

TEXAS BANK REPORT

Texas Department of Banking, Commissioner, Charles G. Cooper

Data as of September 30, 2011

Commissioner's Comments

Over the years, Texas seems to be in the spotlight for one reason or another, good and bad. For the last several years, the state's stable economy has attracted many businesses and prospective residents alike. Texas boasts of having job opportunities greater than other states with an unemployment rate below the national average. One of the strongest industry sectors, energy, has revitalized many quiet communities and Texas is again flush with drilling and related service activity. And, land owners with mineral rights have hit the lottery. While the Lone Star State's economy and job market are benefiting from the higher oil prices, all consumers may not agree.

Although the state's economy remains in recovery, there are signs that overall market conditions have slowed and the outlook is more uncertain. Additionally, national and global factors appear to be weighing on the state's businesses and consumers.

We were again reminded that even the most stable economies

cannot compete with Mother Nature. This year's heat wave, wildfires, and severe drought left Texans wondering where all the water went. Losses in the agricultural industry are calculated to be in the billions, and with that will come a rise in food and goods prices. Beyond agriculture, other industries are feeling the ramifications of the drought. For example, real estate prices in lake communities are declining as consumers shy away from purchasing homes along receding or nonexistent waterfronts. Summer tourism was down across the state, leaving some cities and towns with less tax revenue than originally estimated.

Wildfires claimed millions of acres and thousands of homes. Normal life was disrupted in several communities and for many families. In times like this, Texans pulled together. Likewise, Texas bankers came to the forefront and did what Texas bankers do best - they helped their communities. Our hats go off to all of the banks and the trade groups for this tremendous display of community support.

Charles G. Cooper
Banking Commissioner

***Since fire season began November 15, 2010,
almost 4 million acres have burned
across the state.***

- Texas Forest Service

***Governor Perry Renews Proclamation
Extending Wildfire and Drought Emergency
(November 30, 2011)***

- Office of the Governor



Helping The Community

The wildfires destroyed many acres and lives throughout Texas this year. The Texas Bankers Association and the Independent Bankers Association of Texas set up a Texas Bankers Fire Relief Fund with donations from Texas banks and bankers.

The fund benefits the Texas chapters of the American Red Cross in communities affected by the wildfires and the Texas Wildfire Relief Fund.

A check for \$67,680 was presented on November 3, 2011 to representatives of the American Red Cross and Texas Wildfire Relief Fund.



Capital Markets Hot Topic



Today's financial environment has left financial institutions facing an interesting and challenging problem – an influx of potentially rate sensitive deposits. Even with rates at historic lows, uncertainty in the debt and equity markets and problematic property values, has resulted in investors seeking the safety of insured deposits. This scenario presents a challenge in interest rate and capital adequacy management.

Once rates begin moving, repricing loans and deposits will occur and not necessarily at the same matrix. Institution's should plan on how they will manage interest rate changes in several different scenarios.

Department examiners are carefully monitoring this situation.

Most Common Deficiencies Found at Examinations

Examinations generally evaluate an institution's overall financial health, management practices, and compliance with state and federal laws. Detection of problems prevents surprises at your next examination. Bankers are always interested in what is being cited as problems at other institutions' examinations. For this reason, the Department wants to share some of the most common deficiencies noted during recent examinations for you to review to enhance compliance at your institution.

Appraisal and collateral evaluation deficiencies:

- oAnnual appraisals (or evaluations) on Other Real Estate Owned are not being performed timely;
- oUpdated appraisals or evaluations in distressed markets are not being obtained when commercial real estate loans are renewed; and,
- oIndependent third party inspections on livestock and equipment are not being performed.

It is recommended that bankers revisit Part 323.3 of the FDIC's Rules and Regulations, the Interagency Appraisal and Evaluation Guidelines, dated December 2, 2010, and the Department's Supervisory Memorandum 1008.

ALLL methodology:

- oQualitative factors used in the methodology are not adequately supported. For example, a bank's ALLL methodology assigns ten additional basis points to the ALLL balance due to a struggling local economy. However, there is no information in the file to support how much the economy is struggling or whether the ten basis point increase is sufficient.

