Texas Bank Report

Texas Department of Banking, Charles Cooper, Commissioner

October 2015

What's on your Mind?

Look Inside to See If We Share the Same Thoughts

Commissioner's Comments

"Regulators have been known to ask bankers from time to time – What keeps you up late at night? In that same vein, I thought it would be worthwhile to share the issues that are keeping the Department on alert."

Cybersecurity

Today the term "cyber" is used so frequently that many are becoming immune and downright dismissive of any messages associated with cybersecurity, attack, crime, education, risk, etc. In the banking community and Department of Banking, cybersecurity has become a part of daily operations and is no longer a topic tackled only by the information technology department.

There are countless examples that magnify the importance of cybersecurity. With criminals constantly searching and finding creative new ways to defraud the financial services industry, security vulnerabilities are an immense point of interest for regulators. The reliance on electronic devices to transact and conduct daily life has created an inherent need to be informed and educated on technological advances and security measures.

For the last ten years, the number of cyber-attacks has risen every year impacting all sectors of the U.S economy. In July 2015, a map illustrating the past five years of Chinese cyber espionage was released revealing that Texas businesses have been the target to their fair share of attacks. Earlier this year, the media reported that criminals installed malware allowing them to take control of a bank's internal operations, revolutionizing this form of cybercrime. Instead of targeting customers, criminals attacked the financial institutions directly.

We, along with federal and other state regulators, trade associations, and industry organizations regularly participate in the educational aspect of cybersecurity to help banks prevent, identify, measure and report fraud, and to serve and protect consumers and their financial data. It is our goal to help develop a knowledgeable industry to combat this relentless threat. The Department has undergone several changes to ensure we educate and protect ourselves as well as the industry.

Texas Energy Sector

Although economic growth remains positive, the prolonged slump in crude oil prices has slowed the growth trend of the state and many local economies. Laid-off energy workers face difficult choices about their future in an industry peppered by booms and busts. Specialty or higher paid executives in the industry are having a difficult time finding alternative jobs. Companies that are still hiring are offering mostly temporary contracts without health insurance or retirement packages, and gone are the days of signing bonuses and attractive stock options.

As with other economic disruptions, consumer and business spending patterns are being affected. The decline in oil prices and dropping energy industry employment are likely to significantly affect the Houston and Midland-Odessa markets; however, they are not the only communities that are impacted by the energy sector.

I recently participated on a banker panel where the dialogue was about risk management. The impact of risk on a bank's capital and reserves resonated with the banker dominated audience. It was a timely discussion, especially since we are in the midst of suppressed oil prices and a slowing energy sector that may impact bank customers directly and indirectly. The monitoring of oil and gas credit concentrations and activity are of the utmost importance. We explore this topic further in this edition.

Although it seems that regulators continuously focus on the adverse conditions, the Department recognizes that Texas bankers have strengthened their industry overall. Today we have a banking industry that is well-capitalized with improved profitability and low probability of any failures. As of October 1st, the number of problem banks was at a historical low, demonstrating that the banking community is effectively managing its risk. For that we applaud you.

Charles G. Cooper
Banking Commissioner

FFIEC Cybersecurity Assessment Tool - Regulatory Expectations

By Phillip Hinkle

Cyber risks are one of the major threats to the banking industry. The increasing volume and sophistication of cyber attacks, conditions will likely get worse before they get better.

Because of these trends, Commissioner Charles G. Cooper released an Industry Notice (IN 2015-8) on September 15, 2015, regarding the FFIEC Cybersecurity Assessment Tool. In the notice, he pointed out that managing risk is something the banking industry has always done. Cyber risk and cybersecurity preparedness, while new aspects of bank management, must also be measured and managed. The Industry Notice requires Texas state banks to measure their inherent cyber risks and cybersecurity maturity (preparedness) by December 31, 2015. While any method for accomplishing the assessment is acceptable, the Department strongly endorses the use of the FFIEC Cybersecurity Assessment Tool.

Meetings and discussions with community bankers indicate that they recognize cyber risks need to be addressed; however, their experience is in managing credit and other types of financial risk, not cyber risks. Bankers are getting the message that cybersecurity is important, but they are not sure where to start.

One method bankers can use to assess this risk is the FFIEC Cybersecurity Assessment Tool. One of the major reasons the assessment tool was created was to provide community banks with a repeatable and measureable process, or roadmap, to inform management of their institution's cyber risks and cybersecurity preparedness. There are other tools for evaluating cybersecurity gaps, but no other instrument has been developed specifically for the banking industry. Additionally, the Assessment comes with numerous resources for helping senior managers of community banks begin the process of managing cyber risks.

The Assessment does incorporate two concepts that are new to many bankers, "inherent" risk and security "maturity," but these are well established information security concepts. The FFIEC's "*Overview for Chief Executive Officers and Boards of Directors*" document related to the Assessment describes these and other aspects of cybersecurity management.

The Department is often asked what level of preparedness (maturity) do we expect banks to reach? Examination staff is looking for balance. If your institution has moderate or high risks, then moderate to advanced controls (maturity) are warranted. Banks that are in compliance with current FFIEC guidance should already meet the "Baseline" standards identified in the Assessment, which is the minimum expectation for all banks.

Without question, managing cyber risk is challenging. The growing and changing nature of cyber threats creates complexity that cannot be denied or overlooked. An analogy is helpful to explain the depth of understanding that bankers need for managing this new risk. Senior managers and board members do not need to know how to build a watch; they need to know how to tell time. Senior managers and board members do not need to know how to configure a firewall, but they need to know that they have a firewall, that it is appropriate for the volume and type of online transactions, that it has been configured to an accepted standard by trained staff, and that the configuration is tested and audited by an experienced third party. It will take senior bankers some time to learn what questions to ask, but it is not at all an insurmountable task.

