaled over $217 billion. The year-long drought took an additional toll in crop damage; estimates ranged as high as $5.2 billion in direct damages due to crop loss and forced livestock sales caused by deplorable range conditions.

Despite these unprecedented events, the outlook of the Texas economy across much of the state remained relatively optimistic. Job growth in Texas was 2.03% compared to the U.S. growth rate of 1.3%. In December, Texas reached the peak pre-recession employment level set in August

Number of State Banks in Texas

Year	
2002	338
2003	338
2004	329
2005	324
2006	322
2007	330
2008	327
2009	318
2010	314
2011	302



2008. During 2011, oil and gas extraction and mining support sectors recorded the fastest job growth, while the loss of government jobs, mostly due to public school layoffs, showed the largest decline. Unlike many other states, Texas did not experience a drastic decline in home values. Home prices slipped only three percent from their peak in the first quarter of 2009, compared to a national decline of 33% at its height in July 2006. Home inventories reduced to approximately 6.6 months of supply, and foreclosures declined to one in every 1,133 mortgages, which was substantially better than many other states.

Overall, despite significant challenges, conditions improved for Texas state-chartered banks. Although past due and nonaccrual loans held by Texas state-chartered banks declined, many banks were affected by declining loan volumes and an increase in other real estate owned. Correspondingly, asset quality followed by capital adequacy and earnings were regulatory concerns.

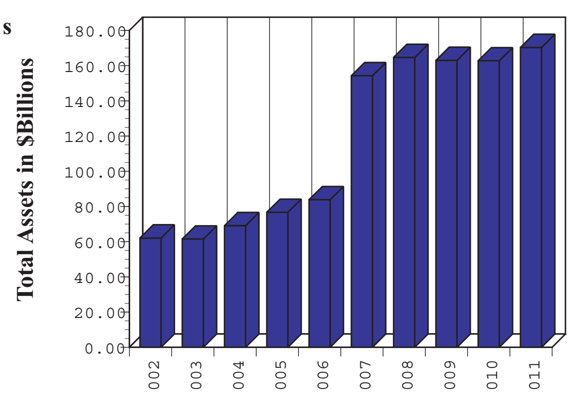
The Department's original projections of problem banks (composite rating of 3, 4, or 5) reflected a peak in 2010 and a slow decline beginning in 2011. This prediction proved fairly accurate, as problem banks totaled 49 at year-end 2011, compared to 57 at the end of 2010. The improving trends that started in 2010 encouraged investors who displayed a willingness to make significant capital contributions to acquire Texas banking franchises. Both healthy and distressed banks were acquired by stable institutions or purchased outright by new investors.

Financial data for Texas' 302 state-chartered banks indicated that stressed loans declined from peak levels in 2010. Improvements in many problem banks were a result of proactive and aggressive efforts by management to resolve weak or non-performing assets through obtaining additional financial or collateral support, aggressive collection, or timely repossession efforts. Liquidation of other real estate holdings and improvement in loan customers' financial conditions also served to reduce the level of adversely classified assets. However, other real estate owned (OREO) a lagging indicator, continued to be a burden on state banks in 2011. The volume of OREO held by all Texas state-chartered banks reflected a significant increase of approximately $52 billion as compared to December 31, 2010. At $863 billion, OREO held by all state-chartered banks was at its highest level since 2008.

Throughout the year, many banks experienced a significant reduction in loan volume and an increase in deposits. Through December 31, 2011, net loans represented 57.6% of total assets for state-chartered banks. This was the lowest level of loans since year-end 2007, when loans were 67.5% of total assets. Many bankers reported that the decline in loan volume was caused by institutions purposely reducing lending exposure to industries that were severely impacted by the economic downturn. Deposits held by Texas state-chartered banks increased to approximately 81% of total assets, the highest level in five years. This increase was attributed to a lack of alternative investments with higher yields, the increase in Federal Deposit Insurance Corporation coverage from $100,000 to $250,000, improving regional economic activity, (including increased oil and gas

Assets Held by State Banks in Texas

Year	Billions
2002	$ 62.1
2003	$ 61.5
2004	$ 69.1
2005	$ 76.7
2006	$ 83.9
2007	$154.3
2008	$164.7
2009	$163.0
2010	$162.8
2011	$170.4



exploration activity in the Eagle Ford Shale and Haynesville Shale), and customers moving deposits from larger banks to community banks. The decline in loan volume and increase in deposits posed a challenge to banks as the combination created an environment that constricted a bank's net interest margin (NIM). Throughout 2011, the fluctuations were small in nature, with the largest being at mid-year. By year-end, NIMs were at 3.58%, nine basis points less than the previous year-end.

The "Management" rating is generally the most important component in the CAMELS rating system, and its significance was demonstrated throughout the economic downturn and subsequent recovery. In many cases, board members and executive management teams that actively managed risk and realistically assessed their institution's vulnerabilities were quicker to react to changing conditions and circumstances. In most instances, management was the difference between having a problem or non-problem institution.

Although the statistics reflect that conditions improved for Texas state-charted banks in 2011, managers and directors must continue to make prudent and timely decisions to guide their banks through the challenges they will face in 2012.

RECAP OF REGIONAL ECONOMIC ACTIVITY IN 2011

Dallas / Fort Worth Region

The Dallas/Fort Worth Region encompasses a rectangular area of north and east Texas. The region includes Wichita Falls, runs south to Brownwood, and east to the state's border. There are 102 banks in the region, which hold assets of approximately $96 billion.

The Dallas/Fort Worth area benefits from a diverse business climate, with technological industries in the lead. Other major industries include: defense, financial services, information technology, life sciences, semiconductors, telecommunications, transportation, and processing. The unemployment rate for Dallas as of December 2011 was 7.5%, while the rate in Fort Worth was similar for the same period at 7.3%. The housing market was relatively unchanged from 2010 with sales activity and median sales prices remaining relatively constant in both Dallas and Fort Worth.

The western counties of the Metroplex benefited from oil and gas activity associated with the Barnett Shale formation, an oil and gas shale covering approximately 5,000 square miles, which includes 18 counties. In 2011, the Barnett Shale provided $11.1 billion in annual output and accounted for over 100,000 jobs in the region. It is reported that only a small portion of the total estimated production has occurred to date.

Banks in the region experienced modest improvements in 2011. Asset quality indicators stabilized, and the number of problem banks decreased. There was one bank failure in the region in 2011, First International Bank, Plano. This was the first since 2009. Favorably noted, there have been several stressed banks in the region that were acquired or merged without federal assistance, indicating the long-term economic potential in the region.

The Dallas/Fort Worth metropolitan area is the largest metropolitan area within the region, with approximately 55% of the banks in the region located in the metroplex, or in the extended metropolitan area. Real estate loans continue to be a major portion of lending in the area, and most of the problem banks were heavily concentrated in commercial real estate or construction and development lending. It appears that real estate prices generally stabilized in 2011, although specific areas of the region have an abundance of residential lot inventory and other commercial and retail space.

Overall, banks in and around the metroplex may continue to struggle in 2012 as a result of high problem assets levels and weak earnings.

East Texas is home to a diverse array of industries including timber, oil and gas, healthcare, dairy and poultry operations. The larger metropolitan areas significantly benefit from health care facilities, particularly Tyler and Longview. The heat wave and resulting drought severely impacted the dairy and poultry industries. Feed or input prices increased; overall production dropped. The Texas Forest Service additionally estimated that nearly $100 million worth of timber was consumed by the fires.

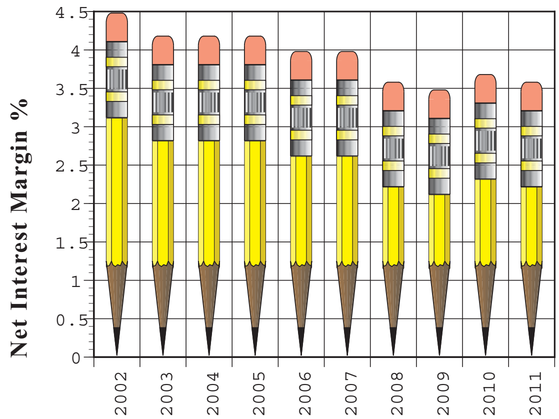
REGIONAL OUTLOOK

Banking conditions in East Texas are generally favorable, more so than in other areas of the region. Loan demand has historically been less than in the larger metropolitan areas, and rural banks have traditionally held larger securities portfolios, on average, than their metropolitan counterparts. While metropolitan bank profits have generally reduced as interest rates have declined and remained low, rural banks have performed similarly to their pre-recession performance.