Other notable deficiencies:

- oPersonnel resources devoted to monitoring of problem assets is inadequate;
- oFailure to realistically market the Other Real Estate portfolio; and,
- oFailure to realistically budget for the increased costs of carrying problem assets.

Announcements

Pursuant to SB 249 of the 82nd Legislature, two new members have been appointed by the Governor to the Finance Commission. The Commission will now consist of 11 members. The new members are:

Banking Executive
Larry L. Patton
Bank of the West
El Paso, Texas
Term Expires February 1, 2014



Public Member
Susan H. Burton
Susan Burton Consulting
Addison, Texas
Term Expires February 1, 2016



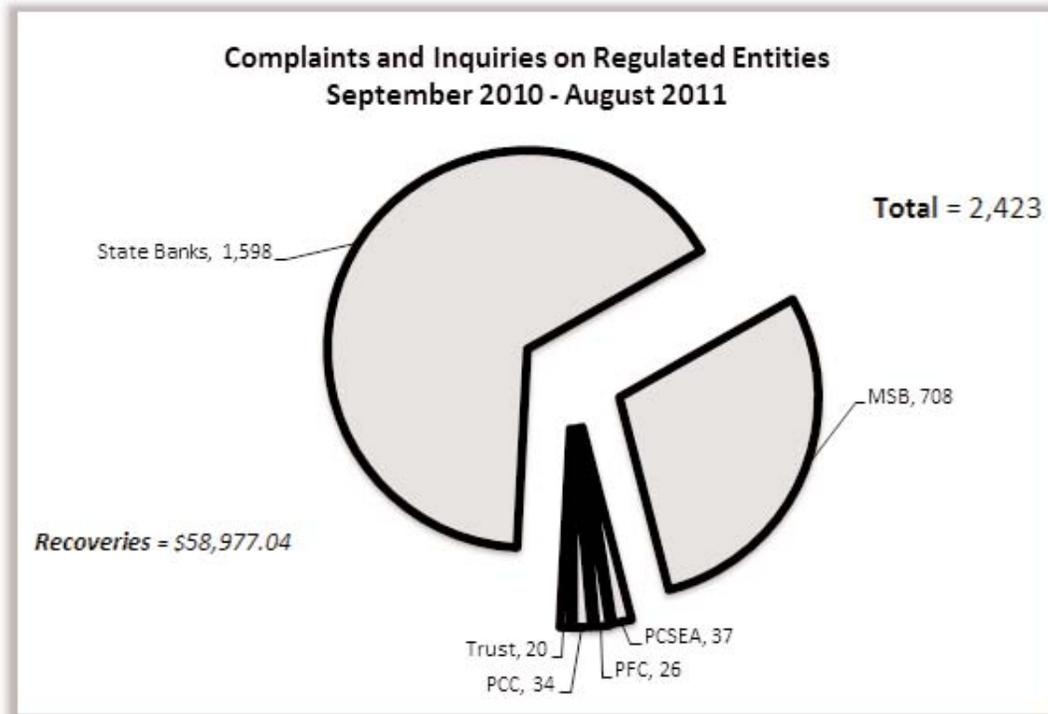
Revision of Supervisory Memorandums

Supervisory Memorandum 1004 regarding Examination Frequency for Trust Companies was revised as of September 30, 2011. The policy changes the examination frequency for 1 or 2 rated trust companies from a 12 month examination cycle to an 18 month examination cycle. Additionally, a Trust Company with 3 Rated Management and 1 or 2 CAMEL or 1 or 2 UITRS will be examined under a Level I Examination annually.

Supervisory Memorandum 1025 regarding Level II Full Scope Examinations – Temporary Program was revised October 28, 2011. The revision extends the Level II Examination Program an additional 12 months, unless otherwise revoked or amended by the Commissioner.

Each Memorandum can be found on the Department's website under the New Actions table of the Law and Guidance Manual webpage.

Summary of Complaints and Inquiries on Regulated Entities



Average Number of Days to Close a Complaint FY 2011

Type	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
State Banks	18	16	16	15
Trust	0*	0*	42	42
PCSEA	0*	0*	0*	3
PFC/PCC	42	37	41	39
MSB	42	0^	30	30

*opened and closed in same day.

