Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner

October 2016

Is Your Bank Prepared?

- *Risk Management*
- *Commercial Real Estate*
- *Cybersecurity*
- *Matters Requiring Attention*

Commissioner's Comments

"What started as a partnership between the Conference of State Bank Supervisors (CSBS) and the Federal Reserve Bank of St. Louis has blossomed into an opportunity for bankers to discuss their issues, and for academics to present valuable research about the importance of community banking."

Throughout the years, innovative products and services have emerged from community banks to serve customers and strengthen communities. Not only has each new service been an opportunity to connect with customers, but they have also offered options to those seeking a better banking experience. The need to preserve community banking is a priority that benefits many communities and supports our economy.

I have been fortunate to participate in a variety of forums and events supporting community banking and the role they play in the growth of Texas and communities nationwide. The most recent event was the 4th Annual Community Banking in the 21st Century Research and Policy Conference. What started as a partnership between the Conference of State Bank Supervisors (CSBS) and the Federal Reserve Bank of St. Louis has blossomed into an opportunity for bankers to discuss their issues, and for academics to present valuable research about the importance of community banking. Research papers and discussions from the conferences have pointed to the need for "right-sized regulation" and highlight the need to carefully consider the impact of regulations on the industry before implementation. In a nutshell, there must be a common sense approach to supervision while maintaining a diverse and strong dual-banking system.

CSBS supports state regulatory agencies and community banks by providing a seat at various legislative and regulatory tables, and by offering educational opportunities to professional bankers at every level. As a participating state, Texas has the opportunity to gain first-hand knowledge of legislative developments on Capitol Hill in Washington, D.C. With regulatory relief and reform as a prime objective, having an ear in Washington is beneficial for the agency to assess pending legislation sooner rather than later so we can relay important information to bankers quickly. At the June town hall meetings this year, we had the opportunity to discuss the Financial CHOICE Act within a few days of its release. With only a limited number of days remaining in the 114th Congressional session, we will await the legislative priorities for the next Congress.

If you have not noticed, both active participation and grass-roots efforts are key to making a difference in legislative outcomes. We managed to make some positive changes to assist smaller institutions in a number of areas with your input and participation. One result is the ability for more community banks to be eligible for longer 18-month examination cycles. Another positive result of banker participation and collaboration was the change to require at least one member of the Federal Reserve Board to have experience in community banking or state supervision. Together, we have made progress to continue to preserve the dual banking system.

By studying the past, and learning from those before us, we have a stronger more unified system. As we continue to work towards a mutual goal, I leave you with the wisdom of former Banking Commissioner Charles O. Austin. The excerpt below was written 100 years ago by Commissioner Austin and his thoughts remain appropriate today.

"Never before in the history of Texas has such a vast accumulation of money been on deposit in her banks, which fact must be a source of great gratification to all of us who are interested in the development and the material welfare of the state."

Charles G. Cooper
Banking Commissioner

Then and Now

Commissioner Charles O. Austin's comments from 100 years ago

TO THE DIRECTORS AND OFFICERS
OF
TEXAS BANKS
October 28, 1916

"Never before in the history of Texas has such a vast accumulation of money been on deposit in her banks, which fact must be a source of great gratification to all of us who are interested in the development and the material welfare of the state. Nevertheless, it may be said with equal certainty that never before in the history of the state have all of the conditions been so favorable to the development of a period of speculation as at present and the outgrowth of the condition of unparalleled prosperity now existing throughout our country. This calls for the sounding of a note of caution to those who are charged with the duty of guarding the public's money and upon whose shoulders rest the greatest responsibilities that have been imposed upon any class or body of men during times of peace in the history of our country. You are charged with the duty and obligation of protecting this vast aggregation of the savings of your depositors and which represents a very large part of the entire volume of liquid capital of our business community, to the end that the continued prosperity and happiness of our people may not be interrupted."

"The history of the commercial development of our country has been one of successive inflation and deflation or of great prosperity and consequent depression, for depression in the financial world is the inevitable corollary of great prosperity which breeds inflation."

"The large volume of idle money in your hands at present may create a desire to earn large profits for your bank by making investmen hastily and without proper regard for the character of and the security offered by the borrower."

"You are especially warned against the danger of making loans of any kind without most searching and careful investigation of the maker's moral character and financial responsibility, as well as of the value of the security offered."