Texas State-Chartered Banks

Net Interest Margin

Year	Percent
2002	4.5%
2003	4.2%
2004	4.2%
2005	4.2%
2006	4.0%
2007	4.0%
2008	3.6%
2009	3.5%
2010	3.7%
2011	3.6%



Houston Region

The Houston Region encompasses the Houston metropolitan area as well as parts of east Texas, central Texas, and the Golden Triangle. This area is home to 68 state-chartered banks that control assets of approximately $25 billion, eight foreign bank agencies, one foreign bank branch, and 13 foreign bank representative offices with on- and off-book assets totaling approximately $93 billion.

Houston plays a major role in Texas' Southeast economy and at year-end 2011, showed signs of recovery. Factors that improved area job growth included: high energy prices, advances in exploration technology, strong demand for Houston's exports, a weak U.S. dollar, and immigration. As these trends are expected to continue, the area economy should reflect continued growth and improvement into 2012. Jobs associated with oil and gas extraction, production, and services remain a source of growth for the region. The energy sector has allowed the region to outperform the nation, a trend that is expected to continue for the foreseeable future. According to the Greater Houston Partnership, as of November 2011, the Houston metropolitan area gained 170,700 net new jobs, recovering 112% of the 152,800 jobs lost during the recession.

Although office space developers did not overbuild as evidenced in other major cities, many tenants downsized or abandoned their space during the recession. The Houston market is trying to absorb over 3 million square feet of office space vacated during the recession. The real estate industry remains an area of regional concern, but the outlook for 2012 is more promising. While uncertainty remains in the single-family home market, median sales prices of single-family homes across greater Houston for 2011 were up slightly by 0.7% from 2010 and single-family home sales were up 4% for the year. Inventory of single-family homes is 5.8 months, the lowest level since December 2009, and compares favorably to the national average.

Texas State-Chartered Banks

Net Income

Year	Millions
2002	$773
2003	$784
2004	$801
2005	$952
2006	$947
2007	$1,786
2008	$1,086
2009	$1,083
2010	$1,282
2011	$1,570

While the Houston area faces near-term challenges, particularly managing growth rather than economic stagnation, the long-term outlook is bright. The area will lead the state in population growth. Estimates for 2010 through 2035 call for

over 3.37 million residents and 1.43 million jobs, accounting for almost one-fourth of the state's total job growth.

San Antonio Region

The San Antonio Region encompasses the greater San Antonio area, Austin and Central Texas, and the Rio Grande Valley. The region is home to 69 state-chartered banks which control assets of approximately $24 billion. State-chartered banks in the region are generally experiencing modest levels of profitability, a product of weak demand for credit and increasing levels of deposits. Asset quality in the region's banks is improving, and loan loss reserve levels seem to have peaked; therefore, earnings are not being significantly affected by the need for additional loan loss provision expenses. Nevertheless, low loan demand and few options for investing depositor money caused net interest margin averages to decline.

While San Antonio's recession was much milder than other parts of the state and the nation, recovery to pre-recession levels of employment was slow. Layoffs in local governments, such as schools and municipalities, attributed to the slow recovery. The boom in natural gas and oil exploration in the Eagle Ford Shale brought a bright spot to the employment sector. Drilling crews inundated the rural communities south of San Antonio. Oil field services companies have planned significant investments in the southern part of San Antonio to build facilities that can accommodate increased hiring. San Antonio's diverse workforce and close proximity to the Eagle Ford Shale formation make it a prime area for future investment. Additionally, the area's hospitality and transportation industries are reaping benefits as workers arrive requiring lodging and food services. Bexar County estimates indicate increased activity in the Eagle Ford that the Shale will result in over 10,000 new workers by 2020.

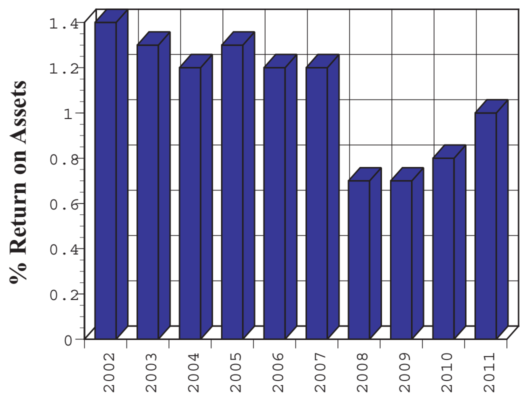
Growth in the manufacturing sector is expected to continue into 2012. Increasing auto sales benefited the local Toyota plant as well as the various auto parts makers in the area. The local Caterpillar plant is adding production to its engine assembly plant, and exploration activity has increased demand for equipment and supplies. Infrastructure improvements at the Brook Army Medical Center also increased the demand for skilled healthcare workers.

The improving local economy should have a favorable impact on the area's banks in 2012. While loan demand was low in 2011, increasing economic activity could improve the prospects for small-

Texas State-Chartered Banks

Annual Return on Assets

Year	Percent
2002	1.4%
2003	1.3%
2004	1.2%
2005	1.3%
2006	1.2%
2007	1.2%
2008	0.7%
2009	0.7%
2010	0.8%
2011	1.0%



and medium-sized businesses that in turn will look to spending for capital and other improvements. The local housing market in 2011 was down about 10% from the previous year, but local leaders believe the market should turn around in 2012 as the economy improves. Local banks are well poised for increased loan demand given increases in deposits.

The Austin economy appeared to rebound at an above-average pace. The state's capital thrives on government jobs. Despite massive government cuts across the state, the Austin economy remained stable. The unemployment rate of 6.3% as of December 2011 was significantly lower than the state and national rates of 7.8% and 8.5%, respectively. The real estate market showed signs of improvement, as median home prices increased slightly in 2011, up 0.8% since 2010, home sales increased 6.6%, and single family home inventory decreased to 5.8 months. Employment in the construction industry has increased, boosted by a rising demand in multi-family housing units. The number of building permits for these units was at pre-recession levels, and appears to be the result of a somewhat overvalued housing market, which makes renting more affordable. Gains in employment of professional and technical services were low during 2011, but this area is expected to resume growth in 2012. The relocation of several IT companies to Austin will likely boost employment as well. The wildfires that plagued Central Texas during the summer of 2011 are not expected to have permanent effects, but may have contributed to slower growth in the area. The Federal government pledged approximately $16 million to support rebuilding efforts. The area remains in drought conditions, and vacation businesses that rely on the local lakes will likely continue to be affected until precipitation returns to the area.

Banks in Austin and Central Texas continue to experience low loan demand. The outlook for the Austin housing market in 2012 is upbeat given expected job and population growth. Further, demand for commercial space is also expected to increase as retail spending should rise and lift demand for retail establishments. Combined, the positive outlook is

Texas State-Chartered Banks

Annual Percent of Total and Net Charge-offs

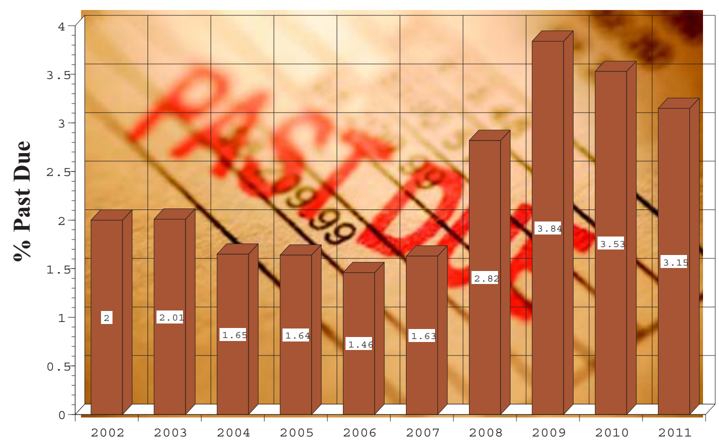
	T Total C/O	N Net C/O
2002	**.43%**	**.35%**
2003	**.42%**	**.33%**
2004	**.34%**	**.27%**
2005	**.33%**	**.27%**
2006	**.24%**	**.19%**
2007	**.31%**	**.24%**
2008	**.64%**	**.61%**
2009	**1.33%**	**1.23%**
2010	**1.09%**	**.97%**
2011	**.79%**	**.63%**

Texas State-Chartered Banks

Delinquency Rates - Total Loans

Includes Nonaccrual Loans

Year	Percent
2002	**2.02%**
2003	**2.01%**
2004	**1.65%**
2005	**1.64%**
2006	**1.46%**
2007	**1.63%**
2008	**2.82%**
2009	**3.84%**
2010	**3.53%**
2011	**3.15%**



expected to contribute to a measured increase in loan demand.

