Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner October 2019

OCTOBER IS *CYBERSECURITY* MONTH

WHO IS WATCHING YOU?

Commissioner's Comments

" Closing a bank is something no banking commissioner wants to do, and the Department does not take this action lightly. "

The Department has been highly active over the course of 2019. We wrapped up another legislative session whereby our Sunset provision was renewed to September 2031, we had to close a bank, and had several high-profile retirements – all while continuing to offer the best support and regulatory supervision possible.

The Department closed The Enloe State Bank, located in Cooper, Texas, in May of this year. Chartered in 1928, it was the first bank to close in the country in two years and the first Texas state bank closure since 2011.

Closing a bank is something no banking commissioner wants to do, and the Department does not take this action lightly. However, the insider abuse and level of fraud on the part of the bank's former officers required appropriate action.

The Enloe State Bank was a unique situation and is in no way indicative of any weakness in the Texas banking system or the state's economy. In fact, just the opposite is true.

The state's economy remains strong, as the rate of unemployment hit an all-time low of 2.4 percent in June, while employment growth increased to 2.7 percent. Manufacturing production continues to rise, both the service and retail sectors remain robust, and exports are up despite various tariffs and trade differences with the country's trading partners.

The state's economy has not succeeded by accident. It has been the result of visionary leadership at the highest levels within the public and private sectors. The same may be said for Texas banks: it all starts with leadership.

The Department recognizes the importance of sound risk management processes and strong internal controls when evaluating the activities of the institutions we supervise. Technological advances and product innovation have changed the size and speed of financial transactions. Effectively managing the risks associated with these innovations is critical to conducting safe and sound banking. While an institution's financial performance is an important indicator of the adequacy of management, it is essential that examiners give significant weight to the quality of risk management practices and internal controls when evaluating bank management and the overall financial condition of the banking organization. A financial institution's audit program is vital to managing and identifying these risks.

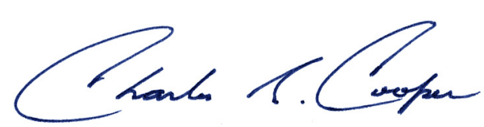
The internal control environment begins with a bank's board of directors and senior management. They are responsible for developing effective internal control systems and ensuring all personnel understand and respect the importance of internal controls.

Internal control programs ensure a bank operates effectively, safeguards assets, produces reliable financial records, and complies with applicable laws and regulations. These controls include the policies and procedures that financial institutions establish to reduce risks and ensure they meet operating, reporting and compliance objectives.

Risk management is not limited to internal risk, it also encompasses external risk like cybersecurity. President Trump proclaimed October as National Cybersecurity Awareness Month. As a concern to our national security and economic stability, I ask that all Texas banks take this opportunity to reflect on your risk management in this area and evaluate your defenses. All of our financial examiners have completed or will soon complete specialized cybersecurity training that will benefit all of us. As you can see, we are all in this together.

Given the importance of cybersecurity and the impact on our banks, we outline cybersecurity programs developed by several state's universities and colleges as they have rapidly becoming major centers for the burgeoning information security field. Your future IT leaders may be among this year's graduates.

Community banks are not the only ones having to adapt to the changing roles and workforce demands. The Department is undergoing its own adaptability experience as our more tenured staff members continue to retire. Each retirement brings opportunities to improve our culture and organization. Our new leaders will continue the quality regulation you deserve.



Charles G. Cooper
Banking Commissioner

When is a Change of Control Filing Required?

by Mark Largent

A change in bank control can be a complicated process, one that comes with specific legal requirements often subject to misunderstanding on the part of many bankers. Among them: What exactly triggers the need for a change of control filing?

Here is the short answer: A change of control filing is needed whenever an individual obtains at least 10 percent of the shares of a Texas bank or of the company that owns a Texas bank (i.e., a bank holding company).

If it is determined a control filing with the Department of Banking is required, one must then determine if the filing is for pre-approval (an application) or prior notice. The requirements pertaining to a control filing are generally contained in Section § 33.002 of the Texas Finance Code (FIN CODE) and 7 Texas Administrative Code (TAC) § 15.81(c).

Application

An application filing for pre-approval from the Department is generally required when:

- An individual first owns or has the voting power equal to at least 25 percent of a bank's shares; or
- If no entity owns at least 25 percent of a bank's shares, but at least one individual owns between 10 percent and 25 percent of the bank's shares. In such case, the individual with the largest percentage ownership must file an application. (Note: in the event two or more individuals own or can vote the same number of shares, each must provide a filing with the Department).

Prior Notice

A prior notice is required to be submitted to the Department per 7 TAC § 15.81(c) when an exemption for an application filing is available as provided in Section § 33.005 of the FIN CODE or 7 TAC § 15.81(g).

There are 11 exemptions provided in the FIN CODE and 7 TAC § 15.81 with the one most commonly noted relating to an acquisition of bank shares by operation of law, will, or intestate succession. In this case, as is also the case for the other ten exemptions only prior notice is required before a bank's shares are voted.

A few items to note with respect to prior notice:

- Submission of the prior notice regarding bank shares held in an estate should <u>not</u> be submitted until the estate is finally settled (or at a minimum when a final decision is made as to the disposition of the bank shares held in the estate).
- Should the individual for which the prior notice is provided attempt to acquire additional bank shares (even one) an application to the Department might be required.

Although not entirely uncommon – the Department has received 19 filings since January 2017 – a change in control of a Texas state bank is a complex matter and should only be done after appropriate due diligence, including consultation with a competent professional.

Questions regarding a change in control may be directed to Mark R. Largent, Director of Corporate Activities, via email or by phone at (512) 475-1351.

Despite the many security advances made in recent years, cybercrime – the use of computer technology to gain unauthorized access to private information – continues to appeal to criminals.