These are challenging times, but the industry is clearly turning the corner and facing the challenges. Using the FFIEC Cybersecurity Assessment Tool and associated resources will help bankers become more conversant and comfortable with managing cyber risks.

For any questions regarding the assessment tool, contact the Director of IT Security Examinations.

Texas and the Energy Sector

By Jared Whitson and Larry Walker

Texas Employment

Since the "Great Recession" of 2008, the Texas economy has proven to be well diversified and very resilient to adverse economic events. Oil and gas production in Texas has bolstered employment levels and enriched local and state government tax revenues. So what has the recent drop in oil commodity prices had on the Texas economy and the state's banking system?

The Federal Reserve Bank of Dallas reports that Texas employment improved in the second quarter of 2015, with an annualized growth of 1.7% compared to 0.5% in the first quarter. This acceleration is primarily due to an increase in (1) leisure and hospitality, (2) trade employment gains, and (3) a reduction in job losses in energy and manufacturing. Unfortunately, job losses are centered in higher earning professional positions associated with the energy sector, while new jobs are primarily centered in lower wage positions tied to the leisure and hospitality sector.

Despite such improvement, annualized job growth of 1.3% through July 2015 is lackluster compared to prior years. Texas employment growth for 2013 and 2014 was 2.7% and 3.6%, respectively, consistently ranking as one of the best states for new job creation. The significant reduction in job growth is primarily due to massive layoffs in the energy sector associated with the sharp decline in oil and gas prices. Further impacting growth is the strong U.S. dollar which has slowed Texas exports, negatively affecting the manufacturing sector. On a global perspective, weak growth in Asia and uncertainty with the European economy are also negatively influencing the Texas economy.

Oil and Gas Industry

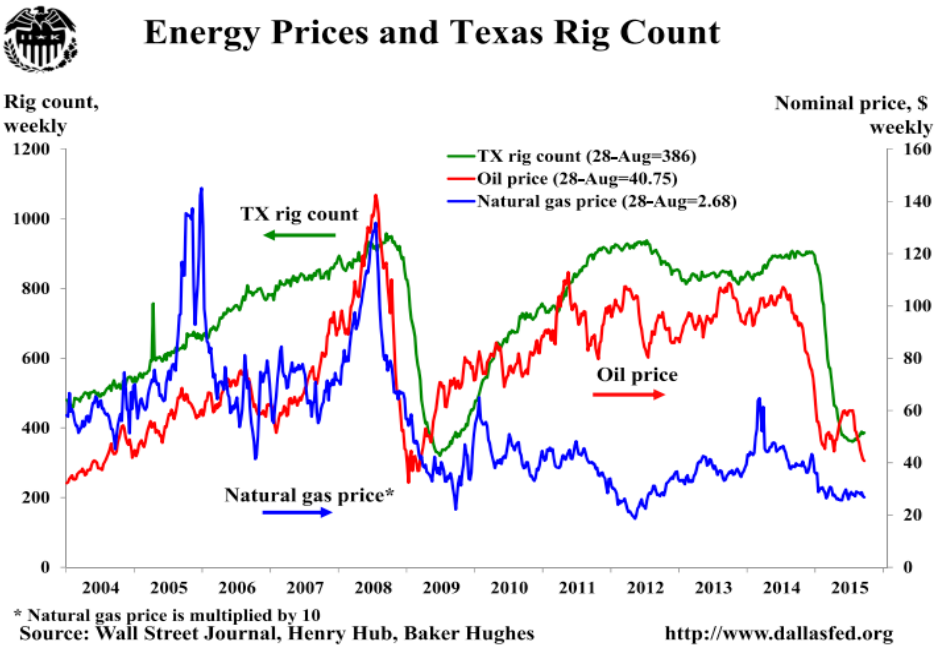
Oil and gas exploration has been a significant contributor to Texas' economic prosperity since the "Great Recession." Texas oil production has increased over the last seven years due to improved technologies that enabled oil producers to increase output in areas that were previously not feasible for production. This technology primarily relates to modern horizontal drilling techniques and hy-

draulic fracturing, also known as fracking. Horizontal drilling makes it possible to drill several wells in different directions from one well pad, significantly reducing the time and cost to extract oil. Fracking is the process of drilling and injecting pressurized liquid and sand into the ground in order to fracture shale rocks, which makes it easier to extract oil and gas. These technological advances have revitalized the oil and gas industry.

The Railroad Commission of Texas delineates five specific oil and gas producing regions or formations in Texas – Barnett Shale, Eagle Ford Shale, Granite Wash, Haynesville/Bossier Shale, and the Permian Basin. Any change in the supply and demand of oil affects production and employment in these areas.

The most recent disruption to the industry is reflected in the benchmark price of West Texas Intermediate (WTI) crude oil as illustrated in the line chart below. The line chart shows the correlation between the Texas rig count and the price of oil and natural gas since 2004. The price of WTI crude oil peaked at $145 in July 2008 and by December 2008 the price had plunged to $30, as supply outpaced demand. This rapid decline, however, was short-lived because by year-end 2009, WTI crude oil had rebounded to about $79 per barrel. According to the Baker Hughes North American Rotary Rig Count report, at the peak of oil prices in 2008 the rig count in Texas was 948. By the end of May 2009, the number of rigs had plummeted to 328. But just like the price of oil, the number of rigs recovered in 2010 and 2011, albeit at a much slower rate.