The Rio Grande Valley economy showed a strong comeback. Job growth occurred in healthcare and education, two of the three primary employment sectors for the area. Hiring in the healthcare sector accelerated, with the largest benefactor being home health services. Growth in education employment resulted from increased demand due to strong population gains. The third pillar of McAllen employment, retail has struggled since the downturn in early 2009. This area could continue to face difficulties. Showing signs of improvement, the Mexican economy typically boosts retail sales. The improving dollar, however, may cause the peso to depreciate, thereby offsetting the purchasing power of the visiting Mexican shopper. Cross-border traffic was adversely affected by violence in Reynosa and Monterrey, Mexico, two important components of the Rio Grande Valley economy.

The unemployment rate in McAllen was high at 12.5% and exceeded the national average by about four percentage points; however, during 2011, the area experienced job growth of 2.9%. Projections indicate that if the national economy continues to rebound, the manufacturers that supply the maquiladora industry should see growth when production picks up in the Mexican factories. In 2011, home sales declined in McAllen resulting in heavy inventory levels of 14.7 months.

Overall, the Rio Grande Valley area banks are stable, but the slow retail sector continues to have an adverse effect on absorption of available space and construction. Loan demand for the region's banks will remain flat as improvement is dependent on the retail sector and improving residential demand.

Lubbock Region

The Lubbock Region, which is also referred to as the West Texas Region, includes the major cities of Lubbock, Amarillo, Midland, Odessa, Abilene, and El Paso, as well as a number of small rural towns. The region is home to 63 banks, which controls approximately $25 billion in total assets. Agriculture is the leading industry for many of the communities within the region. Area agricultural production is a big reason Texas is the nation's number one cotton producer, and leads the country in beef production. The agriculture industry generates approximately $80 billion in annual revenue for the state's economy.

The region's economy was devastated by the 2011 drought. The drought severely reduced the production of cotton, grain, and corn. By mid-July, nearly 59% of the cotton crop in the area was deemed to be in poor condition or worse. For the first time, the high plains area was predicted to report near a 100% abandonment of the dry land cotton acreage. Fortunately, many growers carried crop insurance mitigating economic loss. Ranchers were forced to reduce their livestock holdings due to the lack of suitable pasture and the high cost of feed to feedlot producers.

Despite the declining economic conditions, the region's banks continue to be in satisfactory condition with few exceptions. Banks rated 1 or 2 represent approximately 90% of the institutions in the Lubbock Region that are supervised by the Department.

Oil and gas exploration serves the West Texas Region, especially Midland/Odessa. Due to increased oil and gas activity, Midland reported the lowest unemployment

rate in the state – 4.1% in December 2011. A healthy oil boom-induced housing market boosted home sales 16.2% in 2011. Median sale prices increased 5.3% over 2010. Odessa reported similar statistics with 5.0% unemployment, increased home sales up 9% from the prior year, and an increase in the median sales price of 9.4% in 2011. Oil and gas exploration will continue to be a key source of growth to the Midland/Odessa economy as increased demand and high oil prices provide positive forecasts for the future.

El Paso's economic performance has not been stellar, but continues to benefit from Fort Bliss, one of the nation's largest military bases. The Base Realignment and Closure Act created a boom in the local economy as new soldiers arrived from other closed bases. Despite the growth in military personnel, the housing market remained sluggish. However, population growth is expected to continue and should allow the economy to remain relatively strong into 2012.

Trust Activities

Despite global economic challenges, trust business in Texas continues to be promising. Beneficiary needs for recurring income sources and preservation of wealth are substantially supplied from investments in the capital markets arena. Capital markets concerns and global economic worries in 2011 had a major impact on the fiduciary assets invested and returns. Due to the anemic economy and volatile markets, consumer and investor confidence in equity investments was very low. The recession created some of the most challenging times experienced by most trust managers, as they struggled to meet the needs of their trust beneficiaries and investment clients.

Trust managers were faced with historically low asset yields in 2011 which are expected to continue into subsequent years. These circumstances pressure investment officers to pursue yields via a broader menu of investment alternatives including more complex instruments, such as synthetic investments, that have not been used previously.

The rise in stock market valuations is a triggering factor for the increase in trust assets over the last few years. The Department regulates 41 state-chartered banks with active trust departments with fiduciary assets over $105 billion as of December 31, 2011. This compares to 42 and $98 billion as of December 31, 2010. The Department regulates 22 state-chartered trust companies with fiduciary assets over $20 billion as of December 31, 2011. This compares to 20 and $19 billion as of December 31, 2010. Three de novo public trust companies opened for business in 2011 and report fiduciary assets in excess of $207 million. Additionally, the Department regulates 20 state-chartered exempt family-owned trust companies whose fiduciary assets are not made available to the public.

Trust assets are expected to increase at a faster pace in the future as more of the "baby boomer" generation reaches retirement age, and their need for estate planning by utilizing various trusts to preserve and transfer wealth. As such, the Department continues to staff accordingly with examiners who are trained in this specialized area.

Quick Facts

Oversight and Supervision of:
Commercial State-Chartered Banks and Trust Companies

Total Staffing:
114 Full-time employees
4 Part-time employee

364 examinations performed in calendar year 2011.

163 Safety and Soundness
149 IT
52 Trust

Banker Examination Survey Results

As a part of the ongoing effort to improve on-site examinations and the examination report process, the Banking Commissioner solicits input regarding the supervision provided by the Texas Department of Banking through a bank and trust survey. The goal of this survey is to help target areas for improvement, as well as to identify what parts of the existing examination process are working well. Surveys are mailed to each bank or trust company within 30 to 45 days after the completion of an examination. The survey contains 19 questions covering three areas: the examination process, examination reports, and the examination scope and correspondence.

For fiscal year 2011, 291 surveys were mailed and 193 responses were received for a 66% response ratio. Overall, the responses complimented the examining staff's professionalism and knowledge. Positive responses exceeded 89% in all categories.

COMMISSIONER'S BANKING EXAMINATION SURVEY RESULTS
COMPARISON 2010 to 2011

193 Responses or 66.3% Response Rate - 2011
200 Responses or 66.2% Response Rate - 2010

CONSOLIDATED ALL REGIONS, TRUST & IT

I. EXAMINATION PROCESS	# of Responses	Year	Strongly Agree	Agree	Disagree	Strongly Disagree	Yes	No Opinion
1. The examiners clearly communicated the examination scope and goals to management prior to the start of the examination.	193	2011	69%	30%				1%
	200	2010	70%	28%	1%	1%		
2. The examiners requests for information prior to and during the examination were timely and reasonable.	193	2011	66%	32%	1%			1%
	200	2010	68%	32%	0%			
3. The examination team acted in a professional and courteous manner during the examination.	193	2011	78%	20%	1%			1%
	200	2010	81%	17%	1%			1%
4. The examiners communicated with management throughout the examination.	193	2011	72%	25%	1%	1%		1%
	200	2010	74%	24%	1%			1%
5. The examiners are informed of current industry issues and were knowledgeable of your bank.	193	2011	58%	34%	1%	1%		6%
	200	2010	63%	34%	1%	1%		1%
6. In what areas, if any, do you feel the examiners need additional training or education? Attach additional paper if necessary:	193	2011						
	200	2010						

Survey Results (cont.)

	# of Responses	Year	Strongly Agree	Agree	No / Disagree	Strongly Disagree	Yes	No Opinion
7 The examiners remain focused on the key issues confronting your institution.	193	2011	62%	34%	2%			2%
	200	2010	64%	33%	2%			1%
8. The examiners clearly and effectively communicated their findings and concerns at the exit and board meetings.	193	2011	75%	23%	1%			1%
	200	2010	74%	24%	1%			1%
9. Conclusions regarding the bank's condition were well supported.	193	2011	58%	35%	4%	1%		2%
	200	2010	65%	31%	3%	1%		
10. Recommendations for corrective actions were reasonable.	193	2011	55%	37%	3%			5%
	200	2010	60%	33%	2%	1%		4%
11. Did any events or comments take place during the examination that you felt were surprising, unfair, unreasonable or not in conformance with exam policy?	193	2011	95%				4%	1%
	200	2010	89%				4%	7%
			NO				YES	