^No complaints filed.

State-Chartered Banks and Trust Companies Complaints by Type September 2010 - August 2011

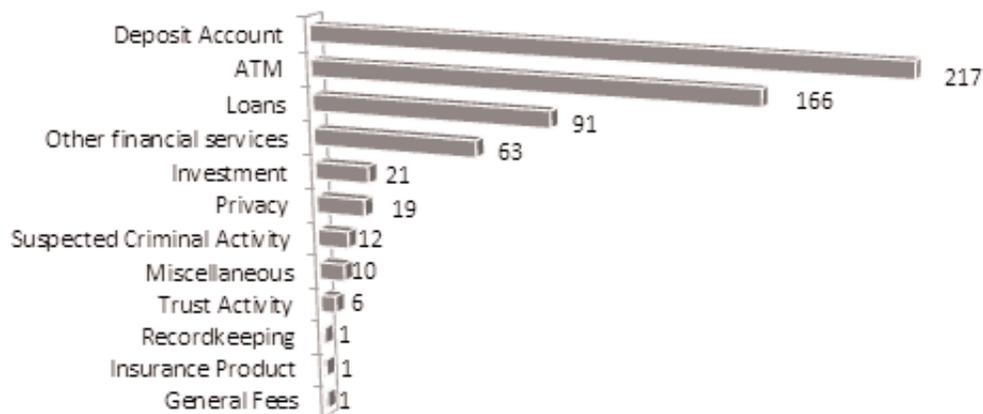


TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Banks 9/30/11 Through 9/30/10