The reasons are simple enough: For someone with the proper skillset, stealing personal or financial information can be relatively easy and often profitable. If that was not bad enough, it is also largely risk-free; some cybercriminals are never caught, let alone prosecuted.

How did we get here? Some experts blame the smartphone.

Consumers are increasingly connected to the digital world while on the move. The Pew Research Center estimates 77 percent of Americans owned a smartphone last year, up from just 35 percent in 2011, and more of these individuals are conducting their banking transactions from their phone.

Fifty-five percent of U.S. smartphone owners have at least one full-service banking app on their phone, according to the online financial publishing company Bankrate.com, and another 17 percent have at least one stand-alone investing app. Consumers are now able to make (and are far more comfortable making) a wide variety of financial transactions on their phones, from paying bills to moving funds between accounts, to buying shares of stock.

This obviously has enormous implications for bankers, regulators, lawmakers, and anyone else concerned with cybersecurity.

Some background: The earliest prototype of what evolved into today's Internet appeared in the late 1960s with the development of the Advanced Research Projects Agency Network, also known as ARPANET. Originally funded by the U.S. Department of Defense, ARPANET used then-new technology to allow multiple computers to communicate on a single network.

But a single-purpose system conceived a half-century ago may no longer be an adequate template for processing the enormous volume of data the Internet must now handle. Massive amounts of confidential information are transmitted every day, 24 hours a day, across networks with an ever-increasing number of access points vulnerable to attack.

Care to guess the industry sector most often targeted by cybercriminals? If you said the financial services industry, give yourself a pat on the back. This is true not simply because that's where the money is; it's also because of the enormous amounts of customers' personal information each bank possesses.

Accenture, a global management consulting and professional services firm, has determined that more cybercrimes and attempted crimes take place against banks and other financial services providers each year than against any other segment of the marketplace. The financial services industry also has the highest average cybercrime costs.

And because Texas is the second most populous state, it is not surprising that it ranks third nationally in the number of victims of cybercrime. Residents of the Lone Star State lost a reported $195 million in 2018, according to FBI statistics.

The good news is Texas is fighting back.

The state is rapidly becoming a major hub for the burgeoning information security field. In 2017, 8,165 Texans worked as infor-

CYBERCRIME:

Will Texas Ride to the Rescue?

How the Lone Star State is building a strong foundation in cybersecurity

by Gordon Anderson

mation security analysts in various sectors of the state economy according to the Texas Comptroller of Public Accounts, and the job count is expected to grow faster in Texas than anywhere else in the country.

San Antonio in particular was recently cited by the Texas Comptroller as being at the center of the state's booming cybersecurity field. The University of Texas at San Antonio (UTSA) alone is home to three cybersecurity centers and research institutes, boasting one of the nation's top-ranked cybersecurity education programs. Graduates are virtually guaranteed a job upon graduation and can earn average starting salaries of $60,000 to $80,000 per year, the Comptroller estimates.

Combine this with its proximity to local offices of the U.S. Department of Homeland Security, National Security Agency, and U.S. Air Force, and it explains how the San Antonio area is now home to the highest concentration of cybersecurity professionals outside of Washington, D.C.

In addition to UTSA, the state is home to 15 other two- and four-year universities with nationally recognized cybersecurity schools, each designated by the National Security Agency and Homeland Security as National Centers of Academic Excellence in Cyber Defense:

- Our Lady of the Lake University
- Sam Houston State University
- Saint Phillip's College
- San Antonio College
- Southern Methodist University
- Texas A&M - College Station
- Texas A&M - Corpus Christi
- Texas A&M - Kingsville
- Texas A&M - San Antonio
- University of Dallas
- University of Houston
- University of North Texas
- University of Texas at Austin
- University of Texas at Dallas
- University of Texas at El Paso

But cybersecurity education no longer begins at the collegiate level. The San Antonio Independent School District and its corporate and educational partners now operate a "school within a school" program focusing solely on cybersecurity education: P-TECH (Pathways in Technology Early College High School).

Cyber P-TECH at Sam Houston High School made its debut in the 2019-2020 school year as the only high school in San Antonio with such a curriculum. The school will concentrate on providing students with the skills, credentials, and industry-specific associates degree necessary for high-wage, high-demand careers in cybersecurity.

Under the P-TECH model, students will be able to earn a high school diploma, an associate degree, a two-year post-secondary certificate or industry certification, as well as completing work-based training through internships, apprenticeships, or other job-training programs.

The Texas Education Agency notes that 34 other P-TECH high school programs are also launching around the state, including those in the Dallas, Duncanville, Laredo, Mesquite, and Richardson school districts; 28 other schools plan to start similar programs in the near future in the Austin, Brownsville, Houston, and Fort Bend school districts, among several others.

This innovative concept was made possible by Senate Bill 22, passed in 2017 by the 85th Regular Session of the Texas Legislature, that allows local school districts to work with the Texas Education Agency and partner with institutions of higher education, as well as with regional businesses and industries, to give students a post-secondary education and a world of workforce training opportunities.

All of which brings a new meaning to the Texas Department of Transportation's slogan: Don't Mess with Texas.

Sound Internal Controls, Audit Program Crucial to Managing Risk

by Michelle Hodge

The Texas Department of Banking chartered The Enloe State Bank in June 1928. This nearly 100-year-old institution survived the stock market collapse and subsequent bank failures of the Great Depression; the regional oil and gas, real estate, and agricultural collapse of the 1980s; and, most recently, the Great Recession.

However, on May 31, 2019, The Enloe State Bank became the first bank closed by the Banking Commissioner since 2011, as stated in the press release, "due to insider abuse and fraud by former officers." The events that transpired at this financial institution leading up to this failure highlight the need for all institutions to have a sound system of internal controls and an effective audit program.