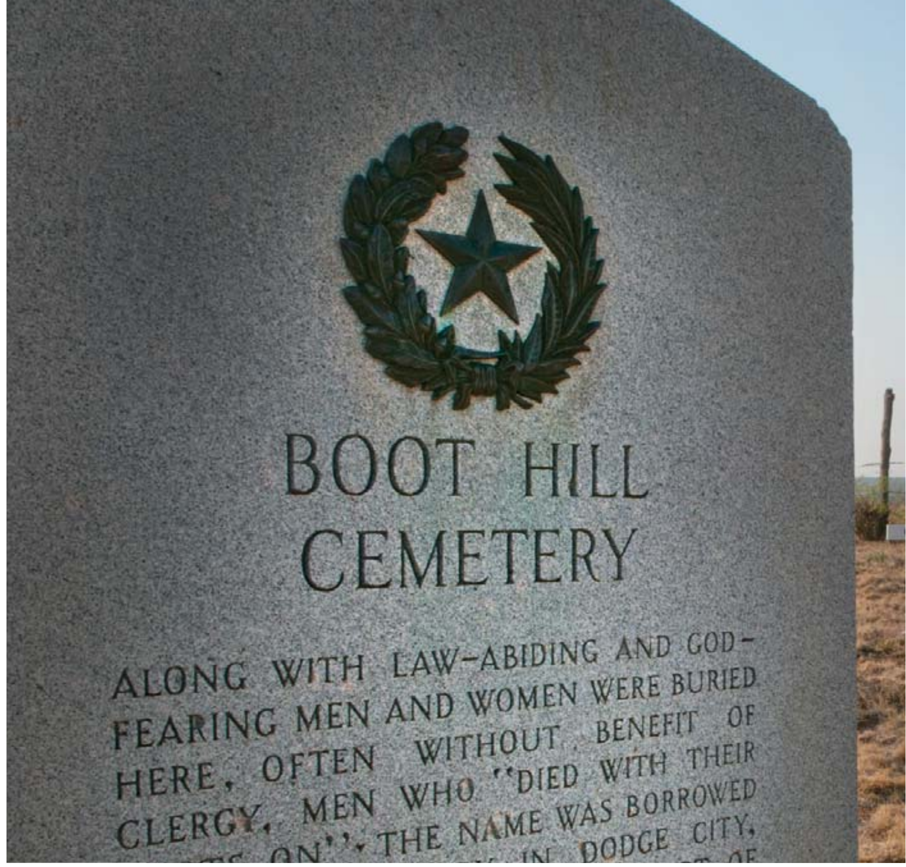
II. EXAMINATION REPORTS

	# of Responses	Year	Strongly Agree	Agree	Disagree	Strongly Disagree	Yes	No Opinion
1. The examination report was received in a timely fashion.	193	2011	66%	28%	3%			3%
	200	2010	64%	29%	4%	1%		2%
2. The report of examination clearly communicates the examination findings and provides useful information.	193	2011	66%	30%	1%			3%
	200	2010	65%	32%	1%			2%
3. The tone and content of the report of examination is consistent with the board and/or exit meetings.	193	2011	68%	27%	2%			3%
	200	2010	67%	27%	3%			3%

III. EXAMINATION SCOPE AND CORRESPONDENCE

	# of Responses	Year	Strongly Agree	Agree	Disagree	Strongly Disagree	Yes	No Opinion
1. The examination was conducted without placing an undue burden on the institution.	193	2011	55%	40%	3%	1%		1%
	200	2010	57%	41%	2%			
2. The on-site portion of the examination was completed in a reasonable timeframe.	193	2011	66%	30%	1%	1%		2%
	200	2010	64%	33%	1%	1%		1%
3. The use of pre-examination time through gathering documents and working off-site worked well and saved the bank time.	193	2011	62%	33%	4%			1%
	200	2010	63%	31%	2%			4%
4. The Regional Office and Headquarters staff were readily accessible and helpful to discuss exam findings.	193	2011	62%	28%	1%			9%
	200	2010	64%	32%				4%

SPECIAL AUDITS



Quick Facts

Oversight and Supervision of:
Prepaid Funeral Contract Sellers
Perpetual Care Cemeteries
Money Services Businesses

Total Staffing:
19 Full-time employees
1 Part-time employee

551 examinations performed in 2011.

242 PFC
203 PCC
106 MSB

MONEY SERVICES BUSINESSES (MSBs)

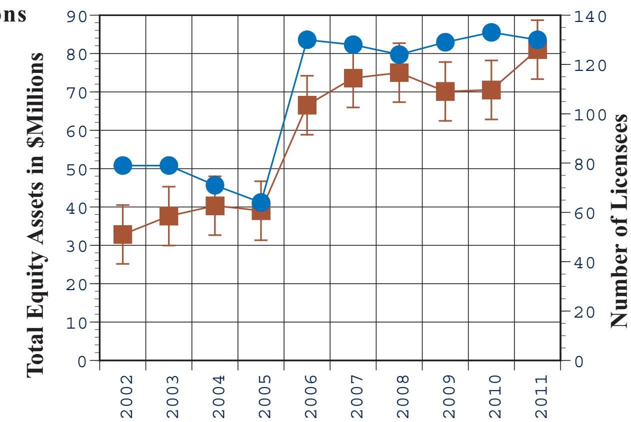
Economic and Technological Environments

The economic recession that began in the fourth quarter of 2007 negatively impacted the MSB industry as the industry relies heavily on job growth and employment stability. Remittances continued to decrease as the total dollar amount of transaction volume reported by money remitters, excluding currency exchangers, was 7.3% less in 2011 than in 2010. However, signs of economic recovery were evident as jobs were created. Although remittances grew at a slower pace in 2011, several MSBs regulated by our Department exhibited increased business. Specific to remittances to Mexico, a weakened Mexican currency helped increase the remittances to that country. Although the lasting drug related violence in Mexico continues, currency exchangers as a whole reported a 28% increase in the total dollar amount of transactions for 2011 as compared to 2010. The U.S. Bureau of Labor Statistics projects that total employment will grow by 14.3% by the end of this decade. Immigrants are suited to benefit from the continued job recovery which in turn should result in remittances continuing on an upward trend. Analysts believe that the growth of remittances in dollars could be between 8% and 10% for 2012.

Technological advances have enabled consumers to send remittances more quickly. Consumers now have several options for sending money, such as the use of prepaid access cards, Internet transfers, and cell phone transfers. These technology advances will aid the continued growth of remittances as more companies will likely enter the MSB industry. In 2011, the Department issued four MSB licenses. Three out of the four were issued money transmitter licenses. As of year-end 2011, the Department had seven pending MSB applications. Most of the new

Money Services Business Trends

Year	Millions
2002	$32.8
2003	$37.6
2004	$40.3
2005	$39.0
2006	$66.5
2007	$73.6
2008	$75.0
2009	$70.1
2010	$70.5
2011	$81.0



Year	Licensees
2002	79
2003	79
2004	71
2005	64
2006	130
2007	128
2008	124
2009	129
2010	133
2011	130

money transmitter license applications in 2011 were for non-traditional money remitters involving prepaid access business models.

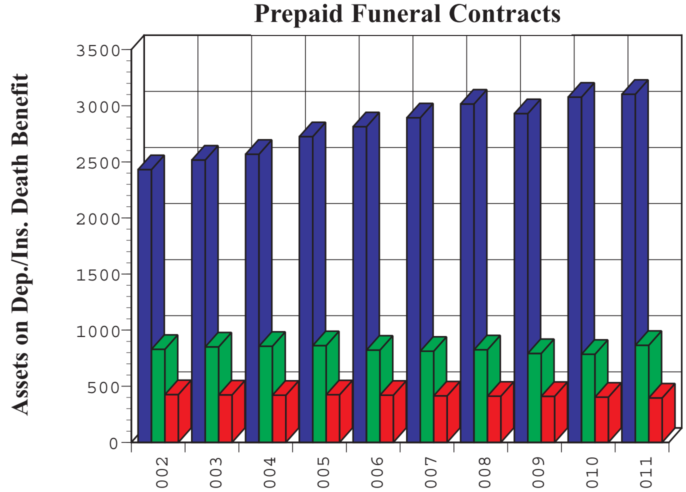
Oversight in 2011

MSBs are required to register with the Financial Crimes Enforcement Network (FinCEN), however, the licensing and regulation is primarily the state's responsibility. A person or business that engages only in the currency exchange business must have a currency exchange license. All other MSB activities require a person or business to have a money transmission license. As of year-end 2011, the Special Audits division had 88 money transmission and 42 currency exchange license holders with combined assets of approximately $81.0 billion. Included in the 88 money transmission license holders are entities that perform traditional person to person money remittances, prepaid access issuers, and third-party bill payers. Ten license holders, which are all money transmitters, account for $68 billion or 90% of the total transmission volume reported.