"You are especially warned against the danger of purchasing investments and loans originating outside of your immediate community and about which you have no personal knowledge but for information concerning which you must depend entirely upon the representations of some other person or banker."

"You are especially warned against the danger of making slow and long time loans for capital or permanent investment purposes against a large volume of deposits subject to withdrawal at demand."

"Please do not forget that the same changing conditions that may and doubtless will in time bring about a decrease in your deposits will more than likely result in a decrease of the deposits of your city correspondent and do not be deceived into expanding your own loans beyond the margin of utmost conservatism in the belief that you may always be able to obtain an immediate relief from your reserve agent for he may not find it convenient to supply you with funds to meet your decreasing deposits or restore your falling reserves at the time you may most need such assistance."

"In brief, permit me to warn you in all seriousness against the great danger of an inflation of your loans upon the present basis of an abnormally large line of deposits."

Chas. O. Austin, Commissioner
Texas Department of Banking

Courtesy - Texas First State Bank - Chartered 1906

"Hot Button" Issues For Regulators

By Jared Whitson

Energy Update

Many economists believe the oil and gas industry is in a state of transformation, especially considering the near term decisions of the Organization of Petroleum Exporting Countries (OPEC). OPEC's decision to continue producing large volumes of oil has ultimately reduced prices, making it economically challenging to drill in the United States. Until the demand for oil outpaces supply and re-balances, prices will most likely remain "lower for longer" and continue restricting economic activity in Texas.

The decline in energy prices has impacted the financial sector throughout Texas, albeit some areas are more noticeable than others. The geographic locations that are isolated and solely dependent on the oil and gas industry, such as Midland/Odessa and parts of South Texas, have been hit harder than other more diversified economies such as Dallas/Fort Worth, San Antonio, Austin, and to some degree, Houston. While there has been a modest increase in the dollar volume of adversely classified assets in oil and gas dependent banks, most state-chartered banks have weathered the storm quite well and promptly identified and addressed the borrowers that are experiencing financial difficulties. Regardless of the locality, recent examinations have revealed that management teams that were proactive versus reactive and that followed sound policies and procedures have fared much better than the institutions that strayed from a preemptive course.

Risk Management

The board of directors is responsible for ensuring control systems are in place to identify, measure, monitor, and control a bank's exposure to oil and gas activity. Board approved policies and procedures outlining the bank's objectives, risk appetite, types of loans, portfolio distribution, lending territory, risk limits as a percentage of capital, guidelines for engineering reports, and underwriting standards are necessary to adequately govern the portfolio. Prudent risk management practices should also incorporate the following:

- Code all loans at origination using North American Industry Classification System to better monitor the direct and indirect expo sure based on collateral types;
- Monitor credit concentrations on a recurring basis;
- Perform regular borrowing base redeterminations and sensitivity analysis on borrowers;
- When significant commodity price changes occur, management should stress test the most recent engineering report and deter mine ongoing collateral support;
- When reassessing internal loan grades, the borrower's financial capacity or the probability of default should be assessed as well as the collateral protection;
- Obtain regular collateral evaluations;
- Assess the qualitative factors used in calculating the ALLL (ASC 450 – Accounting for Contingencies) to ensure severe price changes are captured in the methodology;
- Monitor large depositors linked to the energy sector; and
- Establish standards for diversification of credit risk in the municipal bond portfolio, especially those in oil rich municipalities.

Risk management is a dynamic process that requires active and regular evaluation. Most of these risk management practices have been mentioned before, most recently in the Texas Department of Banking's (Department) October 2015 Texas Bank Report and the Department urges all banks to be proactive in their risk assessments. We encourage banks to revise and update operating policies and procedures when warranted.

Commercial Real Estate (CRE)

Real estate lending typically represents one of the major components of credit risk at many community banks in Texas. The composition of an institution's real estate portfolio will vary based on differences in market competition, geographic area, lending experience, and asset size. Institutions with CRE concentrations are expected to have sound risk management practices and maintain capital levels commensurate with the level and measured risk. History has proven that banks with strong risk management practices mitigate potential losses in the event of adverse CRE market conditions. The following components are necessary to ensure an effective and robust risk management program:

Board and Management Oversight

- Approval of a CRE strategy and established policy guidelines
- Periodic review to determine compliance with policy limits/ sub-limits
- Periodic analysis of relevant market conditions and trends