The Department considers an effective audit program and a sound internal control system to be critical components of a financial institution's risk management practices. During each full-scope examination, the adequacy and effectiveness of the audit program is assessed and considered in the management component rating.

Additionally, the overall composition and effectiveness of the audit program will influence the Department's risk-focused approach to examining individual institutions. The Department strongly encourages all Texas state-chartered banks and trust companies to obtain a full-scope audit of its financial statements.

The board of a bank under $500 million which is not subject to Part 363 of the FDIC Rules and Regulations may conclude that the needs of the audit program can be met by means other than a full-scope audit of its financial statements. A director's examination of an institution's financial statements may suffice when appropriately supported by the Board's careful assessment of the risks. As always, the scope of a director's examination is a key driver of effectiveness.

All institutions, however, must have an effective system of internal controls and an equally effective internal audit function, regardless of their size and complexity.

Smaller institutions may find that an outsourced internal audit program works best due to limited staffing resources, while larger institutions may find that an internal audit department better fits their needs. Whatever the structure, the internal audit program must maintain independence.

The audit function should be directly overseen by an audit committee. The audit committee and Board are responsible for the overall audit program, and the majority of audit committee members should consist of outside directors. The audit committee is responsible for hiring/engaging internal and external auditors and ensuring the appropriate expertise for and full independence of these individuals. All auditors should report directly to the audit committee to safeguard independence.

The audit committee is also responsible for ensuring the audits are completed in a timely fashion and relevant audit activity is accurately reported to the Board. All findings (internal, external, regulatory, etc.) should be included on an audit tracking matrix. The audit tracking matrix should detail the finding/recommendation, response/action plan, responsible party for correction, target date, status, and party that cleared the finding/recommendation.

The Board-approved audit policy should include, but not be limited to:

- reporting responsibilities to the audit committee and Board;
- the criteria to evaluate the internal and external audit function;
- due diligence that will be performed on potential auditors; required independence of the auditors; criteria for a proper scope; and
- define requirements for the frequency of audits.

The risk assessment is the basis of the entire audit program. The assessment should capture and correctly identify the inherent and residual risks of all areas of the institution (i.e., lending, operations, Bank Secrecy Act Program, information technology, etc.).

The risk assessment should be updated annually and intermittently when material changes occur (i.e., entering/exiting new business lines, staff changes, economic conditions, defalcations, audit findings, etc.). After completion of the risk assessment, the institution will have the information necessary to set the audit scope and frequency. The scope and frequency should remain fluid if there are changes to the risk assessment.

Sound audits are essential to validating the effectiveness of policies and internal controls. Therefore, ensuring the audit risk assessment is accurate, and audits are performed accordingly will help protect your institution from risk.

For additional information regarding audit programs, please refer to Part 363 of the FDIC Rules and Regulations; Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations; Interagency Guidelines establishing Standards for Safety and Soundness; Interagency Policy Statement on the Internal Audit Function and Its Outsourcing; and Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing. Please contact your Department of Banking Review Examiner with any questions.

86th Regular Session of the Texas Legislature: New Legislation Affecting Banks

by Catherine Reyer

The 86th Regular Session of the Texas Legislature convened on January 8, 2019 and adjourned sine die on May 27, 2019. During the Session, 4,765 House bills and 2,559 Senate bills were filed (total 7,324). This number is a slight increase over last Session. Of the bills that were filed, 1,429 were passed into law, while 56 bills were vetoed.

Each Session the Department monitors the legislative activity concerning bills affecting Texas banks and trust companies. Below is a summary of a few of those bills that have become law.

Senate Bill 614 (Nichols) – Continuation of finance agencies – Effective 9/1/19

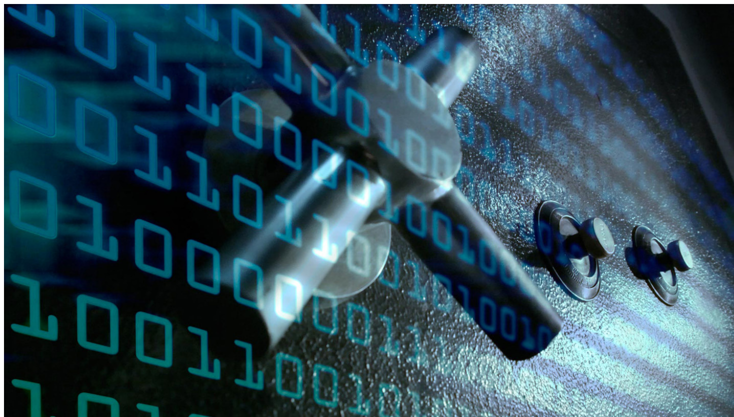
- Continues the Department of Banking and Department of Savings and Mortgage Lending until September 1, 2031
- Requires agencies to implement model guidelines regarding complaint handling
- Requires the Finance Commission to develop policy to encourage alternative rulemaking and dispute resolution
- Deletes references to Finance Commission appeals

Senate Bill 1823 (Campbell) – Bank and trust company regulation – Effective 9/1/19

- Includes credit rating agencies in the definition of third-party service providers for banks and trust companies; authorizes the Department to examine, regulate, and assess examination fees against third-party service providers
- Provides that information related to the issuance of a subpoena in a bank investigation must be kept confidential
- Narrows the approval exemption for bank holding company transactions that involve change a of control
- Deletes minimum "per day" amount of statutory penalty that may be ordered against banks and trust companies

House Bill 4390 (Capriglione) – Data privacy – Effective 9/1/19

- Amends the Business & Commerce Code to require entities to disclose to the Office of the Attorney General any breach of system security that affects more than 250 Texas residents
- Specifies what information must be included in the disclosure