In 2011, 106 MSB examinations were performed with 85% reflecting a satisfactory or better risk rating. This was a 2% decrease when compared to calendar year 2010. This decrease can be partly attributed to findings related to a license holder's due diligence on international foreign agents or foreign counterparties (AKA subagents). In the latter part of 2011, as part of the Department's on-going regulation of MSB license holders, examination procedures were expanded to assess a license holder's anti-money laundering program relating to the risks associated with conducting business with foreign agents and foreign counterparties. Examinations have revealed that license holders foreign agents have contracted with sub-agents for payment of funds. Unfortunately the license holders due diligence of the sub-agents did not comply with the requirements of FinCEN's

Prepaid Funeral Contracts

Year	Millions
2002	$2,430.7
2003	$2,516.6
2004	$2,567.6
2005	$2,725.0
2006	$2,813.0
2007	$2,893.4
2008	$3,015.2
2009	$2,930.3
2010	$3,076.3
2011	$3,101.9



Year	Contracts (Thousands)
2002	829
2003	851
2004	856
2005	863
2006	823
2007	813
2008	825
2009	792
2010	803
2011	865

Number of Licensees 426 423 421 424 421 415 412 410 403 396

Interpretive Release 2004-1. As part of MSB examinations, on-site examination procedures of authorized delegates (AD) are performed to ensure compliance with Texas regulations. Chapter 151 of the Texas Finance Code (TEX. FIN. CODE) allows an MSB to conduct business through an AD but also holds that MSB responsible for the actions of the AD. The Department finds the monitoring of ADs an essential function as they are the primary point of contact for Texas consumers. A common finding during on-site visits of ADs is non-compliance with consumer disclosure requirements. ADs are required to post notices informing consumers of their affiliation and consumer complaint information. These notices help assure consumers that they are conducting business with an authorized entity and have the necessary information to file a grievance, if needed.

Coordination for joint examinations continued in 2011. The Department is a vital participating member of the Money Transmitters Regulators Association (MTRA), a national non-profit organization whose membership consists of state regulatory authorities dedicated to the efficient and effective regulation of the MSB industry in the United States. The Department coordinates with MTRA member states to coordinate joint examinations in an effort to reduce the regulatory burden on MSB license holders. To help promote consistency among the participant states, the Department revised Supervisory Memorandum 1022 in December 2011 to adopt the Uniform Money Transmitters Rating System (MTRS), developed and adopted by MTRA.

The Department coordinates with the Internal Revenue Service (IRS) in an effort to conduct concurrent examinations of MSBs. In August 2011, the Department and the IRS conducted a joint examination of a currency exchanger in El Paso. Future concurrent examinations with the IRS are being considered.

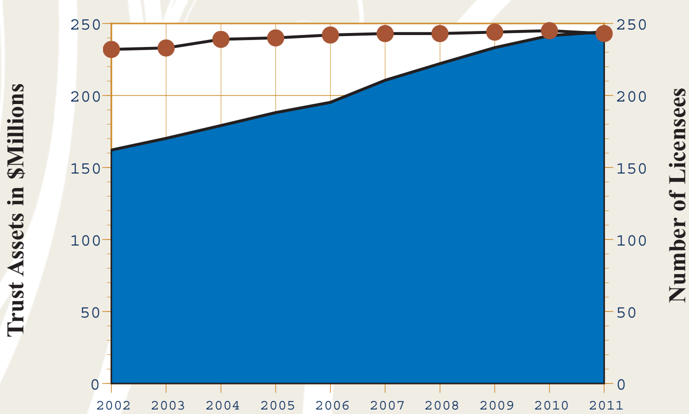
The Department is a member of the Conference of State Bank Supervisors (CSBS) Public Information Officer Working Group which is working on the implementation of the Nationwide Mortgage Licensing & Registry (NMLS) for MSBs. The goal is to use NMLS as a registry for all MSBs in the United States. The Department will continue to coordinate with the various associations and federal agencies to help promote an effective and efficient supervision of MSBs.

A regulatory response tool employed by the Department is the issuance of enforcement actions. Unfortunately, entities perform MSB services in Texas without obtaining the proper licensing. As such, the Department actively monitors for unlicensed MSB activity. In 2011, the Department sent regulatory inquiries to several companies that appeared to be operating in Texas without the required license. In March 2011, the Department initiated a Cease and Desist Order against GPal, Inc., Healdsburg, California for conducting the business of currency exchange without a license as required by Section 151 of the TEX. FIN. CODE.

Regulations and Policies
The regulation of the MSB industry continued to evolve as regulatory changes have been implemented at the federal level. Effective March 1, 2011, FinCEN transferred its Bank Secrecy Act (BSA) regulations from Title 31 Code of Federal Regulations Part 103 to newly created Chapter X. The purpose of moving the BSA regulations to a new chapter was to create a user-friendly way to find regulations applicable to a particular financial industry. In response, the Department's examination procedures and references were amended to coincide with Chapter X. Further, FinCEN issued two final rules pertaining to MSBs. On July 21, 2011, FinCEN issued a rule clarifying and defining which businesses qualify as MSBs and are therefore subject to anti-money laundering rules under the BSA. Shortly thereafter, on July 29, 2011, FinCEN issued a final rule amending and establishing

Perpetual Care Cemeteries

Year	Millions
2002	$162.1
2003	$170.3
2004	$179.2
2005	$188.2
2006	$195.3
2007	$210.6
2008	$222.1
2009	$233.3
2010	$241.6
2011	$243.0



Year	Licensees
2002	232
2003	233
2004	239
2005	240
2006	242
2007	243
2008	243
2009	244
2010	244
2011	243

a more comprehensive regulatory approach for prepaid access. The rule establishes suspicious activity reporting, and customer and transactional information collection requirements on providers and sellers of certain types of prepaid access; similar to other categories of MSBs. Additional requirements are likely as the Consumer Financial Protection Bureau begins issue its rules regarding MSBs.

PREPAID FUNERAL CONTRACTS AND PRENEED CEMETERIES (PFC/PCCs)

Economic Impact

The death care industry was strongly influenced by the challenging economic conditions of 2011 and the evolving cultural norms. The funeral industry experienced a rise in the number of cremations selected as consumers struggled through the worst recession since the Great Depression. Historically, cremations reduce profit margins making it difficult to maintain financial profitability as they are less expensive when compared to a traditional funeral service. The trend toward cremation services will likely continue as traditional funeral costs rise, personal finances are keenly impacted by the economy, and cultural norms are reshaped by the increased acceptance of cremations. With the 2011 estimated national average of a traditional funeral cost moving toward $9,000, the national cremation rate has increased correspondingly, and is estimated to top 40% for 2011. Historically, Texas maintained a lower cremation rate of about 25% when compared to the national average. As the shift in consumer demand continues, PFC sellers and providers are adjusting their business models to accommodate the changing landscape.

The regulation and oversight of industry was both challenging and productive for the Special Audits division in 2011.

PCC Oversight

With two of the division’s more tenured examiners planning retirement in 2012, two examiners were hired in 2011, giving them the opportunity to train with the experienced examiners. The two new examiners perform PCC examinations which will help the Department handle the major changes in the PCC regulatory landscape.

At calendar year-end 2011, there were 243 licensed PCCs with combined perpetual care trust funds on deposit of approximately $262 million, compared to $250 million in 2010. A significant concentration of these trust funds, $175.6 million or 67%, are owned by four corporate entities. In 2011, the Special Audits division performed 203 PCC examinations, of which 84% received an overall strong or satisfactory risk rating. There was a 5% increase over 2010 in entities receiving a marginal or lower rating. This increase can be attributed to cemeteries failing to meet the minimum net worth requirement set forth by House Bill (HB) 2495.

HB 2495, which became effective September 1, 2011, contained several changes for PCC certificate holders. Specifically, HB 2495 amended Chapters 711 and 712 of the Texas Health and Safety Code, resulting in amendments to Chapter 26 of the Texas Administrative Code. A significant change was the implementation of ongoing minimum capital and financial fitness requirements for all PCCs. To continue operations, during regular scheduled examinations and during the PCCs Certificate of Authority (COA) renewal process, PCCs must provide financial statements that reflect they meet the same financial requirements that were in place at the time they received their COA. For PCC certificate holders who incorporated after September 1, 1993, HB 2495 requires that the PCC maintain a minimum equity or net worth of $75,000.00. This minimum financial position requirement has proven particularly challenging for smaller cemeteries whose resources were once sufficient for the issuance of the COA but have since been reduced and are not adequate to meet the minimum capital requirement. Those PCCs who cannot demonstrate the minimum capital requirements could be restricted from selling until such time as their financial condition improves and statutory requirements are met. Compounding matters for PCCs and PFCs is the fact that interest rates and trust returns are at historic lows. Further, the record drought of 2011 impacted PCCs as water restrictions and lower investment returns resulted in the decline of the general care of some cemeteries.