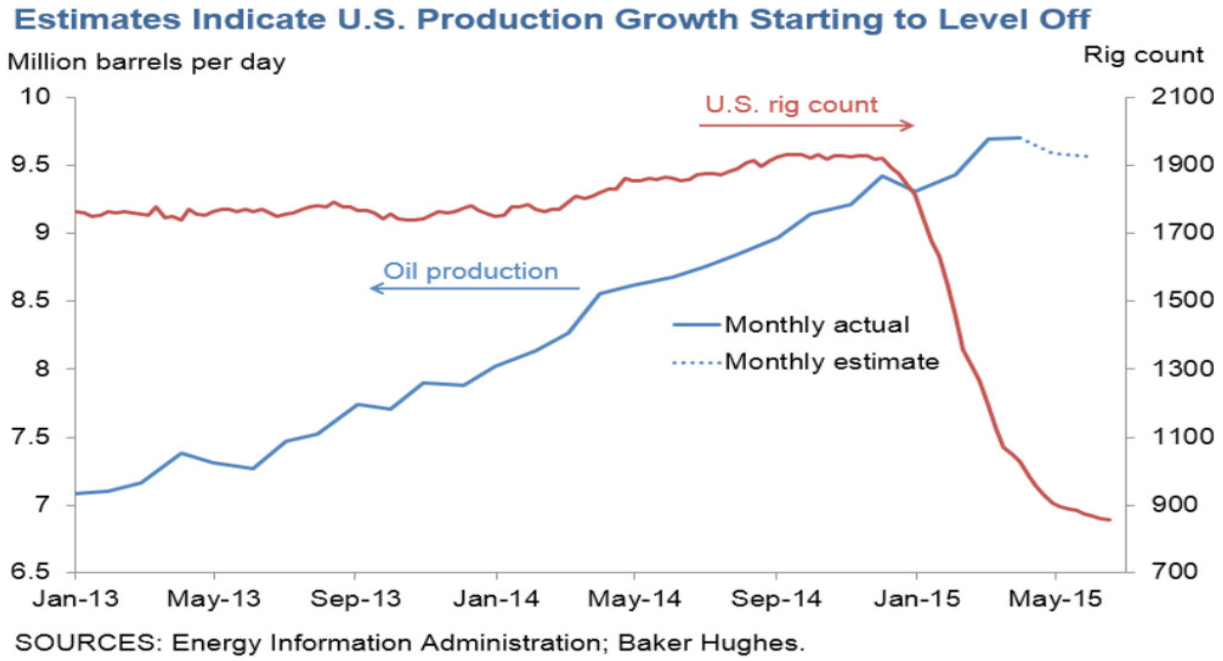
Moving forward to 2014, the correlation between energy prices and the number of rigs paints a similar picture. The price of WTI crude oil began to fall in the summer of 2014. By the end of January 2015, the price had dropped about $60 per barrel to $47, as supply exceeded demand. As shown in the line chart, on August 28, 2015, the price of WTI crude oil was only $10 away from the aforementioned ten-year low of $30. Mirroring the price of WTI crude oil, the number of rigs also reduced from 906 in August 2014 to 369 in May 2015.



There is a noticeable dissimilarity, however, between the downturn of 2008 and that of 2014. The difference between the recent downturn and the 2008 dip is how fast the price of WTI crude oil rebounded. WTI crude oil recovered and stabilized at about $70 per barrel by June 2009, just eleven months after the initial decline. Conversely, in August 2015, the price per barrel hit a new low of approximately $38, fifteen months after the initial decline. Some economists contend that the price of oil has bottomed out and should begin to increase, but only time will tell.

The global surplus of oil continues to impact current and future prices. The Federal Reserve Bank of Dallas reports that the Organization of Petroleum Exporting Countries, in particular Iraq and Saudi Arabia, plan to defend market share rather than maximize profits by continuing to increase output, which will further compress prices. In addition,

the probable lifting of sanctions on Iran has the potential to introduce millions of barrels of oil to the global market in 2016. Domestically, new technologies and an increase in drilling efficiencies have also contributed to the rise in production despite the decline in the rig count, as illustrated below. However, domestic production is expected to curtail in the second half of 2015. Operating costs of foreign producers are materially different than domestic producers, meaning that foreign producers may be willing to accept lower commodity prices for crude until global demand increases. Due to these factors, employment opportunities in the Texas energy sector should remain limited until oil prices rebound.



The September 2015 Dallas Beige Book indicates that the demand for oilfield services remains low, despite a slight escalation in drilling in the Permian Basin. More job cuts are anticipated, and future capital expenditures by oil companies will be restricted. Multiple companies report that the credit situation is deteriorating for small to midsize producers as balance sheets worsen, and the prospect of a significant escalation in oil prices fades. Some firms are resigned to "lower for longer" oil prices, as the outlook for a price recovery over the next two quarters is more in doubt.

The effects caused by a decline in oil prices cannot be fully predicted. However, the Federal Reserve of Dallas estimates that about 140,000 jobs are at risk. Companies continue to report hiring freezes and layoffs, and many are placing limits on capital spending. A majority of the losses are expected in areas with higher concentrations of oil and gas extraction and oil field support jobs. Economists believe that the more diversified economies found in the larger cities are likely to see less of an impact. Nonetheless, the ancillary impact of these job losses may reduce spending on other goods and services, such as hotels, restaurants, and retail, which can lead to reductions in local service sector employment and municipality tax revenues.