Senate Bill 726 (Zaffirini) – Community investment – Effective 9/1/19

- Increases from 10% to 15% of a bank's unimpaired capital and surplus the amount of aggregate community investments that may be made
- Specifies that a single project for community investments may not exceed 25% of a bank's unimpaired capital and surplus

Senate Bill 207 (Kolkhorst) - Money laundering – Effective 9/1/19

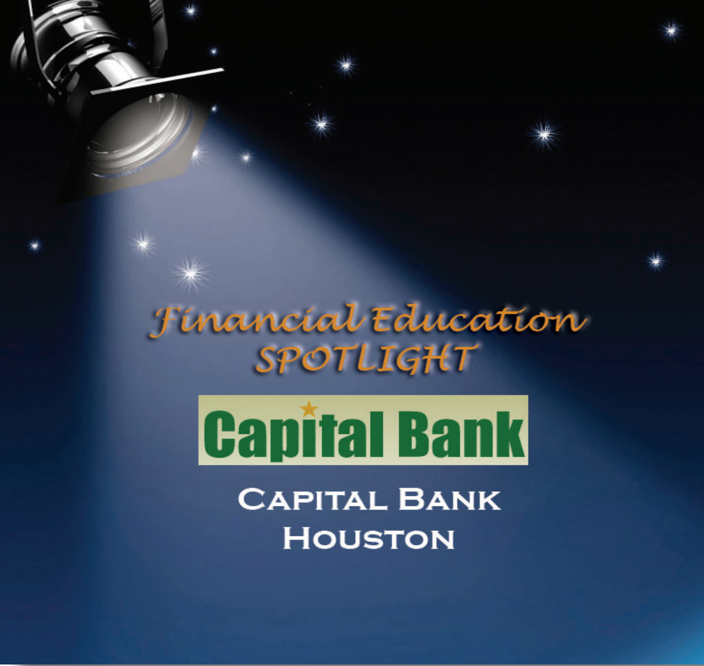
- Amends the Penal Code to include virtual currency in the definitions of funds for purpose of determining whether the offense of money laundering has occurred

House Bill 1254 (Murphy) – Home equity – Effective 9/1/20

- Deletes the provision in Tax Code that disqualified land with home equity lien from ag use exemption

House Bill 1325 (King) – Regulation of hemp products – Effective 6/10/19

- Permits and regulates production of hemp (low-THC), consistent with the federal Farm Bill
- Removes hemp from regulated substances list
- Cannabis is still illegal
- Texas Department of Agriculture and Department of State Health Services are expected to begin rulemaking



Capital Bank, Houston

Bringing *Generational Change* to the Community

by Gordon Anderson

To say there's a strong bond between Houston-area Capital Bank and the communities it serves would be a major understatement. Nowhere are these ties more visible than in the bank's relationship with one local elementary school through its financial education program.

Originally chartered in 1965, Capital Bank is one of the area's oldest community banks, and while it staffs branch locations in suburban Pearland and Sugar Land, its roots are primarily in manufacturing and refining communities such as Baytown, Deer Park, Galena Park, Jacinto City, and Pasadena.

After 54 years, the connection between Capital Bank and these neighborhoods has grown extremely tight.

"We refer to ourselves as a 'generational bank,' because we've served several generations of the same families over the years," explains Amy Krell, Executive Vice President of Human Resources and Training at Capital Bank. "That's one reason we are so committed to giving back to the community."

Financial education has been a big part of that effort, and for Krell it is something intensely personal.

"I'm really passionate about financial education; it's been such a big part of my job for so long," she says, pointing to a 20-year association as a volunteer with Junior Achievement (JA), as well as volunteering with Houston Money Week, an annual weeklong financial education event held during National Financial Literacy Month.

Krell notes that Capital Bank has worked with JA of Southeast Texas for the past 12 years to provide financial education classes in several different area schools and grade levels, from elementary to high school. However, she kept hoping the organization might be able to help identify a school in the immediate neighborhood that lacked the resources other schools enjoyed where she and the bank could make a significant and lasting impact.

"I had been asking our JA rep to find us a needy school in our community for the last several years and last summer she approached me with the idea of committing to Jacinto City Elementary," she recalls. "Well, of course we were interested. We had done a few classes there in the past, but this has been our first year to be able to do the entire school. So far, it has been a wonderful partnership."

It was also JA that provided her and her revolving team of about ten bank volunteers with a comprehensive "off-the-shelf" financial educational curriculum and supporting material specifically tailored to a given grade level. For Jacinto City Elementary, which serves approximately 840 students in early childhood through fifth grade, these include the following:

- Kindergarten – Focusing on students' personal wants and needs, using storybook characters to explore the importance of saving and giving, and the value of work
- First grade – Focusing on the family's wants and needs, jobs, and how the family can plan for and purchase goods and services
- Second grade – Focusing on the community, using posters and games to provide practical information about businesses and the jobs they offer
- Third grade – Focusing on the city, introducing students to financial literacy and learning objectives for third grade social studies (i.e., economic exchange, supply and demand, etc.)
- Fourth grade – Focusing on the region, introducing students to entrepreneurship and how entrepreneurs use resources to produce goods and services in a region using a hypothetical hot dog stand
- Fifth grade - Focusing on the nation, providing practical information regarding the need for employees who can meet the demands of the 21st Century job market

"It takes about two or three hours of prep time at first, but otherwise it's all there," she says. "With five activities per class, and 20 to 25 students in each class, you want to be organized. Each Kindergarten class is a full day, and it's five to six hours per class for the other grade levels."

Each lesson is designed in the same five-step manner, she says, which begins by introducing important vocabulary words before transitioning to an interactive discussion about finances that connects to students' prior knowledge.

"With younger children, that involves drawing pictures of what they know and learned, while the older students write narratives on the topic," Krell continues. "Next is an interactive play, where everyone literally gets down on the floor; the younger students use a color-coded game and the older students take part in a math-based activity."