Enforcement actions have been instituted in cases of mismanagement, including assessing a penalty on a PCC for selling a marker in violation of a previously-issued Commissioners Order. Misappropriation of PCC marker funds continued to be problematic in 2011 as some cemeteries diverted marker funds to other purposes. Since there are no regulations requiring funds collected from Texas purchasers for the prepayment of burial markers and monuments be in a trust, the Division continued to focus its efforts in the supervision of PCC marker/monument sales. Preneed memorial sales (those for which the cemetery takes payments from consumers but does not deliver the memorial until some future point at the request of the purchaser) are reviewed during examinations to determine the certificate holder’s ability to meet its unfunded marker and monument liabilities. Examinations in 2011 revealed that some cemeteries were not including these liabilities on their balance sheets. Once included, balance sheets were further stressed and added to the industry’s financial strain.

PFC Oversight
At year-end, 396 licensed PFC sellers, 55 of which are insurance-funded permit holders with a combined death benefit amount of approximately $2.5 billion, funded 515,600 PFCs. Compared to 2010, the number of outstanding insurance-funded contracts increased by approximately 11.5%, while the death benefit amount increased by 10.6%. The eight largest insurance-funded permit holders account for 72.6% of the total contracts. The remaining 341 trust-funded permit holders held funds on deposit at various financial institutions totaling approximately $872.6 million, funding 349,467 PFCs.

Special Audits performed 242 PFC examinations in 2011, with 82% of entities receiving an overall satisfactory risk rating. A 4% increase in the number of PFCs receiving a less than satisfactory rating in 2011 from 2010 was noted. Some of the increase can be attributed to a permit holder's inability to demonstrate the financial condition to honor its PFC obligations.

Regulatory amendments were made to Chapter 154 of the TEX. FIN. CODE that affected PFCs. HB 3004, effective September 1, 2011, extended guaranty fund coverage to consumers who purchase a PFC written by a third party funeral provider who sells PFCs under a license insurance-funded permit holder. The statutory change also established actions the permit holders must attempt prior to seeking the assistance of the guaranty fund, which include finding a new funeral provider willing to assume the contractual obligations of the defaulting funeral provider. As the closure of funeral homes continued in 2011, the extension of guaranty fund coverage was a particularly important advent for consumer protection. The insurance licensed entities and Department collaborate in finding successor funeral homes to provide the PFC benefits once contracted by these now-shuttered funeral homes. PFC owners are the direct beneficiaries of this joint effort.

Regulatory changes made to TEX. FIN. CODE 154 in 2009 continued to impacted PFC permit holders. Licensees must demonstrate the financial capacity to honor their contractual obligations. However, since several PFC permit holders either failed to possess a sound financial condition or simply refused to provide the Department with current financial statements, the Department had no choice but to issue restricted permits restricting them from the sale of new contracts. As of December 31, 2011, 37 permit holders were restricted from selling new trust-funded contracts.

Several enforcement actions were issued to PFCs in 2011. As with PCCs, the misappropriation of PFC trust funds and insurance premiums were issues for PFCs. On June 29, 2011, the Department issued an Emergency Cease and Desist and Seizure Order against Mr. Kevin Keeney individually and as Vice President of Howell-Doran Funeral Home, Inc. (Howell-Doran), and Margie Keeney individually and as President of Howell-Doran, located in San Saba, Texas, relating to the sale of prepaid funeral benefit contracts. Howell-Doran violated Chapter 154 of the TEX. FIN. CODE by failing to properly account for and deposit money collected from the sale of prepaid funeral contracts. The Howell-Doran Emergency Order required a significant amount of Departmental resources as it involves approximately 150 consumers and the review of various documents to determine the total defalcation amount. In 2011, the Department also issued four Commissioners Orders to funeral homes for unlicensed activity. Three of the Orders resulted in individuals being ordered to pay restitution along with administrative penalties. Unlawful activity will continue to be aggressively investigated and pursued by the SAD, whose commitment to initiate enforcement actions to ensure consumer protection for PFC purchasers as well as PCC beneficiaries remains a top priority.

Dodd-Frank Update

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was signed by the President on July 21, 2010, but certain provisions of the Act were not immediately effective. Among those provisions that became effective on the "Transfer Date" (July 21, 2011) and affecting its banking entities and Texas are the following:

Impact on State-Chartered Banks

● Debit interchange fees (also known as swipe fees) were capped for large financial institutions, as mandated by the Durbin Amendment. [§1075]

● CFPB has direct supervision over all depository institutions with assets over $10 billion. As of December 31, 2011, one state-chartered bank falls within this category.

● Rulemaking authority over numerous consumer protection laws has been given to CFPB, which will apply to all financial institutions regardless of size, including Regulation C - Home Mortgage Disclosure (HMDA), Regulation E - Electronic Funds Transfers, Regulation G and H related to S.A.F.E. Mortgage Licensing Act, and Regulation V - Fair Credit Reporting.

● Stress Testing [§165]:

* The Federal Reserve Board is required to conduct annual stress test of (1) bank holding companies with total consolidated assets of $50 billion or more and (2) significant nonbank financial companies as determined by the Financial Stability Oversight Council. These institutions must also conduct their own stress test semiannually.

* State banks, state-chartered savings associations and national banks with total consolidated assets of more than $10 billion will be required to conduct their own annual capital-adequacy stress tests.

Ability of State to Enforce

● If a majority of the States enact a resolution in support of a consumer protection standard, the Consumer Financial Protection Bureau (CFPB) must issue a notice of proposed rulemaking to implement that standard.[§1041]

● A state Attorney General may sue to enforce the consumer protection provisions of Title X, including regulations issued by the CFPB, subject to certain limits if the defendant is a national bank or federal savings association. A state Attorney General may sue a national bank or federal savings association to enforce the CFPBs regulations (but not the underlying statute) or any other applicable state or federal law.[§§1042(a); 1047]

● A state regulator (other than an Attorney General) with appropriate jurisdiction and authority may sue a state-chartered, incorporated or licensed entity, or another entity doing business under state law (other than a national bank or federal savings association), to enforce Title X and the CFPBs regulations.[§1042(a)]

Change in Preemption of State Laws

● Title X provides that a State consumer protection law is preempted if:
(i) application of the law would have a discriminatory effect on national banks or Federal savings association;
(ii) the law is preempted by a provision of Federal law other than the National Bank Act; or
(iii) in accordance with Barnett Bank v. Nelson, the State law "prevents or significantly interferes" with the exercise of a national bank of its powers.

● If asked to make a preemption determination, the Office of the Comptroller of the Currency (OCC) must act on a "case by case" basis, meaning that the OCC determination must relate to a particular state law, but can also relate to the laws of another state with substantively equivalent terms (after consulting with the CFPB). [§§1044; 1046]

● A preemption determination by the OCC is subject to judicial review. The court may not uphold a determination to preempt a State law unless it finds that the determination is supported by substantial evidence. The court is directed to assess the validity of the preemption determination, depending upon

* the thoroughness evident in the agency's consideration,
* the reasoning of the agency,
* the consistency of the decision with other determinations, and
* other factors the court may find persuasive. [§1044]

● State consumer financial laws (including licensing statutes) apply to national bank subsidiaries, affiliates and agents.[§§1044(e); 1045]

DEPARTMENT Financial Information

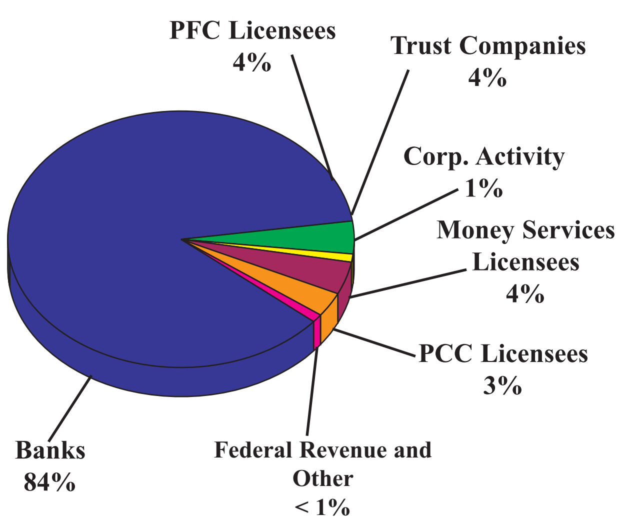
UNAUDITED

TEXAS DEPARTMENT OF BANKING (451)