The prolonged reduction in oil prices has reduced tax revenue significantly. While this decline has less of an impact on diversified economies and Texas as a whole, smaller rural areas whose economy relies primarily on oil and gas activity could be materially impacted. Reductions in sales and use taxes levied by local governments will impact revenues immediately, potentially making it difficult to balance their books and meet outstanding debt obligations. Financial institutions purchasing municipal or revenue bonds in oil rich counties must be cognizant of this possibility and ensure proper pre-purchase and post-purchase analysis is being conducted on the underlying bond issuance. The Dodd–Frank Wall Street Reform and Consumer Protection Act also restricts banks from relying solely on external credit rating agencies to make an investment grade determination. While financial institutions may use these ratings to begin their assessment, the expectation is for the institution to conduct their own due diligence to confirm whether the security is an appropriate investment.

Impact of Declining Oil Prices

The economic impact of the drop in oil prices on the Texas economy and the banking industry is being actively monitored by the Department of Banking. The Report of Condition and Income (Call Report) data that banks report quarterly does not provide a breakdown of oil and gas or energy related lending. Instead, oil and gas loans are included together with other business loans. As a result, the Department has taken a different approach to obtaining information about oil and gas lending at Texas state-chartered banks. Starting in January 2015, the Department began sending surveys to state-chartered institutions that were known to be actively involved in oil and gas lending and which report an overall increase in deposit and loan activity over a specific period. Institutions located in high oil producing counties were also considered.

In the first quarter of 2015, the Department distributed surveys to 59 state-chartered institutions, and their responses determined if on-site examinations or additional follow up was necessary. The survey results revealed, for the most part, bank loan portfolios have a moderate direct exposure to the energy sector in relation to total capital. A question about the indirect exposure within the loan portfolio and the deposit base dependency on this sector was also included in the survey. Responses revealed that banks have moderate indirect exposure to this sector. Although the dollar volume of adversely classified assets linked to oil and gas credits was minimal at the time of the survey, many of the banks indicated an increase in their Allowance for Loan and Lease Losses (ALLL) due to qualitative and environmental factors resulting from the decline in oil prices. While indirect exposure is difficult to quantify, the Department encourages institutions to internally identify credits in which a borrower's repayment capacity is dependent upon or could be hindered by the depressed energy sector.

The Department recently participated with the Federal Deposit Insurance Corporation to develop an Assessment of Exposure to Oil and Natural Gas Price Volatility Workprogram that is being used at select examinations. The workprogram assesses the bank's direct and indirect exposure to oil and gas lending and management's general underwriting, monitoring and controls over this segment.

The Department continues to receive and evaluate economic information from both industry and independent sources. This includes regular monitoring of Texas and U.S. rig counts, hotel occupancy tax receipt levels, and oil production levels. Quarterly analysis is also conducted using key performance indicators which include specific asset quality measures designed to provide effective early detection of significant risks.

Risk Management

The Board of Directors is responsible for ensuring control systems are in place to identify, measure, monitor, and control the 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. Policies should also address credit administration and loan documentation standards pertinent to this type of lending. Prudent risk management practices should also incorporate the following:

- Code all loans at origination using North American Industry Classification System (NAICS codes) to better monitor the direct and indirect exposure 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 determine 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;
- Analyze energy and production customers to determine if they have an effective ongoing hedging strategy in place to offset the commodity price risk;
- Assess the qualitative factors used in calculating the ALLL (ASC 450 – Accounting for Contingencies) to ensure severe price changes are captured in the methodology; and,
- Monitor large depositors linked to the energy sector.

Risk management is a dynamic process that requires active and regular evaluation. The Department urges all banks to be proactive in their risk assessments and change operating policies and procedures when warranted. Questions related to this article can be directed to your respective Regional Director or the Bank & Trust Supervision Division at our main office.

CATO
Reporting Instruction - Action Plan & Notification

"After An Event Has Occurred"

By Linda Pearson

Corporate Account Takeover, or CATO, is a cybercrime where the thieves gain control of a bank account and initiate fraudulent funds transfers or steal sensitive information to use at a later time. CATO incidents continue to occur frequently and have spread to small businesses and consumer accounts where data security controls are generally weaker or sometimes nonexistent. In Supervisory Memorandum 1029 relating to the risk management and mitigation of CATO, nineteen processes and controls (components) to support a three-part risk management framework are outlined. One of these components relates to an institution's response to a CATO incident. In this particular article, we focus on the incident response plan is critical when trying to recover customer funds as rapidly as possible.

Each financial institution should have an incident response plan that outlines specific actions for identifying, stopping, and recovering from a CATO incident. The plan should designate a cybercrime central point of contact (CPC) along with the steps that should be taken immediately, notification information, and documentation requirements.

The CPC should be the bank employee most familiar with the incident response plan and have sufficient authority to take immediate action and reverse or block suspected transactions. The CPC, or someone designated by the CPC, should be responsible for handling the media in the event that the incident becomes public knowledge. All employees should be trained to immediately notify the CPC about potential CATO victims or media inquiries. A fraud response committee should then be convened by the CPC to evaluate the situation and take appropriate action. The ability to recover funds is reduced as time passes, and in these cases minutes count. Once the cyber thieves have transferred the stolen funds to another institution, they move the money as rapidly as possible.

Suggested Steps For An Incident Response Plan

A few steps that should be taken immediately include verifying that the suspicious transaction is fraudulent, reversing or freezing the suspected fraudulent transaction(s), notifying the receiving bank(s) of the fraudulent transaction(s), and immobilizing the method being utilized by the cybercriminals to infiltrate the account.

Bank employees should contact customers to verify the authenticity of suspected transactions. If possible, the fraudulent transactions should be reversed or halted immediately. If the transaction is further along in the banking process, then the receiving bank(s) should be contacted and asked to hold, freeze, or return the funds.