Finally, each class takes what students have learned and comes up with an idea for a company, which they then discuss using real-world but age-appropriate scenarios. Again, this part of the curriculum involves pictures drawn by younger students, while older students provide a narrative account to demonstrate they've attained the required knowledge.

It is hard for Krell to say just exactly who gets the most out of these activities.

"The kids are always excited, mainly because it's something different from their regular classwork, but I do feel they get a lot from the lesson plans," she explains. "And we always get a positive response from teachers; they truly are grateful that we're there. Not only are their students learning important lessons, it allows them some badly needed down time to grade papers or take care of other tasks. There's never enough time for that, so they are very happy."

Krell notes that, as an added bonus, they leave all the material with the teacher at the end of the lesson as resource material for other activities. Given the financial challenges many teachers face in equipping their classrooms with the essential supplies, especially in a lower income community such as Jacinto City, she says that is always welcome.

And what about her fellow bank employees who volunteer to join her in the classroom?

"They are the cream of the crop, they all really enjoy great interactions with the kids, teachers, and school administrators," she says. "They all represent Capital Bank so well, and they come from all areas of the bank: they're tellers, commercial lenders, Human Resources staff… we've even had a (Chief Financial Officer) volunteer to teach some classes. Everyone involved feels our program is a complete success."

Would she encourage other financial institutions in the community – i.e., Capital Bank's competitors – to get involved with a local school through a financial education course? Of course!

"When it comes to the education of our children, competition goes out the window," she says. "If more bankers became more involved in financial education, our country's future would be the better for it."

That would be generational change from which we could all benefit.

Amy Krell describes some of the natural resources available in the U.S. and how they are used to produce goods.

Eva Silva, Accounting Assistant, introduces important vocabulary words to begin a class with fourth graders at Jacinto City Elementary School.

Bank staff proudly stand behind Junior Achievement and its programs: (left to right) Dorothy Madrid, Human Resources Assistant; Amy Krell, Executive Vice President, Human Resources; Andrea Brockman, Loan Operations Assistant; and Ken Clark, Market President.

First Texas Bank, Georgetown

Program *Relaunch* Sequence is a Go

by Gordon Anderson

If your bank has been around since 1898, you must be doing something right. So, take a bow First Texas Bank.

This is 121 years of continuous service for those keeping score at home. As Assistant Vice President Corey Bailey proudly points out, the Georgetown-based bank holds state charter number 17, one of the oldest in the state.

But a lot of things have changed since 1898, the same year the Spanish-American War ended, so it is understandable that some of the bank's programs may have needed a fresh approach. Such was the case with First Texas Bank's financial education efforts.

"Our bank has been involved in local schools for a very long time," Bailey says, "but we had a number of new loan officers come on board about two years ago, and we decided it was time to renew our commitment to financial education – I'd call it a relaunch – as a way of getting these new staff members involved in the community. Schools are our most important community relationship."

Loan officers take on the task of connecting with school administrators and teachers, he notes, often through teacher/community meetings, pre-semester school supply drives, and any other way of getting the word out.

"The officers facilitate everything," he explains, "meaning teachers can use that class time to grade papers, lesson plan for the next day, or take care of other tasks." One can only imagine how valuable that luxury can be to a teacher.

Bailey says staff is able to reach students in essentially all grade levels, providing each with age-appropriate messages on topics such as understanding currency, wants versus needs, and the concepts of saving, spending, and budgeting for younger students; as well as understanding the economy, managing a paycheck, financial planning, and other topics for older students requiring greater critical thinking skills.

"In fact, we just did a class for high school students on saving for college or buying a car, using material developed by the FDIC," he says, a topic likely to be of great interest to the average high school senior. "We utilize several resources from the FDIC, through its 'Money Smart' program for youths, as well as other federal resources and those we receive through IBAT. We also joined the Jump$tart Coalition in 2018, who also serve as an event sponsor."

Jump$tart is a national nonprofit coalition of more than 100 organizations from the business, finance, academia, education, and government sectors committed to advancing the financial literacy of young people by promoting financial education in the classroom.

The FDIC "Money Smart" program provides financial literacy material for both students and teachers, with curriculums aimed at young people, adults, older adults, and small business owners.

The Money Smart for Young People series consists of four free curriculum products aimed at:

- Grades Pre-K through 2;
- Grades 3 through 5;
- Grades 6 through 8; and
- Grades 9 through 12.

Each course is age-appropriate and includes lesson plans for educators, as well as guides for parents and caregivers, and the course work includes real-life exercises and examples. Additionally, the curriculum can be incorporated into subjects such as English language arts, mathematics, and social studies.

Once on campus, different age groups require different environments and formats, Bailey notes.

"For elementary and middle school students, we typically conduct classes in an assembly setting, often in the library," he explains. "The lessons tend to use hands-on activities, as well as high-level terms and vocabulary words to introduce the topic. We also incorporate history by explaining how banks were created, whose face is on the $1 bill, the $5 bill, and so on.

"For high school students, we usually meet in smaller groups where three topics might be discussed per class," Bailey continues. Naturally, these conversations are a little deeper and take a long view on topics impacting their future, he says. In fact, these talks often have a wider audience than initially intended.

"Interestingly, teachers often stop grading papers or whatever they're doing and listen in," he says. "More than once we've heard a teacher say, 'I didn't know that' about some course topic. Our instruction is always well received."

Fortunately for hundreds of school children across the bank's service area, what happens in Georgetown does not stay in Georgetown. First Texas Bank, with eight branch locations in Travis and Williamson counties, is also involved in schools in both the Leander and Round Rock school districts.