Portfolio Management

- Strategies for managing CRE concentration levels, including contingency plans for reducing or mitigating concentration levels
- Capital planning with specific triggers and contingency plans for raising additional capital
- Periodic assessment of the portfolio's marketability

Management Information Systems

- Ability to stratify the portfolio by property type; geographic area; tenant type; tenant concentrations; and developer concentrations
- Timely and accurately report risk profile and concentration changes

Credit Underwriting

- Written policies and procedures that are consistent with the level of risk accepted by the board
- Portfolio stress testing and sensitivity analysis
- Independent credit review

Financial institutions are encouraged to maintain prudent underwriting discipline and exercise sound risk management practices that identify, measure, monitor, and control the risk arising from their CRE lending activity. In addition, institutions with concentrations approaching the regulatory guidance levels should begin augmenting their CRE risk management programs to ensure they are sufficiently intact when such levels are reached. Banks with CRE concentrations in excess of the regulatory guidance levels or approaching such levels are subject to increased regulatory scrutiny. For further guidance on CRE lending, banks may review joint interagency statement SR 15-17 issued by the federal regulatory agencies in December 2015 with regard to prudent risk management practices for CRE lending.

High Volatility Commercial Real Estate (HVCRE)

The reporting of HVCRE was implemented in January 2015 and requires all loans meeting the definition of HVCRE be reported separately from other CRE loans and be assigned a risk weighting of 150% for risk-based capital purposes. This was an increase from 100% and has impacted risk-based capital ratios for institutions with large CRE portfolios. Onsite examinations have discovered that some banks are misreporting or underreporting HVCRE loans. Banks must ensure sufficient processes are implemented and maintained for accurately identifying and reporting HVCRE eligible loans.

The regulatory capital rules for identifying HVCRE state that all loans used for acquisition, development, and construction (ADC) of real property prior to a conversion to permanent financing be reported as HVCRE unless one of the following criteria is met:

- The loan is secured by 1-4 family residential projects;
- The loan is secured by property that would qualify as an investment in a community development project;
- The loan is secured by agricultural land and is used for the purchase or development of land that will or can be used for agricultural purposes. The valuation of the land must be based on its use for such purposes; and
- The loan finances an ADC project in which ALL of the following criteria are met:
  (1)The loan-to-value (LTV) is at or below the maximum supervisory LTV limits;
  (2)The borrower(s) has contributed at least 15% of the "as completed" appraised value in cash or unencumbered readily marketable assets; and
  (3)Borrower-contributed capital is contractually required to remain throughout the life of the project.

The concept of contributing capital is conceivably the most subjective and, therefore, where examiners find the most discrepancies in the reporting of HVCRE. The following chart summarizes which types of borrower contributions may and may not be included in determining whether or not a loan is exempt from HVCRE designation.

Assets that **are eligible** to be counted toward contributed capital:	Assets that **are not eligible** to be counted toward contributed capital:
• Land, purchased with cash that is contributed to the project prior to the advancement of funds. • Out-of-pocket development expenses paid by the borrower, including: brokerage fees, marketing expenses, and cost feasibility studies. • Soft costs included in development expenses, provided that they are reasonable in comparison to similar services from third parties. Examples include: interest and fees related to pre-development expenses, developer fees, leasing expenses, brokerage commissions, and management fees. • Cash expended by the borrower to acquire a site, including engineering or permitting expense directly related to the project.	• Borrower-owned real estate from an unrelated project pledged to the subject property. • Purchasers' deposits on units in a condominium project (that is not already exempt by virtue of its designation as a 1-4 family property). • Financing from an external lienholder, such as a second mortgage. • Assets contributed to the project after the advancement of funds. • Cash received in the form of grants, regardless of whether the grant is received from nonprofit organizations, municipalities, or government agencies. • Proceeds from a separate loan used to finance the project. • Any contribution that may be withdrawn by the borrower prior to the borrower obtaining permanent financing, selling the project, or paying the loan in full.

Source: Conference of State Bank Supervisors - High Volatility Commercial Real Estate Examiner Job Aid

Refer to the frequently asked questions complied by the FDIC on HVCRE for further information.