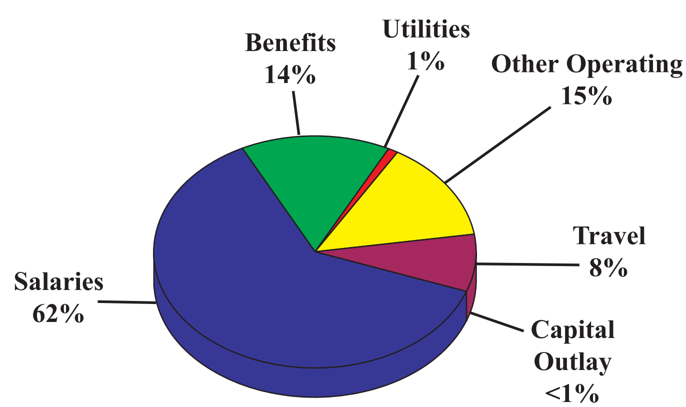
For the Fiscal Year Ended August 31, 2011

	Governmental Funds Total
EXPENDITURES:	
Salaries and Wages	$14,327,212.21
Payroll Related Costs	3,322,996.16
Professional Fees and Services	117,492.73
Travel	1,792,555.80
Materials and Supplies	328,812.52
Communications and Utilities	220,496.68
Repairs and Maintenance	63,241.92
Rentals and Leases	252,100.29
Printing and Reproduction	10,497 16
Other Expenditures	364,225.41
Capital Outlay	25,863.21
Total Expenditures	$20,825,494.09

2011 Collected Revenues

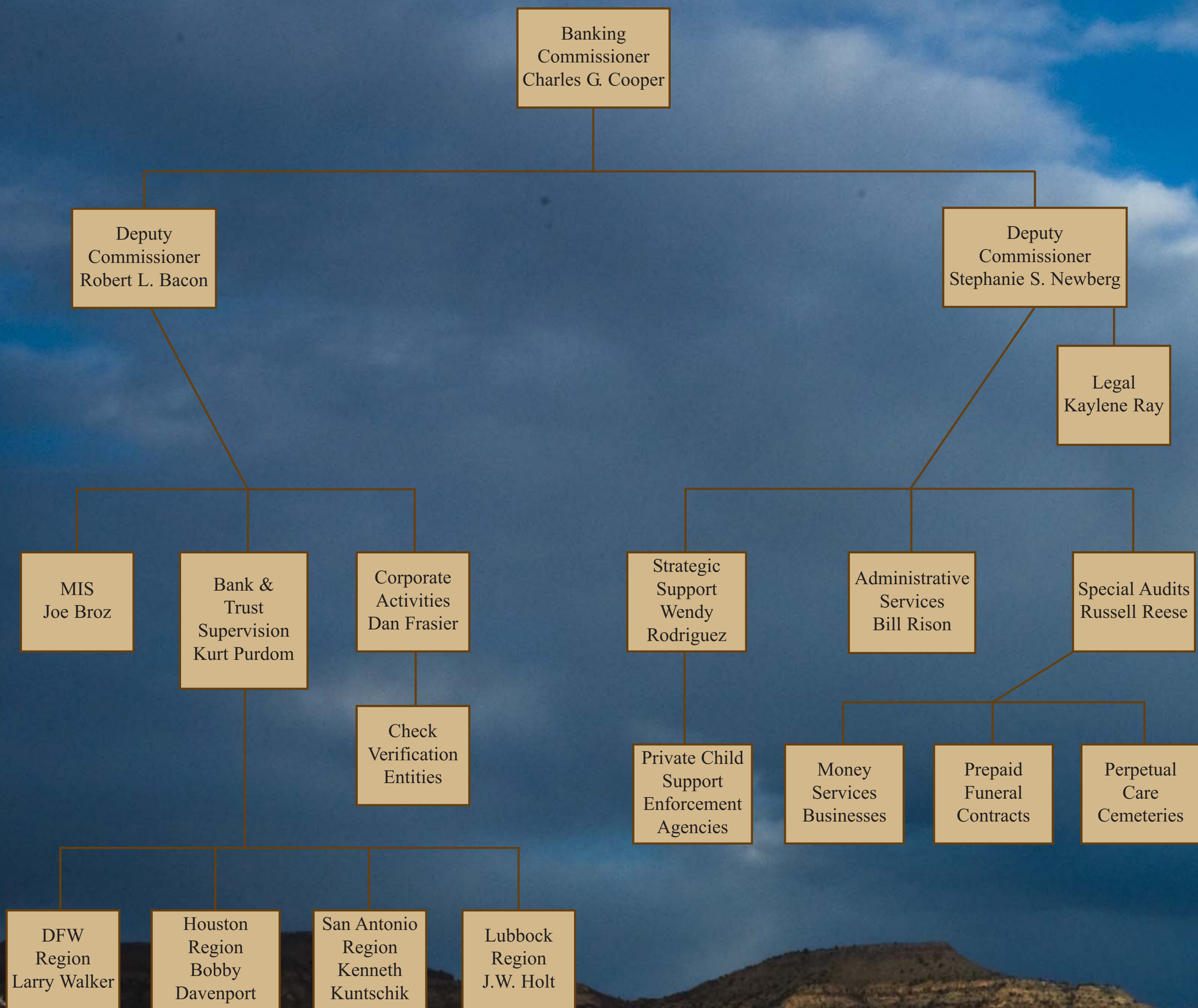


2011 Expenses



Department of Banking Organizational Chart

December 2011



Statement of Financial Condition
State-Chartered Banks in Texas

(in millions)

	Dec. 2011	Dec. 2010	Dec. 2009	Dec. 2008
NUMBER OF INSTITUTIONS	302	314	318	327
ASSETS				
Interest Bearing Balances	$ 10,299	$ 8,297	$ 9,362	$ 4,074
Federal Funds Sold	1,492	1,652	1,755	1,891
Trading Accounts	1,176	479	490	774
Securities	43,365	38,750	34,847	35,698
Total Loans	99,778	99,896	102,455	108,746
Less: Allowance for Loan Losses	(1,650)	(1,903)	(1,841)	(1,429)
Premises and Fixed Assets	2,901	2,889	2,843	2,733
Other Assets	13,029	12,527	12,900	12,125
Total Assets	***$170,390***	***$162,587***	***$162,811***	***$164,612***
LIABILITIES AND CAPITAL				
Total Deposits	$ 138,510	$ 129,396	$ 124,320	$ 118,491
Federal Funds Purchased & Repos	2,881	3,297	3,789	4,795
Trading Liabilities	407	405	409	662
Other Borrowed Funds	5,355	8,108	13,581	20,413
All Other Liabilities	4,041	3,573	3,646	4,438
Equity Capital	19,196	17,808	17,066	16,083
Total Liabilities and Equity Capital	***$170,390***	***$162,587***	***$162,811***	***$164,612***
RATIOS				
Yield on Earning Assets	4.19%	4.48%	4.71%	5.70%
Net Interest Margin	3.58%	3.67%	3.50%	3.63%
Return on Assets	0.97%	0.79%	0.69%	0.70%
Net Charge-offs to Loans	0.65%	0.97%	1.23%	0.61%
Assets Per Employee ($million)	4.77	4.50	4.44	4.60
Loss Allowance to Loans	1.65%	1.91%	1.80%	1.31%
Equity Capital to Assets	11.27%	10.94%	10.47%	9.77%
Total Risk-Based Capital Ratio	15.50%	15.19%	14.19%	12.65%