And, wanting to serve the *entire* community, Bailey says the bank recently began taking advantage of its Sun City locations to offer a financial education program to another important – and growing – audience: older adults. Classes are typically offered at a local restaurant or bank branch three or four times a year, and cover:

- Common Types of Elder Financial Exploitation;
- Scams Targeting Veterans;
- Identity Theft;
- Medical Identity Theft;
- Scams that Target Homeowners;
- Planning for Unexpected Life Events; and
- How to Be Financially Prepared for Disasters

It is clear what students and their elders receive from this financial literacy effort, but what does First Texas Bank get out of all this?

"Well, obviously this puts our name out front, so it helps in our branding efforts," Bailey explains. "And it helps us earn (Community Reinvestment Act) points, of course. But there is also a tremendous community pride among our staff, and our financial education program is a part of that.

"We also feel there is a definite social benefit to financial education and our effort to impart our knowledge to the community," he concludes. "We want our students and their families to win. Even if we reached only one student a day, it would still be a success."

Thanks to this service-first attitude and the bank's commitment to financial education, students across the region leave school each year ready to shoot for the stars. Let the launch sequence begin.

Operated for several years as Farmer's State Bank, located in same building until 1963 that now houses the Williamson County Museum

CITY OF GEORGETOWN

PROCLAMATION

WHEREAS, First Texas Bank began in 1898 as Merchants and Farmers Bank, located in the old Steel Building on the southwest corner of the downtown square;

WHEREAS, they were chartered as Farmers State Bank in 1905, with the charter number of 17, which is the second oldest charter in the State of Texas;

WHEREAS, the name of the Bank was changed to Citizens State Bank on July 1, 1963, coinciding with their move into a building at 1111 Austin Avenue; and

WHEREAS, in November, 1979, they moved into the present building at 900 South Austin Avenue; and in January 1993, they became known as First Texas Bank as a member bank of First Texas Bancorp; and

WHEREAS, First Texas Bank now has two branch banks in Georgetown and remains an independent community bank of over $100 million in total assets and over $11 million in capitol; and

WHEREAS, First Texas Bank has always been a contributor to the general well-being of the community by providing low-interest loans for the Main Street Program and by donating to the Playscape Project as well as other City parks and recreation needs; and

WHEREAS, First Texas Bank is today beginning the celebration of their 100th year in business in Georgetown.

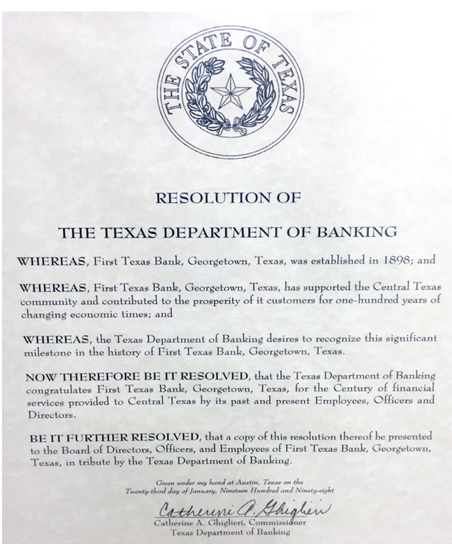
NOW, THEREFORE, I, LEO WOOD, Mayor of the City of Georgetown, Texas, congratulate First Texas Bank and express appreciation for their community involvement by proclaiming Friday, January 23, 1998, as:

FIRST TEXAS BANK DAY

Leo Wood
Mayor

Sandra D. Lee
Attest: City Secretary

Opened for business in 1898 as the Merchants and Farmers Bank. Has served the Georgetown downtown square since 1898.



THE STATE OF TEXAS

RESOLUTION OF

THE TEXAS DEPARTMENT OF BANKING

WHEREAS, First Texas Bank, Georgetown, Texas, was established in 1898; and

WHEREAS, First Texas Bank, Georgetown, Texas, has supported the Central Texas community and contributed to the prosperity of it customers for one-hundred years of changing economic times; and

WHEREAS, the Texas Department of Banking desires to recognize this significant milestone in the history of First Texas Bank, Georgetown, Texas.

NOW THEREFORE BE IT RESOLVED, that the Texas Department of Banking congratulates First Texas Bank, Georgetown, Texas, for the Century of financial services provided to Central Texas by its past and present Employees, Officers and Directors.

BE IT FURTHER RESOLVED, that a copy of this resolution thereof be presented to the Board of Directors, Officers, and Employees of First Texas Bank, Georgetown, Texas, in tribute by the Texas Department of Banking.

Given under my hand at Austin, Texas on the Twenty-third day of January, Nineteen Hundred and Ninety-eight

Catherine A. Ghiglieri
Catherine A. Ghiglieri, Commissioner
Texas Department of Banking

Received Charter No. 17 in 1905, making it the second oldest bank charter in Texas

Has occupied current location for almost 40 years

Banking Commissioner Names Director of Corporate Activities, Houston Regional Director, and Lubbock Regional Review Examiner

Banking Commissioner Names Mark R. Largent as Director of Corporate Activities

Mark R. Largent was appointed Director of Corporate Activities in January 2019. In Mark's role, he is responsible for supervising the chartering, licensing, and general application filing activities for entities including state-chartered banks, foreign bank agencies, trust companies, and money service businesses.

Mark is originally from Spearman, Texas, but grew up in the Austin area and is a graduate of The University of Texas at Austin with a BBA in Finance degree. Mark has over 19 years of experience with the Department, including ten years in the Corporate Activities Division. He also has prior experience as the EVP/CFO and Director of a community bank and Senior Financial and Regulatory Analyst for an Austin law firm primarily specializing in bank related regulatory and associated filings.

Banking Commissioner Names Jacqueline Willardson Houston Regional Director

Jacqueline (Jacque) Willardson was appointed as Houston Regional Director of the Bank and Trust Supervision Division, effective September 1.

