

Relationship Banking
has always been about
Connecting
with our
Customers.



Cullen/Frost Bankers, Inc.

A Texas Financial Services Family



2000

was a year in which
we **Refined** how we
Connect with our
Customers.

To Our Shareholders,

The year 2000 marked several significant milestones for Cullen/Frost Bankers. For the first time in our 133-year history, the company exceeded \$100 million in earnings with a reported net income of \$109 million. Key performance measures hit new highs with our return on assets and return on equity reaching 1.52% and 20.41%, respectively. Asset quality, always a focus for our company, continued strong in 2000 with net charge-offs of .21% of average loans and year-end non-performing assets of .25% of assets, both below industry averages.

Our basic banking business was the driver behind our record performance. Loan, deposit and fee growth reflected our success at connecting with our customers through our commitment to relationship banking. The Texas economy supported our efforts here, as it continued to outpace the nation as a whole. This strong performance gave us the capacity to continue building our company into more than just a traditional bank by investing in strategic businesses and initiatives important to our future competitiveness. These include investment banking, insurance brokerage, and expanded Internet capabilities.

Connecting with Our Shareholders

The year 2000 marked the first full year of operation for two strategic new business lines for our company, Frost Securities, Inc. and Frost Insurance Agency. Frost Securities, our investment banking start-up company which began operations in the last half of 1999, gives us the ability to compete with the largest banking companies located in our state that offer investment banking services. Frost Securities experienced an operating loss of \$.06 per diluted share in 2000, as we continued to build this organization. However, we have assembled a great staff of talented professionals who have established the platform to grow this business into a significant revenue stream for the future.

Frost Insurance Agency, which was created in May 1999 with the acquisition of Professional Insurance Agents, Inc., added two more highly respected agencies during 2000. Bringing on Wayland Hancock Insurance Agency, Inc., in Houston and Nieman Hanks Puryear/Nieman Hanks Puryear Benefits in Austin significantly added to our capabilities, both geographically and in specific business lines, such as employee benefits. We believe insurance is a natural product to deepen our relationships with our customers. As evidence of the success of this effort, we are currently closing 52% of the qualified Frost Bank referrals to the agency.

Another major effort during 2000 was the successful rollout of our new and enhanced website, www.frostbank.com. This bank-hosted site is the backbone for providing further functionality and greater convenience to our customer. Although this represented a \$12.7 million commitment to infrastructure and application development, we felt that the ever-increasing importance of the Internet in customer service demanded that we undertake this effort.

During the year, we also implemented a major effort to simplify our deposit account offerings while providing our customers with better value. The number of transaction deposit types was reduced from 31 to just 10. Included in the new offerings was the company's first money market account tied to a third-party market index. In just a few months, this account, which is tied to our highest end checking account product, had grown to over one quarter of our total money market deposit accounts and had helped contribute to our company's profitable deposit growth.

An initiative we started in 1999, initially called our "Relationship Enhancement Program" focused on utilizing our investment in data warehouse technology to provide private telephone bankers to individual customers in the top two deciles of profitability. This program has been a great success and has resulted in an annual retention rate for these customers of more than 94 percent, compared to an industry average of around 85 percent. This program is being expanded in an effort to reach customers in the next two deciles of profitability by asking personal bankers in our locations throughout the state to contact them regularly, create cross-sell opportunities and increase retention.


Just as we make new investments in business lines, we sometimes must also exit businesses when necessary. During the year, we withdrew from the mortgage underwriting and servicing business, as well as the indirect automobile finance business. Both of these businesses had become highly commoditized, with little hope of reaching acceptable returns. However, at the same time, we announced an exciting co-branding arrangement with GMAC Mortgage, the country's 6th largest mortgage provider, broadening the excellent mortgage products we can now offer to our customer base.

As we look forward to 2001, we expect that the economy will continue to slow. Our customers are not immune to a slowing economy and, therefore, neither are we. This means that non-performing asset levels will increase in this environment and operate within a range somewhere between their current low levels and those of our peers today. This is still very manageable.

On the other hand, we expect continued growth in business volumes and improvements in the performance of our new business lines as these strategic efforts continue to mature. In addition, the Texas economy we serve should continue to outperform the nation.