Any systems suspected of being compromised should be closed off as soon as possible. For example, consider disabling the customer's online banking access if it appears that their credentials have been exploited. Or, if the bank's network was compromised, consider shutting down all online banking activity if feasible.

Contacting all appropriate parties as early as possible is essential, but it is vital that resources not be diverted from the recovery efforts discussed above. Contact information for third parties should be included in the incident response plan and include, at a minimum, the United States Secret Service and federal and local law enforcement agencies, regulatory agencies, and forensic specialists. The CATO victim should also be contacted and reassured that the bank is working towards recovering the funds.

The bank's efforts to recover funds should be thoroughly documented. Additionally, detailed discussion notes should be maintained for all conversations with third parties and the customer. The notes should include names, dates, and times as well as details of the conversations.

Once the incident has concluded and the funds have been recovered to the extent possible, it is a good time to review the lessons learned and use the incident as a training exercise for all employees.

For other useful information relating to cyber security and CATO, please visit the Texas Bankers Electronic Crimes Task Force website.

Financial Education Coordinator Receives "Distinguished Partner" Award Four Consecutive Years

For the fourth consecutive year, the Department of Banking's Financial Education Coordinator, Leilani Lim-Villegas, was awarded the Distinguished Partner Award. The recognition stems from serving as the Chair of the Financial Fitness Greater Austin (FFGA) Youth Committee and Coordinator of the "Capital One $mart Kid Essay Contest." The Department fully supports financially educating families and congratulates Ms. Lim-Villegas for her dedication to educating Texans.

FFGA and The Department

FFGA is a financial education and awareness initiative in partnership with the FDIC Alliance for Economic Inclusion and more than 60 entities in the Greater Austin area. The goal of FFGA is to provide financial information to emphasize the importance of the need for consumers to be proactive about managing their money. FFGA has financially empowered over 6,000 families in the last four years.

Our Financial Education Coordinator has served as the Youth Committee Chair for FFGA for four years. In 2015, she was the leading force behind the Capital One "$mart Kid Essay Contest," as well as bringing volunteers to teach in public schools through Junior Achievement, better known as JA in a Day. Since 2011, a total of $20,000 in scholarships has been awarded to middle and high school students.

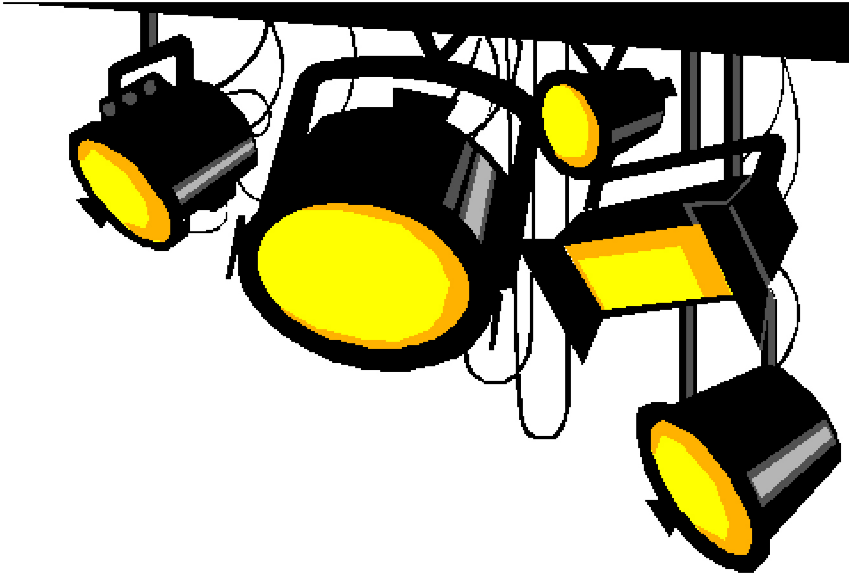
"Distinguished Partner" award

The FFGA "Distinguished Partner" Award recognizes individuals who have worked above and beyond their call of duty. Nominations are submitted by fellow FFGA members. The award recognizes the organization and more specifically the individual behind the initiative. Ms. Lim-Villegas has received this prestigious award annually since 2011.

For information on FFGA and financial education, visit Financial Fitness Greater Austin and Department's financial education section of the website.

Financial Education Spotlight

Texas Bank and Trust, Longview, Texas



By Leilani Lim-Villegas

Knowledge is power and nowhere is that more true than in the financial education arena. There is a substantial need for comprehensive financial literacy and money management education for today's consumers. As financial decision-making has become more complex with the myriad of options available for saving, investing, borrowing, and debt managing, financial education is one of the critical keys to unlocking the door to a financially stable future. From its earliest beginnings, one bank in Longview, Texas, embraced this idea and is a leading proponent of financial education. As such, the Department of Banking is pleased to highlight Texas Bank and Trust (TB&T) for their successful financial literacy efforts. This is their story.

To ensure that customers have the tools necessary to make informed decisions, TB&T has remained vigilant in its ongoing commitment to make financial literacy central to the core services it provides customers. With 21 branches throughout east and northeast Texas, the $2.1 billion independent community bank has developed one of the most comprehensive suites of financial literacy programming in the communities it serves. From young adults and women-centric money management sessions to small business owners and first-time homebuyer seminars, TB&T's team of Trusted Advisors has been relentless in its pursuit to create innovative programs with targeted resources and education for every member of the household. The following are a few of the proprietary programs this bank has developed to establish itself as an educational resource for its customers and the community.