MATTERS REQUIRIN

By Tanya Miller

The Texas Department of Banking values effective communication with our regulated entities. We make it a priority to clearly communicate examination findings to the board of directors and management through the report of examination, which is intended to highlight the major findings from the examination and direct the board's attention to those areas where deficient practices require their attention. Because the report may also contain recommendations for improvement in areas with minor weaknesses, the Department recently revised the report of examination to include a Matters Requiring Attention (MRA) page appearing in the front of the report, when applicable, to draw attention to the matters that examiners consider to be the most significant and deserving of immediate attention by the board.

Matters Requiring Attention Defined

MRAs are items mentioned throughout the report of examination that describe practices, or lack of practices, that deviate from sound risk management principles, governance, or internal controls. Without corrective action, these matters may adversely impact the bank's safety and soundness, including risk to earnings or capital, as well as the overall risk profile of the institution. If not addressed, the bank could be subject to an increased supervisory response that may include elevated regulatory supervision, enforcement actions, or additional conditions that would delay the approval of any application or other requests by the bank. The board and management are responsible for ensuring timely correction of these practices and establishing a process to test their effectiveness. The MRA page will include a commitment from management and the timeframe for correction. Additionally, when MRAs are cited within a report, a formal written response to the report findings will be required to detail the steps taken, or in process, to address the MRA.

Forecasting Evolving Risks

As noted in the FDIC's Summer 2016 edition of *Supervisory Insights*, regulators can collectively analyze MRA trends to forecast risks that may be emerging in the industry. The types of MRAs are continuously changing and tend to be reflective of changes in risks facing the banking industry. The Department is able to identify the evolving risks and bring them to the attention of our regulated institutions so that they may be proactive in mitigating these issues before they adversely affect the overall condition of the bank. Typically, the longer risks go without being identified, monitored, and controlled, the more difficult and costly they become to the institution. Therefore, it is in the best interest of the Department and all banks that we maintain an awareness of these trends and communicate them in a clear, concise manner.

National Trends

A study compiling FDIC supervisory data reflects that between 2011 and 2015, loan and management-related issues are most often cited as a MRA. However, in 2014 and 2015 loan related MRAs were declining while management, liquidity, information technology (IT), and Bank Secrecy Act (BSA) compliance MRAs were on the rise. This nationwide trend implies that corporate governance could be an area that banks need to closely evaluate to ensure that their board and senior management teams are diligent in identifying, measuring, monitoring and controlling areas of risk to minimize the probability of financial loss and/or loss of business continuity. The board and management must be aware of and fully understand the bank's risk profile and ensure that sound policies and procedures are maintained to mitigate significant weaknesses in policies, practices or procedures. The FDIC published a special corporate governance edition of *Supervisory Insights* in April 2016 that is a beneficial resource for banks as it highlights key governance concepts, roles, and responsibilities.

National trends also suggest that improvements in credit quality have decreased loan related MRAs; however, the number of loan-related MRAs addressing concentration risks have increased. These MRAs most often require banks to establish limits, improve monitoring practices, and enhance

stress testing to determine the sensitivity of the concentration to adverse market or economic conditions. Call Report data indicates that over the past few years there has been rapid loan growth and heightened concentrations reported for a significant number of institutions. These concentrations primarily consist of commercial real estate and agriculture credit relationships. Responsiveness to MRAs can mitigate risks and reduce the chance of problems arising in the future.

Lastly, national trends also show liquidity, IT, and BSA related MRAs to be increasing according to the FDIC. Liquidity MRAs focus primarily on asset liability management deficiencies resulting from weak corporate governance related to contingency funding plans. IT and BSA continue to be a challenging area of business risk and merit close oversight. Cybersecurity preparedness, sound internal controls and audit functions, as well as appropriate staffing and expertise are areas that are commonly addressed in IT and BSA related MRAs.

Texas Trends

The Department's analysis of outstanding MRAs cited in reports of examinations for regulated institutions closely mirrors the findings of the national data. A number of corporate governance issues are covered by MRAs including strategic planning, management succession planning, and audit program weaknesses.

Loan-related MRAs continue to make up a significant portion of outstanding MRAs; however, as noted on a national level, these are largely associated with the need to improve concentration risk management. Bank's with significant credit concentrations are being asked to improve stress testing, board reporting, and capital and contingency planning as it relates to concentrations. Commercial real estate concentrations are the primary focus for many of the MRAs, but oil and gas loan concentrations are also driving many of the MRAs in Texas.