ACCOUNT DESCRIPTIONS (IN MILLIONS OF \$)	9/30/11	6/30/11	3/31/11	12/31/10	9/30/10
Number of State-Chartered Banks	305	309	311	314	315
Total Assets of State-Chartered Banks	168,477	164,639	165,772	162,769	162,373
Number of Out-of-State, State-Chartered Banks Operating in Texas	25	21	21	20	20
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	35,985	35,520	35,520	34,780	34,780
Subtotal	204,462	200,159	201,292	197,549	197,153
Less: Out-of-State Branch Assets/Deposits	-37,987	-37,127	-37,127	-37,127	-37,127
**Total State Banks Operating in Texas	166,475	163,032	164,165	160,422	160,026
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	12,557	10,197	11,590	8,321	9,447
Federal Funds Sold	1,601	1,348	1,508	1,647	1,511
Trading Accounts	554	442	541	479	618
Securities Held-To-Maturity	8,255	8,666	8,654	8,287	8,017
Securities Available-for-Sale	33,480	31,863	31,671	30,462	28,408
Total Securities	42,289	40,971	40,866	39,228	37,043
Total Loans	97,459	98,035	97,869	99,901	100,608
Total Earning Assets	153,906	150,551	151,833	149,097	148,609
Premises and Fixed Assets	2,895	2,912	2,902	2,889	2,888
Total Assets	168,477	164,639	165,772	162,769	162,373
Demand Deposits	17,399	16,601	16,753	16,301	15,182
MMDAs	60,956	57,992	57,423	55,062	54,429
Other Savings Deposits	12,417	11,961	11,705	11,201	10,620
Total Time Deposits	37,383	38,142	38,586	38,631	39,207
Brokered Deposits	2,188	2,490	2,748	2,886	2,633
Total Deposits	136,248	132,451	132,663	129,396	127,577
Federal Funds Purchased	3,037	2,971	3,090	3,297	3,257
Other Borrowed Funds	5,395	6,534	7,493	8,109	8,544
Total Liabilities	149,116	146,041	147,674	144,990	144,312
Total Equity Capital	19,360	18,598	18,098	17,779	18,058
Loan Valuation Reserves	1,670	1,811	1,847	1,915	1,911
Total Primary Capital	21,030	20,409	19,945	19,694	19,969
Past Due Loans > 90 Days	282	227	203	200	522
Total Nonaccrual Loans	2,010	2,259	2,432	2,469	2,329
Total Other Real Estate	926	900	803	826	795
Total Charge-Offs	582	422	211	1,094	821
Total Recoveries	114	89	40	115	72
Net Charge-Offs	468	333	171	979	749
INCOME STATEMENT					
Total Interest Income	4,599	3,146	1,568	6,545	4,956
Total Interest Expense	691	487	248	1,182	920
Net Interest Income	3,908	2,659	1,320	5,363	4,036
Total Noninterest Income	1,619	1,062	521	2,202	1,599
Loan Provisions	315	226	109	1,021	790
Salary and Employee Benefits	2,002	1,345	665	2,671	1,971
Premises and Fixed Assets Expenses (Net)	502	342	171	690	514
All Other Noninterest Expenses	1,221	848	418	1,699	1,227
Total Overhead Expenses	3,725	2,535	1,254	5,060	3,712
Securities Gains (Losses)	67	31	11	113	99
Net Extraordinary Items	4	0	0	18	18
Net Income	1,195	752	376	1,253	977
Cash Dividends	494	307	134	441	271
RATIO ANALYSIS					
Loan/Deposit	71.53%	74.02%	73.77%	77.21%	78.86%
Securities/Total Assets	25.10%	24.89%	24.65%	24.10%	22.81%
Total Loans/Total Assets	57.85%	59.55%	59.04%	61.38%	61.96%
Loan Provisions/Total Loans	0.42%	0.46%	0.45%	1.02%	1.02%
LVR/Total Loans	1.71%	1.85%	1.89%	1.92%	1.90%
Net Charge-Offs/Total Loans	0.48%	0.34%	0.17%	0.98%	0.74%
Nonperforming+ORE/Total Assets	1.91%	2.06%	2.07%	2.15%	2.25%
Nonperforming+ORE/Primary Capital	15.30%	16.59%	17.24%	17.75%	18.26%
Net Interest Margin	3.30%	3.53%	3.48%	3.60%	3.53%
Gross Yield	4.80%	5.11%	5.04%	5.37%	5.25%
Return on Assets	0.92%	0.91%	0.91%	0.77%	0.78%
Return on Equity	8.02%	8.09%	8.31%	7.05%	7.03%
Overhead Exp/TA	2.87%	3.08%	3.03%	3.11%	2.97%
Equity/Total Assets	11.49%	11.30%	10.92%	10.92%	11.12%
Primary Capital/Total Assets+LVR	12.36%	12.26%	11.90%	11.96%	12.16%

*Unrealized gains/losses are already included in equity capital figures.

**Total State Banks Operating in Texas includes branches of out-of-state, state-chartered banks.

Data was derived from the FDIC website.

Financial data does not include one state-chartered bank that has fiduciary activities only and does not have the power to accept or pay deposits.

TABLE II
COMPARATIVE STATEMENT OF CONDITION
COMMERCIAL BANKS DOMICILED IN TEXAS
SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010