A native Houstonian, Jacque graduated from The University of Texas at Austin with a BBA in Finance. She first joined the Department in August 1983 as an Assistant Examiner and was promoted to Assistant Regional Director in April 1992. After a break in employment from the Department in 1999, she returned in July 2010 as a Senior Examiner stationed in the Houston Region.

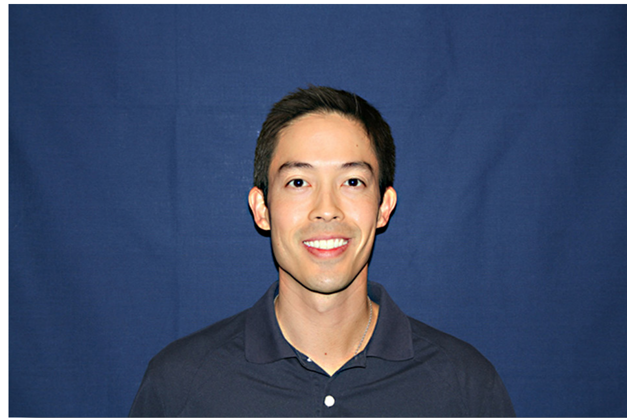
As regional director, Jacque is responsible for the bank supervisory activities of the Houston Regional Office and its 15 staff members.

Texas Banking Commissioner names Kenneth Reed Lubbock Regional Review Examiner

Kenneth (Kenny) Reed was selected as the Regional Review Examiner for the Lubbock Regional Office effective May 1, 2019.

Kenny, originally from Plano, Texas, began his career in the banking industry in the operations department of First Bank and Trust in Lubbock, Texas. In April of 2004, he became an Assistant Examiner in the Lubbock Region and spent the last two years in the Dallas Region.

Kenny is responsible for assisting the Regional Director with the daily operations of the region and brings 15 years of regulatory experience to his new position.



Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 6/30/19 Through 6/30/18

ACCOUNT DESCRIPTIONS (IN MILLIONS OF $)	6/30/19	3/31/19	12/31/18	9/30/18	6/30/18
Number of State-Chartered Banks	228	230	233	234	237
Total Assets of State-Chartered Banks	276,327	272,103	262,401	258,204	257,764
Number of Out-of-State, State-Chartered Banks Operating in Texas	41	41	41	41	39
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	69,686	69,686	69,686	69,686	65,436
Subtotal	346,013	341,789	332,087	327,890	323,200
Less: Out-of-State Branch Assets/Deposits	-51,709	-51,709	-51,709	-51,709	-50,904
**Total State Banks Operating in Texas	294,304	290,080	280,378	276,181	272,296
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	11,539	12,442	13,098	14,215	13,382
Federal Funds Sold	1,095	1,135	1,377	1,150	854
Trading Accounts	335	218	141	316	286
Securities Held-To-Maturity	12,725	13,226	13,547	13,652	14,050
Securities Available-for-Sale	50,048	49,355	47,368	46,988	46,893
Total Securities	62,773	62,581	60,915	60,640	60,943
Total Loans	177,866	173,151	165,654	161,126	160,973
Total Earning Assets	253,273	249,309	241,044	237,131	236,152
Premises and Fixed Assets	4,914	4,729	3,902	3,812	3,763
Total Assets	276,327	272,103	262,401	258,204	257,764
Demand Deposits	28,566	29,086	30,069	28,727	30,633
MMDAs	120,445	122,296	119,563	118,938	115,996
Other Savings Deposits	26,987	26,042	24,983	24,422	24,237
Total Time Deposits	36,706	35,076	31,236	30,246	29,638
Brokered Deposits	6,101	5,289	3,721	3,557	3,816
Total Deposits	221,400	221,508	214,662	210,610	209,549
Federal Funds Purchased	3,043	3,064	2,733	2,545	2,355
Other Borrowed Funds	13,029	9,627	9,615	10,793	12,045
Total Liabilities	240,723	237,368	229,890	226,875	226,634
Total Equity Capital	35,604	34,735	32,511	31,329	31,131
Loan Valuation Reserves	1,836	1,798	1,812	1,781	1,801
Total Primary Capital	37,440	36,533	34,323	33,110	32,932
Past Due Loans > 90 Days	210	190	165	176	171
Total Nonaccrual Loans	805	796	750	746	844
Total Other Real Estate	187	180	178	195	219
Total Charge-Offs	147	63	359	268	190
Total Recoveries	47	23	121	86	65
Net Charge-Offs	100	40	238	182	125
INCOME STATEMENT					
Total Interest Income	5,677	2,796	10,027	7,295	4,743
Total Interest Expense	931	444	1,224	838	503
Net Interest Income	4,746	2,352	8,803	6,457	4,240
Total Noninterest Income	1,531	736	2,990	2,243	1,488
Loan Provisions	143	42	231	145	105
Salary and Employee Benefits	2,095	1,051	3,922	2,913	1,930
Premises and Fixed Assets Expenses (Net)	418	206	806	594	393
All Other Noninterest Expenses	1,081	535	2,176	1,607	1,071
Total Overhead Expenses	3,594	1,792	6,904	5,114	3,394
Securities Gains (Losses)	-2	-6	-27	-23	-2
Net Extraordinary Items	0	0	0	0	0
Net Income	2,098	1,036	3,912	2,889	1,877
Cash Dividends	1,398	655	2,233	1,562	965
RATIO ANALYSIS					
Loan/Deposit	80.34%	78.17%	77.17%	76.50%	76.82%
Securities/Total Assets	22.72%	23.00%	23.21%	23.49%	23.64%
Total Loans/Total Assets	64.37%	63.63%	63.13%	62.40%	62.45%
Loan Provisions/Total Loans	0.16%	0.10%	0.14%	0.12%	0.13%
LVR/Total Loans	1.03%	1.04%	1.09%	1.11%	1.12%
Net Charge-Offs/Total Loans	0.06%	0.02%	0.14%	0.11%	0.08%
Nonperforming+ORE/Total Assets	0.43%	0.43%	0.42%	0.43%	0.48%
Nonperforming+ORE/Primary Capital	3.21%	3.19%	3.18%	3.37%	3.75%
Net Interest Margin	3.75%	3.77%	3.65%	3.62%	3.59%
Gross Yield	5.22%	5.19%	4.96%	4.91%	4.83%
Return on Assets	1.52%	1.52%	1.49%	1.49%	1.46%
Return on Equity	11.79%	11.93%	12.03%	12.26%	12.06%
Overhead Exp/TA	2.60%	2.63%	2.63%	2.63%	2.63%
Equity/Total Assets	12.88%	12.77%	12.39%	12.13%	12.08%
Primary Capital/Total Assets+LVR	13.46%	13.34%	12.99%	12.74%	12.69%