In closing, we believe our most significant competitive advantage is the group of outstanding people who work for Cullen/Frost. They help us sustain our company's culture of integrity, caring and excellence on a daily basis. We thank you, our shareholders, for helping us maintain our high standards and for your continued support of our company, which has always been an integral part of our success.

Sincerely,

A handwritten signature in black ink, appearing to read "Dick Evans".

Dick Evans

Chairman and Chief Executive Officer

Financial Highlights

(In thousands, except per share amounts)

For The Year	2000	1999
Net Income	\$ 108,817	\$ 97,642
Earnings Per Diluted Common Share	2.03	1.78
Return on Average Assets	1.52%	1.42%
Return on Average Equity	20.41	18.68
Shareholders' Equity (at year end)	\$ 11.14	\$ 9.64
Dividends760	.675
Cash Earnings*	\$ 121,005	\$ 109,208
Earnings Per Diluted Common Share	2.26	1.99
Return on Average Assets	1.69%	1.59%
Return on Average Equity	22.70	20.89
*Earnings before intangible amortization (including goodwill and core deposit intangibles, net of tax)		
At Year End		
Loans	\$4,534,645	\$4,166,728
Securities	1,668,484	1,629,911
Deposits	6,499,690	5,953,832
Shareholders' Equity	573,026	509,311
Total Assets	7,660,372	6,996,680

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Cullen/Frost Bankers, Inc. is a financial holding company, headquartered in San Antonio, with assets of \$7.7 billion at December 31, 2000. Frost National Bank operates 80 financial centers across Texas in Austin, Boerne, Corpus Christi, Dallas, Fort Worth, Galveston, Houston, McAllen, New Braunfels, San Antonio and San Marcos. The corporation provides a full range of commercial and consumer banking products, investment and brokerage services, insurance products and investment banking services.

The annual meeting of shareholders is scheduled for May 30, 2001, at 10 a.m. in the Commanders Room of Frost National Bank, 100 West Houston Street, San Antonio, Texas.

Moving into a new millennium in 2000, Cullen/Frost continued to build on the strengths and values on which the company was founded more than 130 years ago. For Frost, Relationship Banking has always been about connecting with customers. As new legislation and technology have transformed the banking and financial services industry, Frost has evolved to face the challenge of changing times. The year 2000 epitomized these changes, as well as the organization's commitment to make the most of new opportunities, while strengthening and deepening customer relationships.

Making New

The enactment and implementation of Gramm-Leach-Bliley, the Financial Services Modernization Act of 1999, has fundamentally changed this industry and broadened the range of products and lines of business that financial services companies can offer efficiently. Anticipating these changes, Frost was pro-active, purchasing several strong, independent insurance agencies through Frost Insurance Agency, and launching Frost Securities, the company's investment banking subsidiary. No longer "just a bank," Cullen/Frost today is a full-service financial services company, integrating traditional banking, financial management, trust and investments, insurance and investment banking.

Concurrent with the legislative changes, expanded technology has significantly increased knowledge and resources. Technology has given Frost the ability to tailor product selections to individual or business customers' needs as never before, and to offer more choices, in more ways, across all financial services. Customers now have broad access not only to deposit and loan products, but also investment, trust and brokerage services, as well as insurance.

As they did more than a century ago, customers still have an option of coming into one of the bank's locations across Texas to do business with bankers they know. They can handle their finances at a motor bank or ATM, on the phone or by mail. And now, through expanded Internet choices, customers can manage their accounts, pay bills, see copies of checks and statements, handle treasury management business, trade stocks, check their trust investments and retirement accounts, and much more online, at their convenience. Frost offers more options than ever before, and the customer makes the choice of how, when and where to connect with their financial institution.

The year 2000 brought a renewed commitment to creating new efficiencies, resources and processes to make staying in touch with customers easier and more effective. Through a targeted strategy, Frost has created a culture geared to identifying what customers need and then providing it, rather than waiting for the customers to always take the initiative.