TEXAS BANK AND TRUST
COOL KIDS SAVINGS CLUB NEWSLETTER

THAT MAKES CENTS

Members Only — Winter 2014

ABCs of Saving Money!

Get a jump on learning your ABCs with these money terms to help build your savings smarts!

W Is for Wire Transfer
A Wire Transfer is a way to send money electronically from one bank account to another.

A Is for Account
An Account is a record of all financial transactions related to an individual. It's a record of how much money you have at the bank and how much you spend.

B Is for Balance
A Balance is the amount of money left in the account after all transactions have settled.

MEMBER FDIC

The Texas Quarter

Happy New Year, Cool Kids! I hope you all had a wonderful holiday and a fantastic new year. I sure did!

During my Christmas break, I spent some time with my good friend here at the bank, Karen Partee, Senior Vice President and Director of Marketing, and had a chance to meet her dad, Mr. Bob Snead, who served on the committee that designed our state quarter. He was nice enough to let me interview him about the process and tell you Cool Kids all about it.

D: Mr. Snead, where did you grow up?

S: I was born and raised in Charlotte, North Carolina; but, I enlisted in the military and spent the majority of my adult life traveling the world.

D: How did you decide to become an artist?

S: I took up art when I was 10 in elementary school, but furthered my education at Chouinard Art Institute in Los Angeles, California and the University of Mainz in Mainz, Germany.

D: How did you become involved with designing the State Quarter?

S: Governor George W. Bush appointed me to the Texas Quarter Dollar Committee to select the design for the state in 1999.

Issued 2004

I served with 16 other people on the committee. We met in Austin , Texas at the Capitol about five times in a year. We sent out an official request for designs for the quarter and we received about 35,000 designs back. Our Committee had to go through each recommendation we received. The design we chose came from a man from Arlington, TX who recommended using images from our state seal. The committee took the design to then-Governor Rick Perry, who made a few changes to the recommendation and then approved what is now our Texas state quarter. The quarter was officially released in 2004.

Karen and her dad, Mr. Snead

TEXAS BANK AND TRUST
Page 1

TB&T's award-winning **Cool Kids Savings Club** program combines savings education with fun and interactive activities for elementary-aged children. It focuses on teaching the value of money, banking, and savings. Club mascot, Digitz the Dollar Dog, helps children uncover how COOL it truly is to save! Through school presentations, bank tours, money tips in his quarterly member newsletter - *"That Makes Cents!,"* and online financial games in his digital clubhouse, Digitz has introduced more than 10,000 children over the past ten years to the benefits of saving early in life.

The H.O.M.E. (or Homeowner and Mortgage Education) Series provides critical home financing education to customers through its popular First Time Homebuyer seminars. Future homeowners learn valuable tips on navigating the complex waters of residential mortgage lending; what to know before they buy; and why remembering the three F's: fixtures, furniture, and fences, should not be left out of the home buying equation.

Established in 1978, the **Student Board of Directors** is TB&T's first and most enduring financial literacy program. Open to outstanding high school Seniors, the program introduces students to the essential economic building blocks to earning, spending, saving, and investment money, at a critical point in their lives. The students participate in a team challenge project each year which has included investing $100,000 imaginary funds in the stock market and opening "small businesses" with $100 cash loans. To date, more than 1,900 area high school Seniors have graduated from the program.

The SWELL Principle: A Savvy Woman's Secret to Being Financially Fit and Fabulous at Any Age is a unique program that features trusted professionals from the bank's retail, lending, trust, and investment services. Styled in a talk-show format, our TB&T team leads an eye-opening conversation on the money management needs of women in every stage of life. Regardless of their current economic circumstances, invited guests are provided resource information critical to giving themselves the power to take control of their own financial futures.

The **TBT Insight Series** is one of the bank's newest financial education programs. These quarterly lunch and learn sessions bring together small business owners from various industries to gather in-depth information on current topics impacting commerce, such as cybersecurity awareness, retirement planning, economic trends, and changes in employer tax laws. These insightful discussions are led by both TB&T Trusted Advisors and industry experts.

Senior Vice President and Chief Marketing Officer Karen Partee contributed to the article.

Staff Changes in Bank Supervision

The Department has undergone some recent staffing changes in the Bank and Trust Supervision Division due to retirements.

James (Jeff) Anderson was named Regional Director for the Lubbock Regional Office in July 2015. Jeff assumed his responsibilities from J.W. Holt, who retired after 27 years with the Department.

As Regional Director, Jeff will be responsible for the bank supervisory activities of the Lubbock Regional Office and its 16 field examiners. The Lubbock Region, which is also referred to as the West Texas Region, includes the major cities of Lubbock, Amarillo, Midland, Odessa, Abilene, Wichita Falls and El Paso, as well as a number of small rural towns. The region is home to 64 state-chartered banks that control approximately $22 billion in banking assets. Mr. Anderson's responsibilities will require close coordination with federal regulatory authorities as well as the agency's other three regional offices.

Mr. Anderson is originally from Lubbock, and is a graduate of Texas Tech University. He began his employment with the Department in 1986 as an Assistant Bank Examiner stationed in Lubbock. He left the agency in 1991 to pursue a banking career and returned to the Department in 2011. Prior to his appointment, he served as a Senior Examiner assigned to the Lubbock Regional Office.

Allen Millsap was named Regional Review Examiner for the San Antonio Regional Office in June 2015. Allen assumed the responsibilities of Gil Sepulveda, who retired after 30 years with the Department. As Regional Review Examiner, Allen will be primarily responsible for reviewing and processing reports of examination submitted by field examiners. Allen will also assist the Regional Director with his duties.