Liquidity-related MRAs in Texas are focused on improving the contingency funding plans and reducing reliance on noncore funding sources. Also, a number of MRAs address interest rate risk. This continues to be an area of concern as some banks have taken on a significant level of interest rate risk through lengthened maturities of investment securities for higher yields to offset low loan demand.

Lastly, recent MRAs include a variety of BSA and IT related issues. BSA-related issues are centered on ineffective or un-validated automated processes, lack of sufficient staffing or resources to ensure compliance, and inadequate written policies. IT-related issues are focused on system controls, segregation of duties, business continuity plans, disaster recovery testing, and measuring cybersecurity maturity levels.

The Texas Department of Banking is hopeful that the new look of the examination report and the addition of the MRA page will help the board and management teams in prioritizing corrective action and incite proactive measures to address emerging risks. Additionally, the included MRA trend information is intended to provide bank management with an understanding of the evolving risks in the banking industry. The trending weaknesses and recommendations will likely be a focus in upcoming examinations. Board and management teams are encouraged to closely evaluate the areas highlighted above to ensure that necessary actions are taken to strengthen their institution before the risk elevates to a level that is difficult and costly to address.

Cybersecurity Assessment Tool – Moving Beyond Baseline Texas Department of Banking Expectations

By Linda Pearson

In January 2016, Department examiners began reviewing completed assessments pursuant to the September 2015 Industry Notice requiring all banks to measure cybersecurity risk and maturity levels. No specific method was prescribed for measuring these levels. However, most banks chose to use the Cybersecurity Assessment Tool developed by the Federal Financial Institutions Examination Council (FFIEC) or an automated version of the FFIEC tool provided by a third party.

The assessments reflect that the majority of our community banks fall into the "least" or "minimal" inherent risk profile level. As expected, the larger community banks have more complex technology operations resulting in higher inherent risk profiles. Also, the majority of our community banks are at or near baseline maturity levels. Banks that are below baseline generally lack only a few areas where remediation plans are needed to achieve the expected minimum level of maturity.

The Department expects all banks to reach baseline by the end of 2016. This level represents regulatory requirements established in the FFIEC Information Technology (IT) Examination Handbook. Examination staff has been using the handbook for several years when reviewing IT operations.

Once you have reached baseline, then what? The assessments should not be put on a shelf and ignored, or in this day and age, put in an electronic folder never to be opened again. The board is responsible for setting the vision, risk appetite, and overall strategic direction for the institution. The board and senior management should remain actively involved in reassessing the cyber risks and maturity levels even after it is completed the first time. The institution's inherent risk profile and maturity levels should be updated whenever changes are made to the technology environment or at least annually due to rapid changes in technology risks. Several banks have found it advantageous to include several levels of management in the assessment update process. Input from all levels of bank employees assisting with validating assessment results ensures that all bank employees understand the importance of controls implemented to thwart cyber-attacks. Developing employee awareness is important when developing a culture of security.

The FFIEC Cybersecurity Assessment Tool reflects five levels of maturity: baseline, evolving, intermediate, advanced, and innovative. While the Department expects all banks to reach and maintain baseline, regulatory guidance and expectations tend to be the minimum internal control requirements necessary. Unfortunately, cybercriminals are always ahead of regulatory guidance.

Regardless of size or inherent risk profile level, the expectation is that all banks will actively try to strengthen cybersecurity preparedness by implementing as many higher standards as feasible. Of course, cost versus benefit based on the institution's inherent risk profile should be determined prior to implementing expensive controls, but all institutions can benefit from some of the higher standards. We encourage banks to proactively take steps to evaluate, and where appropriate, begin implementing some of the higher maturity level controls.

Effective Cybersecurity and Financial Services Information Sharing and Analysis Center

By Linda Pearson and Phillip Hinkle

Criminals and other adversaries have demonstrated the commitment and ability to infiltrate computer systems of both banks and private organizations for the purpose of committing financial crimes and disrupting the banking industry. Having access to timely information that could help you protect your financial institution and customers is necessary in today's world.

This article is a reminder that in November 2014 the FFIEC issued a statement that recommended all financial institutions regardless of size to participate in the Financial Services Information Sharing and Analysis Center (FS-ISAC). While many Texas institutions have joined and are participating, the number participating is less than half of the banks. This raises the question if our future examinations will show that many banks do not meet the minimum baseline cybersecurity requirement. Therefore we are again encouraging banks to participate in FS-ISAC that don't already.