A collage of various items on a wooden desk, including a cup of coffee, a framed photo of a child, a calculator, a pen, and several financial and educational documents. The documents include a 2001 College University Almanac, an AIM Value Fund brochure, a Massachusetts Investors Trust brochure, a Frost Bank brochure, a Fundamental Investors brochure, a Frost Investment Services brochure, a Frost Brokerage Services brochure, and a TAXES folder. A yellow folder is also visible in the bottom right corner.

Connections

Making New Connections

New legislation and technology have broadened the range of products that financial services companies can offer. Frost offers investments, trust, brokerage and insurance, as well as traditional loan and deposit products, all designed to help customers achieve their financial goals.

This process allows bankers to anticipate a customer's financial requirements, to refine these suggestions through regular contact and to make sure the customer has the right set of products. With this reorganized structure and proactive culture in place, the company is now better aligned with customers' needs. It's a concept that extends from high net worth customers of Frost's Private Client Services to profitable consumer banking customers who may benefit from other Frost products and an expanded relationship.

Early in the year, the company evaluated and refined its consumer banking deposit products, which led to a simplified group of offerings and new options. One of these, the Market Index Account, was the first account Frost has ever offered linked to an independent market index rate. This relationship-oriented checking account offers a number of other benefits to reward customers who maintain significant balances.

In keeping with the focus on improving ways to connect with customers, some of Frost's banking locations also began to take on a new look in 2000, using techniques borrowed from leading-edge retailers. The new branch design is part of a broader strategy that positions the bank as a complete provider of financial services. An open and inviting interior design and use of wireless laptop computers removes barriers between banker and customer, encouraging dialogue and cross-selling opportunities. While being welcomed at a greeter station, a customer can learn about the broad range of options available at Frost. Flat-screen computers are available for customer use in the Internet café area, allowing bankers to demonstrate the new features of the Frost website and show customers how easy it is to do their banking online. At the Investment Center, customers can watch financial news on TV and meet with an investment officer. All new financial centers opened in 2000 have some elements of this new branch design, which will be expanded during 2001.

As use of the Internet gains wider acceptance, Frost has made significant changes to the functionality of its website. Logging on to www.frostbank.com, customers can access a broad range of online services. Using their ATM/Checkcard number, Frost consumer banking customers can access *My Frost*, which allows them to check account balances, transfer funds between Frost accounts, view copies of checks and statements, and receive NSF notification. Internet functionality will soon expand to opening accounts and ordering checks online. Internet banking through Frost Direct provides the additional benefit of reconciling accounts and paying bills. Financial Management Group customers can see their trust accounts online, review 401(k) balances and change 401(k) investment options. Frost Brokerage Services customers can conduct trading transactions through Frost's online brokerage.

Frost has also committed to maintaining the customer service infrastructure required to ensure that customers have access to people who can provide the information they need. Giving customers the ability to connect with a person in the "web help" area is key in the bank's effort to stay in touch and in tune with customers' needs.





Making New Connections

The new branch design is part of a broader strategy that positions the bank as a complete provider of financial services. Flat screen computers in the lobbies make online banking easily accessible to all customers.

From its earliest years, Frost has always been a bank for the Texas entrepreneur. Frost understands and embraces the entrepreneurial spirit that built this state, and is itself an embodiment of that spirit. Over the years, ranching and farming have given way to manufacturing, professional services, distribution, automobile dealers and technology-related businesses. But the Frost way of doing business, based on values, remains unchanged.

Strengthening

Parallel with the diversification and growth in the state's economy, the number and range of businesses partnering with Frost for their banking and financing needs has greatly expanded. Building relationships with companies of all sizes and in all sectors, Frost relationship managers work closely with customers, asking key questions, listening well, and staying abreast of industry trends so they can anticipate and meet business needs.

The number and variety of tools available to help commercial bankers do their job well has also grown, enabling Frost to become a full-service financial services company to corporate clients. A broad range of deposit and lending products, cash management services, leasing, capital markets, retirement services, investment plans, insurance, investment banking and employee benefits all allow Frost bankers to strengthen relationships with business customers.

Like the businesses Frost serves, the banking industry has undergone major changes over the years. From a small storefront bank helping ranchers to finance growth, Frost has expanded both in the

breadth of services and products it offers and the number of markets it serves. Those new products and services are strengthening the banker's role as trusted financial advisor to business customers.