Allen is originally from San Angelo and is a graduate of Angelo State University and the Southwestern Graduate School of Banking at Southern Methodist University. He started his career with the Department in 2002 as an Assistant Bank Examiner stationed in Arlington, before moving to the Lubbock Regional Office and finally the San Antonio Regional Office. Prior to his appointment, he served as the Central Point of Contact for one of the agency's largest institutions.

Tom Susany was named Regional Review Examiner for the Dallas Regional Office in September 2015. Tom assumed the responsibilities of Elise Myers, who retired after 30 years with the Department. As Regional Review Examiner, Tom will be primarily responsible for reviewing and processing reports of examination submitted by field examiners. Tom will also assist the Regional Director with his duties.

Tom is originally from El Paso and is a MBA graduate of Angelo State University and the Southwestern Graduate School of Banking at Southern Methodist University. He started his career with the Department in 2001 as an Assistant Bank Examiner stationed in Arlington. Prior to his appointment, he served as the Central Point of Contact for one of the agency's largest institutions.

Mark Walker was named Chief Trust Examiner in June 2015, and will supervise seven trust examiners who are responsible for the supervision of 37 trust companies and 43 bank trust departments located throughout the state. Mark assumed the duties from Jim Yarbro, who retired after 28 years with the agency. He has been employed with the agency for 32 years, which includes 17 years as a trust examiner. Mark began his career as a commercial bank examiner in the Houston Region. He is originally from Jasper, Texas and is a graduate of Texas A&M University.

Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 6/30/15 Through 6/30/14

ACCOUNT DESCRIPTIONS (IN MILLIONS OF $)	6/30/15	3/31/15	12/31/14	9/30/14	6/30/14
Number of State-Chartered Banks	261	264	267	272	274
Total Assets of State-Chartered Banks	241,317	241,923	235,417	229,584	225,509
Number of Out-of-State, State-Chartered Banks Operating in Texas	27	27	27	27	26
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	49,932	49,932	49,932	49,932	43,337
Subtotal	291,249	291,855	285,349	279,516	268,846
Less: Out-of-State Branch Assets/Deposits	-49,194	-49,194	-49,194	-49,194	-44,618
**Total State Banks Operating in Texas	242,055	242,661	236,155	230,322	224,228
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	14,967	16,914	16,957	18,913	14,249
Federal Funds Sold	805	1,027	956	931	791
Trading Accounts	382	558	587	366	436
Securities Held-To-Maturity	18,810	18,426	17,718	15,502	15,750
Securities Available-for-Sale	43,267	43,821	43,147	42,420	43,057
Total Securities	62,077	62,247	60,865	57,922	58,807
Total Loans	144,299	141,823	136,247	132,526	132,167
Total Earning Assets	221,678	222,011	215,025	210,292	206,014
Premises and Fixed Assets	3,889	3,858	3,763	3,622	3,650
Total Assets	241,317	241,923	235,417	229,584	225,509
Demand Deposits	28,342	28,248	29,786	26,123	25,735
MMDAs	108,876	109,819	104,624	105,112	100,364
Other Savings Deposits	19,397	19,592	18,162	16,994	16,417
Total Time Deposits	33,566	34,250	33,896	33,828	35,750
Brokered Deposits	2,859	2,868	2,653	2,409	2,361
Total Deposits	199,655	202,195	197,078	191,753	187,798
Federal Funds Purchased	2,898	2,990	3,187	3,088	3,132
Other Borrowed Funds	7,446	5,216	4,467	4,720	5,192
Total Liabilities	213,693	214,346	208,843	203,233	200,165
Total Equity Capital	27,624	27,575	26,544	26,001	25,765
Loan Valuation Reserves	1,621	1,596	1,571	1,575	1,606
Total Primary Capital	29,245	29,171	28,115	27,576	27,371
Past Due Loans > 90 Days	144	130	137	175	221
Total Nonaccrual Loans	873	829	796	853	890
Total Other Real Estate	404	441	440	462	545
Total Charge-Offs	133	58	273	191	143
Total Recoveries	60	29	146	110	75
Net Charge-Offs	73	29	127	81	68
INCOME STATEMENT					
Total Interest Income	3,830	1,904	7,298	5,410	3,619
Total Interest Expense	257	129	515	387	267
Net Interest Income	3,573	1,775	6,783	5,023	3,352
Total Noninterest Income	1,608	800	2,898	2,121	1,424
Loan Provisions	134	59	176	162	81
Salary and Employee Benefits	1,840	915	3,499	2,590	1,730
Premises and Fixed Assets Expenses (Net)	396	198	803	595	397
All Other Noninterest Expenses	1,046	525	1,885	1,382	975
Total Overhead Expenses	3,282	1,638	6,187	4,567	3,102
Securities Gains (Losses)	16	13	22	16	22
Net Extraordinary Items	0	0	1	1	0
Net Income	1,331	674	2,505	1,844	1,211
Cash Dividends	704	418	1,282	818	572
RATIO ANALYSIS					
Loan/Deposit	72.27%	70.14%	69.13%	69.11%	70.38%
Securities/Total Assets	25.72%	25.73%	25.85%	25.23%	26.08%
Total Loans/Total Assets	59.80%	58.62%	57.87%	57.72%	58.61%
Loan Provisions/Total Loans	0.19%	0.17%	0.13%	0.16%	0.12%
LVR/Total Loans	1.12%	1.13%	1.15%	1.19%	1.22%
Net Charge-Offs/Total Loans	0.05%	0.02%	0.09%	0.06%	0.05%
Nonperforming+ORE/Total Assets	0.59%	0.58%	0.58%	0.65%	0.73%
Nonperforming+ORE/Primary Capital	4.86%	4.80%	4.88%	5.40%	6.05%
Net Interest Margin	3.22%	3.20%	3.15%	3.18%	3.25%
Gross Yield	4.51%	4.47%	4.33%	4.36%	4.47%
Return on Assets	1.10%	1.11%	1.06%	1.07%	1.07%
Return on Equity	9.64%	9.78%	9.44%	9.43%	9.40%
Overhead Exp/TA	2.72%	2.71%	2.63%	2.65%	2.75%
Equity/Total Assets	11.45%	11.40%	11.28%	11.33%	11.43%
Primary Capital/Total Assets+LVR	12.04%	11.98%	11.86%	11.93%	12.05%