The FS-ISAC is a private-sector nonprofit information-sharing forum established in 1999 by financial services industry participants. It was formed in response to the federal government's efforts to facilitate the public and private sectors' sharing of physical and cybersecurity threat and vulnerability information. Its goals include helping to facilitate the detection, prevention, and response to cyber-attacks and fraud activity. Member organizations have access to information from their financial services peers, providers, commercial security firms, federal, state and local government agencies, law enforcement and other trusted resources to protect the integrity of their information and infrastructure.

The U.S. Department of Treasury is an official government sponsor and has provided substantial project funding to meet the requirements of the FS-ISAC. The financial cost for community financial institutions to participate is extremely low, typically ranging from free to $850 per year. Banks that do not have the technical staff to monitor and act on alerts have an option for their network maintenance firm to participate on their behalf.

Based on the level of service, members take advantage of a host of important benefits, including early notification of security threats and attacks, anonymous information sharing across the financial services industry, regularly scheduled member meetings, regional and other events for sharing best practices and threat trends, webinars, and bi-weekly threat conference calls.

An example of one of the services offered includes an annual two-day tabletop exercise to simulate an attack on payment systems and processes. The exercise simulates a real-world cyber-attack against wire and other payment systems to challenge incident response teams and test incident response plans. This event is free to all regulated financial institutions, and FS-ISAC membership is not required to participate in it. Many Texas banks participated in the last exercise held in late September.

If you did not, we encourage you to participate next year and to sign up to participate in FS-ISAC, to take advantage of the additional benefits as part of an effective cybersecurity program.

The Dallas and Houston offices moved this summer into new spaces to accommodate their respective examination staff. If you are sending any correspondence to the respective offices, make sure you have the new address.

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Undergraduate Banking Programs in Texas

For Future Banking Professionals

Baylor University

Commercial Banking Program

The Commercial Banking Program was established in 2012 and is a two year program where students receive a Bachelor of Business Administration with a major in Finance. This program helps undergraduates prepare for careers in commercial banking and develops future talent for the industry. The program has approximately 10 students in each graduating class.

Ernest Fletcher, Jr.
Senior Lecturer
Hankamer School of Business
254-710-7481

Sam Houston State University

Bachelor of Business Administration in Banking and Financial Institutions

Sam Houston University offers a Bachelor of Business Administration Degree in Banking and Financial Institutions. To date, the program has placed approximately 1,180 interns in banks and regulatory agencies. The four year program was established in 1997 and has approximately 25 students in each graduating class.

James B. Bexley, Chair
Smith-Hutson Endowed Chair of Banking
College of Business Administration
936-294-3722

Texas A&M

Commercial Banking Program

The Texas A&M Banking Program is a two year program where students receive a Bachelor of Business Administration with a major in Finance and a Certification in Commercial Banking. The program was established in 2011 and has approximately 30 students in each graduating class.

Dwight Garey
Executive Director/Commercial Banking Program
Mays Business School
979-845-4886

University of Houston

Commercial Banking Track and Certificate

The University of Houston offers a Bachelor of Business Administration Degree in Finance and a Certificate in Commercial Banking. The program was established in 2014.

Dr. Charles Guez
NASDAQ Executive Professor
C. T. Bauer College of Business
713-743-4757

Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 6/30/16 Through 6/30/15

ACCOUNT DESCRIPTIONS (IN MILLIONS OF $)	6/30/16	3/31/16	12/31/15	9/30/15	6/30/15
Number of State-Chartered Banks	249	250	252	256	261
Total Assets of State-Chartered Banks	248,535	244,188	246,960	244,320	241,317
Number of Out-of-State, State-Chartered Banks Operating in Texas	28	28	28	28	27
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	57,340	57,340	57,340	57,340	49,932
Subtotal	305,875	301,528	304,300	301,660	291,249
Less: Out-of-State Branch Assets/Deposits	-52,259	-52,259	-52,259	-52,259	-49,194
**Total State Banks Operating in Texas	253,616	249,269	252,041	249,401	242,055
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	13,003	13,273	16,084	17,109	14,497
Federal Funds Sold	685	657	646	662	805
Trading Accounts	516	488	421	505	382
Securities Held-To-Maturity	17,486	17,846	18,497	18,366	18,810
Securities Available-for-Sale	45,807	45,199	45,253	43,547	43,267
Total Securities	63,293	63,045	63,750	61,913	62,077
Total Loans	151,589	148,063	146,617	144,988	144,299
Total Earning Assets	228,570	225,038	227,097	224,672	221,678
Premises and Fixed Assets	3,897	3,898	3,911	3,891	3,889
Total Assets	248,535	244,185	246,933	244,321	241,317
Demand Deposits	27,671	26,559	30,923	27,347	28,342
MMDAs	112,762	114,720	112,777	112,703	108,876
Other Savings Deposits	20,646	20,469	20,117	19,648	19,397
Total Time Deposits	31,674	31,370	31,441	32,893	33,566
Brokered Deposits	3,315	3,093	3,077	3,086	2,859
Total Deposits	201,159	201,703	204,350	201,558	199,655
Federal Funds Purchased	3,792	2,703	3,025	2,898	2,898
Other Borrowed Funds	10,637	6,788	7,350	7,324	7,446
Total Liabilities	219,204	215,628	218,800	216,086	213,693
Total Equity Capital	29,331	28,557	28,133	28,235	27,624
Loan Valuation Reserves	1,871	1,861	1,717	1,659	1,621
Total Primary Capital	31,202	30,418	29,850	29,894	29,245
Past Due Loans > 90 Days	207	166	153	127	144
Total Nonaccrual Loans	1,161	1,357	938	952	873
Total Other Real Estate	360	352	336	376	404
Total Charge-Offs	294	138	347	207	133
Total Recoveries	65	40	128	87	60
Net Charge-Offs	229	98	219	120	73
INCOME STATEMENT					
Total Interest Income	4,028	2,004	7,708	5,794	3,830
Total Interest Expense	283	138	508	387	257
Net Interest Income	3,745	1,866	7,200	5,407	3,573
Total Noninterest Income	1,627	782	3,150	2,390	1,608
Loan Provisions	388	246	395	222	134
Salary and Employee Benefits	1,887	932	3,684	2,773	1,840
Premises and Fixed Assets Expenses (Net)	401	198	799	600	396
All Other Noninterest Expenses	1,141	547	2,118	1,587	1,046
Total Overhead Expenses	3,429	1,677	6,601	4,960	3,282
Securities Gains (Losses)	33	22	19	20	16
Net Extraordinary Items	4	2	0	0	0
Net Income	1,210	573	2,521	1,958	1,331
Cash Dividends	784	497	1,381	972	704
RATIO ANALYSIS					
Loan/Deposit	75.36%	73.41%	71.75%	71.93%	72.27%
Securities/Total Assets	25.47%	25.82%	25.82%	25.34%	25.72%
Total Loans/Total Assets	60.99%	60.64%	59.38%	59.34%	59.80%
Loan Provisions/Total Loans	0.51%	0.66%	0.27%	0.20%	0.19%
LVR/Total Loans	1.23%	1.26%	1.17%	1.14%	1.12%
Net Charge-Offs/Total Loans	0.15%	0.07%	0.15%	0.08%	0.05%
Nonperforming+ORE/Total Assets	0.70%	0.77%	0.58%	0.60%	0.59%
Nonperforming+ORE/Primary Capital	5.54%	6.16%	4.78%	4.87%	4.86%
Net Interest Margin	3.28%	3.32%	3.17%	3.20%	3.22%
Gross Yield	4.55%	4.56%	4.40%	4.46%	4.51%
Return on Assets	0.97%	0.94%	1.02%	1.07%	1.10%
Return on Equity	8.25%	8.03%	8.96%	9.22%	9.64%
Overhead Exp/TA	2.76%	2.75%	2.67%	2.70%	2.72%
Equity/Total Assets	11.80%	11.69%	11.39%	11.56%	11.45%
Primary Capital/Total Assets+LVR	12.46%	12.36%	12.00%	12.15%	12.04%