Cash Management, long a mainstay of Frost's corporate banking offerings, has grown into a full complement of Treasury Management Services, including balance and activity reporting, Positive Pay fraud prevention, lockbox, funds transfer and more.



A black and white historical photograph of the Frost National Bank building. The building is a large, ornate structure with a central dome and multiple windows. The words "FROST NATIONAL BANK" are visible on the facade. In front of the bank, several vintage cars and horse-drawn carriages are parked on the street. A person is standing near one of the horse-drawn carriages in the foreground.

Connections

Strengthening Connections

From a small storefront bank helping ranchers to finance growth, Frost has expanded both in the breadth of services and products it offers and the number of markets it serves. With the Internet, Frost can now reach out to more customers, providing greater convenience and access and expanded online services.

With the introduction in 2000 of Cash Manager, Frost's new Internet-based treasury management service, customers can sign up for a variety of cash management services, authorize users and transact business online. The convenience of being able to access business accounts from home or while traveling can be a great benefit to a company owner too busy to handle these transactions during the workday. While doing business with customers face-to-face will always be a priority, Cash Manager and other Internet-related services are simplifying the way customers can connect to Frost.

More than ever before, investments play a critical role in our customers' financial goals, and the Financial Management Group has benefited from this trend. Trust assets exceeded \$12.9 billion in 2000, along with continued growth in brokerage and increased Internet functionality through Trust Online and Invest Online. Demonstrating an expanded commitment to fixed income management, Frost also moved the fixed income team to Houston and added several experienced managers.

During a difficult year in stock funds, several Frost managed funds significantly outperformed the market. Compared to the S&P's -9.09%, the Frost Kempner Deep Value Equity Fund saw a 27.26% increase, the Frost Large Cap Value Stock Fund experienced 31.09% growth and the Frost Small Cap Value Stock Fund, sub-advised by Irene Hoover, grew by 22.16%. Frost bond funds were also strong performers, with the Frost Taxable Fixed Income Fund showing a 13.26% increase, against the 10.10% Lehman Intermediate Bond Index.

With the addition of two insurance agencies in 2000, Wayland Hancock in Houston and Nieman Hanks Puryear/Nieman Hanks Puryear Benefits in Austin, Frost Insurance Agency can offer commercial clients complete insurance services, including property and casualty, liability, workers' compensation, and others, as well as employee benefits. In the area of retirement planning, Frost offers and manages 401(k), Keogh, SEP-IRA, defined benefit,

and other plans for every size and type of business, along with educational support for employees.

Cullen/Frost's *de novo* investment banking subsidiary, Frost Securities, completed a full year of operation in 2000, and is making strong progress. With an equity focus on technology and energy, Frost Securities has expanded its research coverage vertically in the semiconductor, software, equipment and service provider areas, from DSL to wireless to optical networking. From a start-up employment level of 18 people in August of 1999, Frost Securities has grown to 43 professionals, strengthening both its research and corporate finance areas.

During 2000, Frost also entered the institutional fixed-income securities broker-dealer business by establishing the Capital Markets division. The entrance into this line of business was the direct result of demand from many correspondent banks across the state for a Texas-based fixed-income institutional broker-dealer to serve their needs. Frost Bank has an extensive base of correspondent banks throughout Texas and has been involved in providing correspondent banking services for more than 100 of its 133 years. The Capital Markets division focuses on fixed-income debt instruments, primarily U.S. Treasury and Agency obligations, mortgage-backed securities and municipal bonds.





Strengthening Connections

Doing business with customers face-to-face has always been a priority for Frost bankers. In the area of retirement planning, Frost offers and manages plans for every size and type of business, along with educational support for employees.

In spite of new technology, new resources, new products and new channels of delivery, Frost has never lost sight of its identity and its roots. The changes in the 133 years since the bank was founded are dramatic. More than a century ago, a South Texas rancher simply walked into the storefront bank on Main Plaza in San Antonio to conduct his banking business. Customers today are just as likely to be from Houston or Fort Worth as from San Antonio. Customers can be sitting in a hotel room or airport halfway around the world, still in touch with Frost Bank via a laptop computer.