*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, 2015 and June 30, 2014

ACCOUNT DESCRIPTIONS (In Millions of $)	6/30/2015 STATE CHARTERED		6/30/2015 NATIONAL CHARTERED		6/30/2015 ALL BANKS		6/30/2014 ALL BANKS	
Number of banks	261	% TA	198	% TA	459	% TA	274	% TA
BALANCE SHEET								
Interest-Bearing Balances	144,967	60.1%	8,004	6.3%	152,971	41.6%	14,249	6.3%
Federal Funds Sold	805	0.3%	2,612	2.1%	3,417	0.9%	791	0.4%
Trading Accounts	382	0.2%	56	0.0%	438	0.1%	436	0.2%
Securities Held-To-Maturity	18,810	7.8%	2,843	2.2%	21,653	5.9%	15,750	7.0%
Securities Available-For-Sale	43,267	17.9%	21,925	17.4%	65,192	17.7%	43,057	19.1%
Total Securities	62,077	25.7%	24,824	19.6%	86,901	23.6%	58,807	26.1%
Total Loans	144,299	59.8%	83,381	66.0%	227,680	61.9%	132,167	58.6%
Total Earning Assets	352,148	145.9%	118,821	94.0%	470,969	128.1%	206,014	91.4%
Premises & Equipment	3,889	1.6%	1,707	1.4%	5,596	1.5%	3,650	1.6%
TOTAL ASSETS	241,317	100.0%	126,361	100.0%	367,678	100.0%	225,509	100.0%
Demand Deposits	28,342	11.7%	17,147	13.6%	45,489	12.4%	25,735	11.4%
MMDAs	108,876	45.1%	51,509	40.8%	160,385	43.6%	100,364	44.5%
Other Savings Deposits	19,397	8.0%	13,591	10.8%	32,988	9.0%	16,417	7.3%
Total Time Deposits	33,566	13.9%	17,832	14.1%	51,398	14.0%	35,750	15.9%
Brokered Deposits	2,859	1.2%	3,262	2.6%	6,121	1.7%	2,361	1.0%
Total Deposits	199,655	82.7%	106,814	84.5%	306,469	83.4%	187,798	83.3%
Fed Funds Purchased	2,898	1.2%	1,131	0.9%	4,029	1.1%	3,132	1.4%
Other Borrowed Funds	7,446	3.1%	2,919	2.3%	10,365	2.8%	5,192	2.3%
TOTAL LIABILITIES	213,693	88.6%	112,061	88.7%	325,754	88.6%	200,165	88.8%
Equity Capital	27,624	11.4%	14,300	11.3%	41,924	11.4%	25,765	11.4%
Allowance for Loan/Lease Losses	1,621	0.7%	1,286	1.0%	2,907	0.8%	1,606	0.7%
Total Primary Capital	29,245	12.1%	15,586	12.3%	44,831	12.2%	27,371	12.1%
Past due >90 Days	144		227		371		221	
Nonaccrual	873		875		1,748		890	
Total Other Real Estate	404		86		490		545	
Total Charge-Offs	133		93		226		143	
Total Recoveries	60		54		114		75	
INCOME STATEMENT	Y-T-D		Y-T-D		Y-T-D		Y-T-D	
Total Interest Income	3,830	100.0%	2,173	100.0%	6,003	100.0%	3,619	100.0%
Total Interest Expense	257	6.7%	134	6.2%	391	6.5%	267	7.4%
Net Interest Income	3,573	93.3%	2,039	93.8%	5,612	93.5%	3,352	92.6%
Total Noninterest Income	1,608	42.0%	758	34.9%	2,366	39.4%	1,424	39.3%
Loan Provisions	134	3.5%	100	4.6%	234	3.9%	81	2.2%
Salary & Employee Benefits	1,840	48.0%	966	44.5%	2,806	46.7%	1,730	47.8%
Premises & Fixed Assets (Net)	396	10.3%	220	10.1%	616	10.3%	397	11.0%
All Other Noninterest Expenses	1,046	27.3%	591	27.2%	1,637	27.3%	975	26.9%
Total Overhead Expenses	3,282	85.7%	1,777	81.8%	5,059	84.3%	3,102	85.7%
Securities Gains(losses)	16	0.4%	12	0.6%	28	0.5%	22	0.6%
Net Extraordinary Items	0	0.0%	1	0.0%	1	0.0%	0	0.0%
NET INCOME	1,331	34.8%	722	33.2%	2,053	34.2%	1,211	33.5%
Cash Dividends	704		275		979		572	
Average ROA	1.10%		1.14%		1.12%		1.07%	
Average ROE	9.64%		10.10%		9.79%		9.40%	
Average TA ($ Millions)	925		638		801		823	
Average Leverage	11.45%		11.32%		11.40%		11.43%	
Dividends/Net Income	52.89%		38.09%		47.69%		47.23%	

*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.