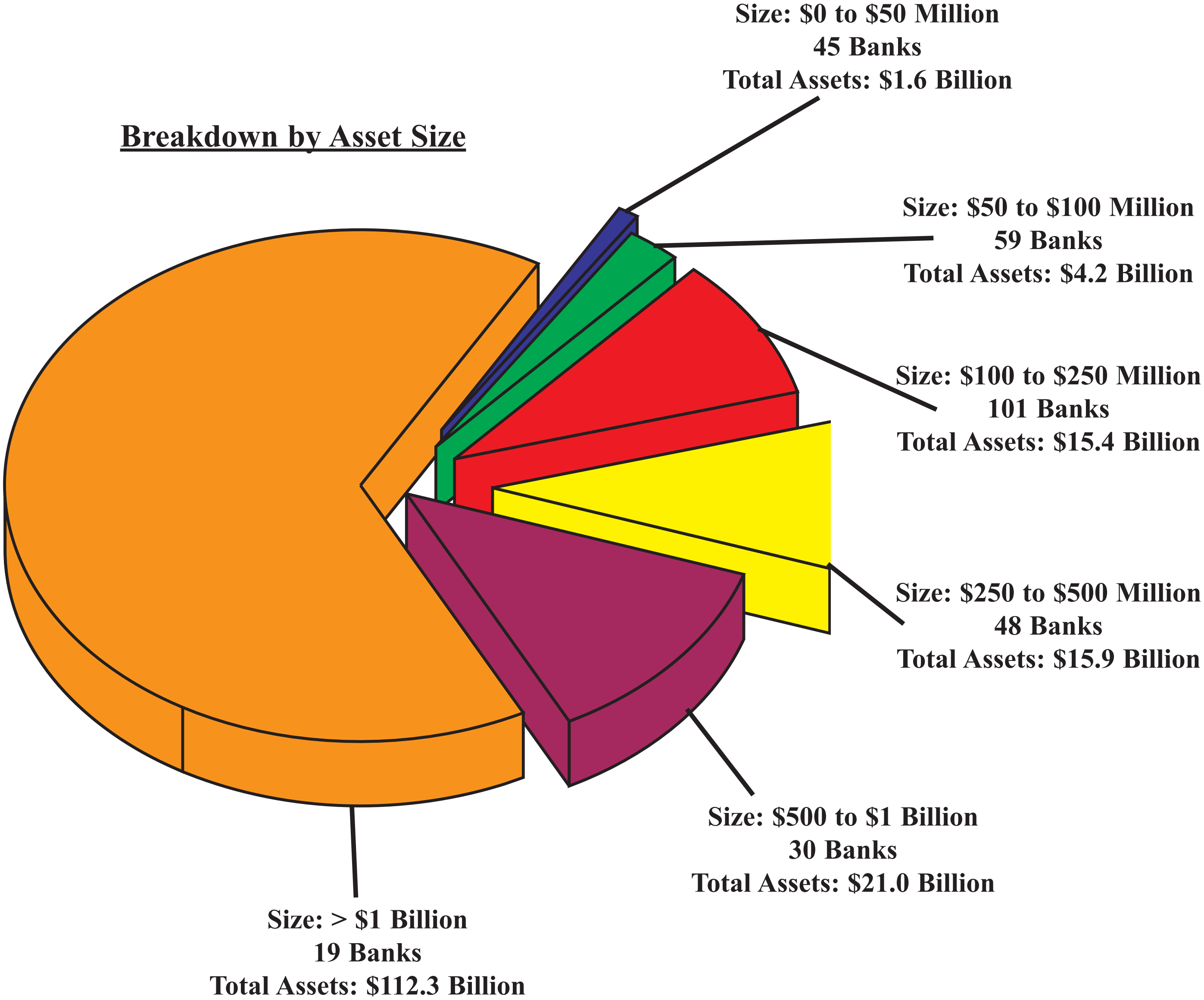
Statement of Income
State-Chartered Banks in Texas

(in thousands)

	Dec. 2011	Dec. 2010	Dec. 2009	Dec. 2008
INTEREST INCOME				
Loans	$ 4,893,047	$ 5,216,352	$ 5,379,709	$ 6,399,914
Lease Receivables	39,276	59,465	64,400	36,467
Due From Depository Institutions	43,102	48,872	48,333	37,165
Securities	1,153,216	1,213,095	1,454,489	1,424,158
Trading Assets	12,665	1,704	1,260	1,247
Federal Funds Sold	6,769	6,148	7,978	63,648
Total Interest Income	**6,148,075**	**6,545,636**	**6,956,169**	**7,962,599**
INTEREST EXPENSE				
Deposits	703,064	951,857	1,446,326	2,161,434
Federal Funds Purchased	54,245	63,136	75,401	152,289
Borrowings	92,419	128,177	193,599	486,296
Subordinated Notes	41,977	39,306	66,374	99,214
Total Interest Expense	**891,705**	**1,182,476**	**1,781,700**	**2,899,233**
Net Interest Income	5,256,370	5,363,160	5,174,469	5,063,366
Provision for Loan Loss	459,468	1,006,544	1,707,904	978,040
NONINTEREST INCOME				
Service Charges on Deposit Accts.	614,859	652,920	701,666	691,715
Other Noninterest Income	1,588,678	1,550,699	1,696,622	1,234,555
Total Noninterest Income	**2,203,537**	**2,203,619**	**2,398,288**	**1,926,270**
NONINTEREST EXPENSE				
Salaries and Benefits	2,722,777	2,672,279	2,552,606	2,440,324
Premises and Equipment	681,202	690,485	668,655	618,331
All Other Noninterest Expense	1,637,185	1,690,451	1,581,414	1,536,480
Total Noninterest Expense	**5,041,164**	**5,053,215**	**4,802,675**	**4,595,135**
Pre-Tax Net Operating Income	1,959,275	1,507,020	1,062,178	1,416,461
Securities Gains/(Losses)	74,837	113,820	330,203	(23,679)
Applicable Income Taxes	(473,233)	(354,754)	(263,139)	(310,987)
Extraordinary Gains - Net	4,120	17,663	1,572	934
NET INCOME	**$ 1,564,999**	**$ 1,176,385**	**$ 1,126,577**	**$ 1,082,729**

Financial Information on State-Chartered Banks in Texas

By: Size, Number, and Total Assets



Information as of December 2011 obtained from the FDIC database

Newest State Banks, Trust Companies, Money Services Businesses and Perpetual Care Cemeteries

State Bank Conversions

First Capital Bank, Quanah
May 2011

Trust Companies

Advance Trust & Life Escrow Services, LTA, Waco
February 2011

San Antonio Trust Company, LTA, San Antonio
July 2011

Summit Trust Company, Inc., Houston
March 2011

Money Services Businesses

Tower Administrative Services, Inc., Lancaster PA
March 2011

Bagunzu, Inc., Brownsville
June 2011

Green Dot Corporation, Monravia, CA
July 2011

Prabhu Group, Inc., Jackson Heights, NY
November 2011

Perpetual Care Cemeteries

Santa Fe Perpetual Care Cemetery, Inc., Mission
August 2011

Klein Memorial Park Cy-Fair II, Inc., Cypress
May 2011

Top 20 Largest Texas State-Chartered Banks

December 2011

Bank Name/City	Total Assets (thousands)
Comerica Bank, Dallas	$60,970,527
Prosperity Bank, El Campo	$9,816,225
International Bank of Commerce, Laredo	$9,621,944
PlainsCapital Bank, Lubbock	$5,681,476
Southside Bank, Tyler	$3,303,833
American State Bank, Lubbock	$3,079,063
TIB The Independent BankersBank, Irving	$2,507,508
United Central Bank, Garland	$2,348,538
City Bank, Lubbock	$2,020,141
Happy State Bank, Happy	$1,839,997
Legacy Bank of Texas, Plano	$1,583,961
Texas Bank & Trust Company, Longview	$1,431,344
Independent Bank, McKinney	$1,237,570
Patriot Bank, Houston	$1,222,763
North Dallas Bank & Trust Co., Dallas	$1,190,368
American Bank of Texas, Sherman	$1,140,346
First State Bank Central Texas, Austin	$1,112,762
Guaranty Bond Bank, Mount Pleasant	$1,091,068
First United Bank, Dimmitt	$1,081,173
Weststar Bank, El Paso	$ 986,432
Total	$113,267,039
Percentage of Total Texas State-Chartered Banking Assets	66.4%

Top 10 Largest
Texas State-Chartered Trust Companies

December 2011

Trust Company Name/City	Total Assets (thousands)
Hand Benefits & Trust Company, Houston	$ 4,756,617
The Houston Trust Company, Houston	$ 3,062,049
Westwood Trust, Dallas	$ 2,206,322
Kanaly Trust Company, Houston	$ 1,730,952
Sentinel Trust Company, L.B.A., Houston	$ 1,801,803
Austin Trust Company, Austin	$ 1,649,181
Woodway Financial Advisors, Houston	$ 1,251,926
Turtle Creek Trust Company, Dallas	$ 1,131,535
Investors Trust, Inc., Dallas	$ 793,322
Salient Trust Co., LTA, Houston	$ 751,658
Total	$19,135,365

Percentage of Total Texas State-Chartered Trust Assets 93.6%

Closed Account Notification System (CANS)

Transaction Count (March 1, 2008 to December 31, 2011)

	Submitted
Texas State-chartered Banks	1,857
Texas State-chartered Savings Banks	93
Federal Savings Institutions	184
State Credit Unions	1,647
Federal Credit Unions	1,578
National Banks	971
Out of State State-chartered Banks	3
Out of State National Banks	71
	6,404

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(Banking Executive)

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