*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, 2019 and June 30, 2018

ACCOUNT DESCRIPTIONS (In Millions of $)	6/30/2019 STATE CHARTERED		6/30/2019 NATIONAL CHARTERED		6/30/2019 ALL BANKS		6/30/2018 ALL BANKS	
Number of banks	228	% TA	172	% TA	400	% TA	419	% TA
BALANCE SHEET								
Interest-Bearing Balances	11,539	4.2%	10,769	8.0%	22,308	5.4%	23,004	5.8%
Federal Funds Sold	1,095	0.4%	1,088	0.8%	2,183	0.5%	4,695	1.2%
Trading Accounts	335	0.1%	60	0.0%	395	0.1%	313	0.1%
Securities Held-To-Maturity	12,725	4.6%	2,765	2.0%	15,490	3.8%	16,777	4.2%
Securities Available-For-Sale	50,048	18.1%	20,237	15.0%	70,285	17.1%	68,401	17.3%
Total Securities	62,773	22.7%	23,036	17.0%	85,809	20.8%	85,205	21.5%
Total Loans	177,866	64.4%	93,112	68.8%	270,978	65.8%	254,229	64.2%
Total Earning Assets	253,273	91.7%	128,005	94.6%	381,278	92.6%	367,133	92.7%
Premises & Equipment	4,914	1.8%	1,714	1.3%	6,628	1.6%	5,415	1.4%
TOTAL ASSETS	276,327	100.0%	135,315	100.0%	411,642	100.0%	396,173	100.0%
Demand Deposits	28,566	10.3%	16,877	12.5%	45,443	11.0%	48,374	12.2%
MMDAs	120,445	43.6%	53,763	39.7%	174,208	42.3%	170,860	43.1%
Other Savings Deposits	26,987	9.8%	16,923	12.5%	43,910	10.7%	40,534	10.2%
Total Time Deposits	36,706	13.3%	19,998	14.8%	56,704	13.8%	49,197	12.4%
Brokered Deposits	6,101	2.2%	6,085	4.5%	12,186	3.0%	9,377	2.4%
Total Deposits	221,400	80.1%	113,011	83.5%	334,411	81.2%	323,973	81.8%
Fed Funds Purchased	3,043	1.1%	1,514	1.1%	4,557	1.1%	3,922	1.0%
Other Borrowed Funds	13,029	4.7%	4,627	3.4%	17,656	4.3%	18,572	4.7%
TOTAL LIABILITIES	240,723	87.1%	120,376	89.0%	361,099	87.7%	350,261	88.4%
Equity Capital	35,604	12.9%	14,938	11.0%	50,542	12.3%	45,912	11.6%
Allowance for Loan/Lease Losses	1,836	0.7%	1,014	0.7%	2,850	0.7%	2,824	0.7%
Total Primary Capital	37,440	13.5%	15,952	11.8%	53,392	13.0%	48,736	12.3%
Past due >90 Days	210		98		308		281	
Nonaccrual	805		535		1,340		1,411	
Total Other Real Estate	187		70		257		317	
Total Charge-Offs	147		90		237		307	
Total Recoveries	47		20		67		88	
INCOME STATEMENT	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	5,677	100.0%	2,872	100.0%	8,549	100.0%	7,419	100.0%
Total Interest Expense	931	16.4%	534	18.6%	1,465	17.1%	837	11.3%
Net Interest Income	4,746	83.6%	2,338	81.4%	7,084	82.9%	6,582	88.7%
Total Noninterest Income	1,531	27.0%	921	32.1%	2,452	28.7%	2,336	31.5%
Loan Provisions	143	2.5%	124	4.3%	267	3.1%	236	3.2%
Salary & Employee Benefits	2,095	36.9%	1,095	38.1%	3,190	37.3%	3,034	40.9%
Premises & Fixed Assets (Net)	418	7.4%	218	7.6%	636	7.4%	620	8.4%
All Other Noninterest Expenses	1,081	19.0%	647	22.5%	1,728	20.2%	1,686	22.7%
Total Overhead Expenses	3,594	63.3%	1,960	68.2%	5,554	65.0%	5,340	72.0%
Securities Gains(losses)	(2)	0.0%	6	0.2%	4	0.0%	(2)	0.0%
Net Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	0	0.0%
NET INCOME	2,098	37.0%	1,022	35.6%	3,120	36.5%	2,809	37.9%
Cash Dividends	1,398		551		1,949		1,295	
Average ROA	1.52%		1.51%		1.52%		1.42%	
Average ROE	11.79%		13.68%		12.35%		12.24%	
Average TA ($ Millions)	1,212		787		1,029		946	
Average Leverage	12.88%		11.04%		12.28%		11.59%	
Dividends/Net Income	66.63%		53.91%		62.47%		46.10%	

*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.