*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 Highlights

TABLE II

Comparative Statement of Condition

Commerical Banks Domiciled in Texas

June 30, 2016 and June 30, 2015

ACCOUNT DESCRIPTIONS (In Millions of $)	6/30/2016 STATE CHARTERED		6/30/2016 NATIONAL CHARTERED		6/30/2016 ALL BANKS		6/30/2015 ALL BANKS	
Number of banks	249	% TA	192	% TA	441	% TA	459	% TA
BALANCE SHEET								
Interest-Bearing Balances	13,003	5.2%	7,458	6.2%	20,461	5.6%	152,971	41.6%
Federal Funds Sold	685	0.3%	2,822	2.4%	3,507	1.0%	3,417	0.9%
Trading Accounts	516	0.2%	73	0.1%	589	0.2%	438	0.1%
Securities Held-To-Maturity	17,486	7.0%	2,874	2.4%	20,360	5.5%	21,653	5.9%
Securities Available-For-Sale	45,807	18.4%	20,920	17.5%	66,727	18.1%	65,192	17.7%
Total Securities	63,293	25.5%	23,867	20.0%	87,160	23.7%	86,901	23.6%
Total Loans	151,589	61.0%	78,580	65.7%	230,169	62.5%	227,680	61.9%
Total Earning Assets	228,570	92.0%	112,727	94.3%	341,297	92.7%	470,969	128.1%
Premises & Equipment	3,897	1.6%	1,551	1.3%	5,448	1.5%	5,596	1.5%
TOTAL ASSETS	248,535	100.0%	119,601	100.0%	368,136	100.0%	367,678	100.0%
Demand Deposits	27,671	11.1%	16,526	13.8%	44,197	12.0%	45,489	12.4%
MMDAs	112,762	45.4%	46,292	38.7%	159,054	43.2%	160,385	43.6%
Other Savings Deposits	20,646	8.3%	14,296	12.0%	34,942	9.5%	32,988	9.0%
Total Time Deposits	31,674	12.7%	17,611	14.7%	49,285	13.4%	51,398	14.0%
Brokered Deposits	3,315	1.3%	3,695	3.1%	7,010	1.9%	6,121	1.7%
Total Deposits	201,159	80.9%	100,637	84.1%	301,796	82.0%	306,469	83.4%
Fed Funds Purchased	3,792	1.5%	1,008	0.8%	4,800	1.3%	4,029	1.1%
Other Borrowed Funds	10,637	4.3%	3,601	3.0%	14,238	3.9%	10,365	2.8%
TOTAL LIABILITIES	219,204	88.2%	106,385	88.9%	325,589	88.4%	325,754	88.6%
Equity Capital	29,331	11.8%	13,216	11.1%	42,547	11.6%	41,924	11.4%
Allowance for Loan/Lease Losses	1,871	0.8%	1,077	0.9%	2,948	0.8%	2,907	0.8%
Total Primary Capital	31,202	12.6%	14,293	12.0%	45,495	12.4%	44,831	12.2%
Past due >90 Days	207		195		402		371	
Nonaccrual	1,161		923		2,084		1,748	
Total Other Real Estate	360		108		468		490	
Total Charge-Offs	294		132		426		226	
Total Recoveries	65		36		101		114	
INCOME STATEMENT	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	4,028	100.0%	2,104	100.0%	6,132	100.0%	6,003	100.0%
Total Interest Expense	283	7.0%	150	7.1%	433	7.1%	391	6.5%
Net Interest Income	3,745	93.0%	1,954	92.9%	5,699	92.9%	5,612	93.5%
Total Noninterest Income	1,627	40.4%	729	34.6%	2,356	38.4%	2,366	39.4%
Loan Provisions	388	9.6%	79	3.8%	467	7.6%	234	3.9%
Salary & Employee Benefits	1,887	46.8%	943	44.8%	2,830	46.2%	2,806	46.7%
Premises & Fixed Assets (Net)	401	10.0%	210	10.0%	611	10.0%	616	10.3%
All Other Noninterest Expenses	1,141	28.3%	535	25.4%	1,676	27.3%	1,637	27.3%
Total Overhead Expenses	3,429	85.1%	1,688	80.2%	5,117	83.4%	5,059	84.3%
Securities Gains(losses)	33	0.8%	19	0.9%	52	0.8%	28	0.5%
Net Extraordinary Items	4	0.1%	0	0.0%	4	0.1%	0	0.0%
NET INCOME	1,210	30.0%	724	34.4%	1,934	31.5%	2,053	34.2%
Cash Dividends	784		347		1,131		979	
Average ROA	0.97%		1.21%		1.05%		1.12%	
Average ROE	8.25%		10.96%		9.09%		9.79%	
Average TA ($ Millions)	998		623		835		801	
Average Leverage	11.80%		11.05%		11.56%		11.40%	
Dividends/Net Income	64.79%		47.93%		58.48%		47.69%	

*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.