ACCOUNT DESCRIPTIONS (In Millions of \$)	9/30/2011 STATE CHARTERED		9/30/2011 NATIONAL CHARTERED		9/30/2011 ALL BANKS		9/30/2010 ALL BANKS	
		% TA		% TA		% TA		% TA
Number of banks	305	% TA	249	% TA	554	% TA	575	% TA
BALANCE SHEET								
Interest-Bearing Balances	12,557	7.5%	12,721	8.6%	25,278	8.0%	18,521	5.9%
Federal Funds Sold	1,601	1.0%	3,401	2.3%	5,002	1.6%	4,491	1.4%
Trading Accounts	554	0.3%	168	0.1%	722	0.2%	753	0.2%
Securities Held-To-Maturity	8,255	4.9%	2,237	1.5%	10,492	3.3%	10,074	3.2%
Securities Available-For-Sale	33,480	19.9%	25,005	16.9%	58,485	18.5%	51,296	16.4%
Total Securities	42,289	25.1%	27,410	18.5%	69,699	22.0%	62,123	19.9%
Total Loans	97,459	57.8%	95,035	64.1%	192,494	60.8%	201,692	64.5%
Total Earning Assets	153,906	91.4%	138,567	93.4%	292,473	92.3%	286,827	91.7%
Premises & Equipment	2,895	1.7%	2,243	1.5%	5,138	1.6%	5,200	1.7%
TOTAL ASSETS	168,477	100.0%	148,281	100.0%	316,758	100.0%	312,679	100.0%
Demand Deposits	17,399	10.3%	13,613	9.2%	31,012	9.8%	26,780	8.6%
MMDAs	60,956	36.2%	51,963	35.0%	112,919	35.6%	101,676	32.5%
Other Savings Deposits	12,417	7.4%	25,241	17.0%	37,658	11.9%	33,559	10.7%
Total Time Deposits	37,383	22.2%	25,966	17.5%	63,349	20.0%	68,851	22.0%
Brokered Deposits	2,188	1.3%	2,461	1.7%	4,649	1.5%	5,979	1.9%
Total Deposits	136,248	80.9%	122,914	82.9%	259,162	81.8%	245,660	78.6%
Fed Funds Purchased	3,037	1.8%	2,382	1.6%	5,419	1.7%	8,948	2.9%
Other Borrowed Funds	5,395	3.2%	4,280	2.9%	9,675	3.1%	16,134	5.2%
TOTAL LIABILITIES	149,116	88.5%	131,051	88.4%	280,167	88.4%	277,472	88.7%
Equity Capital	19,360	11.5%	17,230	11.6%	36,590	11.6%	35,203	11.3%
Allowance for Loan/Lease Losses	1,670	1.0%	2,119	1.4%	3,789	1.2%	4,287	1.4%
Total Primary Capital	21,030	12.5%	19,349	13.0%	40,379	12.7%	39,490	12.6%
Past due >90 Days	282		595		877		1,342	
Nonaccrual	2,010		2,081		4,091		5,263	
Total Other Real Estate	926		763		1,689		1,632	
Total Charge-Offs	582		745		1,327		1,896	
Total Recoveries	114		156		270		288	
INCOME STATEMENT								
	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	4,599	100.0%	4,502	100.0%	9,101	100.0%	9,876	100.0%
Total Interest Expense	691	15.0%	488	10.8%	1,179	13.0%	1,619	16.4%
Net Interest Income	3,908	85.0%	4,014	89.2%	7,922	87.0%	8,257	83.6%
Total Noninterest Income	1,619	35.2%	1,190	26.4%	2,809	30.9%	3,866	39.1%
Loan Provisions	315	6.8%	456	10.1%	771	8.5%	1,752	17.7%
Salary & Employee Benefits	2,002	43.5%	1,500	33.3%	3,502	38.5%	3,441	34.8%
Premises & Fixed Assets (Net)	502	10.9%	399	8.9%	901	9.9%	912	9.2%
All Other Noninterest Expenses	1,221	26.5%	1,050	23.3%	2,271	25.0%	3,452	35.0%
Total Overhead Expenses	3,725	81.0%	2,949	65.5%	6,674	73.3%	7,805	79.0%
Securities Gains(losses)	67	1.5%	31	0.7%	98	1.1%	108	1.1%
Net Extraordinary Items	4	0.1%	0	0.0%	4	0.0%	53	0.5%
NET INCOME	1,195	26.0%	1,365	30.3%	2,560	28.1%	2,134	21.6%
Cash Dividends	494		1,008		1,502		966	
Average ROA	0.92%		1.20%		1.05%		0.89%	
Average ROE	8.02%		10.30%		9.10%		7.88%	
Average TA (\$ Millions)	552		596		572		544	
Average Leverage	11.49%		11.62%		11.55%		11.26%	
Dividends/Net Income	41.34%		73.85%		58.67%		45.27%	

*Unrealized gains/losses are already included in equity capital figures.

TABLE INCLUDES ONLY BANKS DOMICILED IN TEXAS. BRANCHES OF OUT-OF-STATE BANKS ARE NOT INCLUDED.

Data was derived from the FDIC website.

Financial data does not include one state-chartered bank that has fiduciary activities only and does not have the power to accept or pay deposits.