The Texas

At Frost, doing business has always meant connecting with customers, and that goal is being accomplished in new ways. The bank has changed when change was needed, but always incorporating the strong foundation that's part of its heritage.

Frost is fortunate to operate in Texas, a state with a strong and diversified economy. With a projected gross state product of \$744 billion in 2000, the Texas economy has been a dynamic force in the bank's growth over the years. So strong is the state's economy that if Texas were a separate country, it would be the 11th largest economy in the world.

During the 1990s, Texas, with an estimated 2000 population of 20.8 million residents, became the second most populous state. Leading all states in net job creation this decade, Texas is also the nation's second leading exporter, exporting more than \$90 billion worth of products to foreign markets in 1999. Two-thirds of all trade between the United States and Mexico passes through Texas.

Led by Dell and Compaq, nearly a quarter of the world's personal computers are manufactured in Texas. The Dallas area (Richardson's Telecom

Corridor) has the nation's highest concentration of telecommunications firms – more than 350 within a two-square-mile area. The Texas Medical Center in Houston is the world's largest medical center, and Texas is the nation's second largest producer of electronic components. Highlighting the state's corporate strengths, 72 Texas companies are on the Forbes 500 list, including 31 in Houston, 29 in Dallas/Fort Worth, 6 in San Antonio and 1 in Austin.

Cullen/Frost and its subsidiaries operate in 11 dynamic Texas markets, including three of the ten largest cities in the U.S. — Houston, Dallas and San Antonio. The state's pro-business environment, expanding markets and leading role in high tech, research and emerging technologies all create an opportunity for Cullen/Frost and the relationship-based service it can provide to the state's growing business and consumer populations.

Proud of its deep Texas roots and its strong presence in the markets it serves, Cullen/Frost is well prepared to face the opportunities and challenges that lie ahead.

A photograph of the Texas State Capitol building at night. The building is illuminated with warm yellow lights from within, and the dome is lit with a cool blue light. The sky is a deep purple. The word "Connection" is overlaid in large white letters across the middle of the image.

Connection

The Texas Connection

The deep Texas roots and values that have guided Cullen/Frost through 133 years of business will continue to serve the company as it meets the opportunities and challenges of the new century.

Cullen/Frost Bankers, Inc.

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- R. Denny Alexander
Owner, R. Denny Alexander
& Company
- Isaac Arnold, Jr.
Oil, Real Estate, Investments
- Royce S. Caldwell
Retired,
SBC Communications, Inc.
- Ruben R. Cardenas
Cardenas, Whitis &
Stephen, L.L.P.

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Partner, Catto & Catto, Ins.
- ✦ Bob W. Coleman
Chairman and Chief Executive Officer
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Oil, Real Estate, Investments
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Chairman of the Board,
Pape-Dawson Consulting Engineers
- Cass O. Edwards
Managing Partner,
Edwards Trust
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- ✦●✦ Dick Evans
Chairman and Chief Executive Officer
- ✦✦ Pat Frost
President, Frost Bank
- ✦●✦ Tom Frost
Senior Chairman

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Investments
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SBC Communications, Inc.
- ▲✦ Mary Beth Williamson
Education (Consultant)

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Senior Vice President,
Secretary to the Board

Directors Emeriti
Roy H. Cullen
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✦ Loan/CRA Committee

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President, Austin Region

Jack Collins
President, West Lake Hills

Tim Crowley
President, North Austin Market

Marvin Rickabaugh
President, Downtown Austin Market

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Fred Stumberg
President, Boerne

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Chuck Miller
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Daryl Kirkham
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North Arlington

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Group President, Southeast Houston

William S. Austin
President, Memorial

Scott Baxter
President, Allen Center & Cullen Center

John Black
President, Two Houston Center

John Clarke
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David LePori
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Dick Evans
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Pat Frost
President, Frost Bank

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Frost Bank

Directors

R. Denny Alexander
Owner, R. Denny Alexander & Company

Isaac Arnold, Jr.
Oil, Real Estate, Investments

Royce S. Caldwell
Retired,
SBC Communications, Inc.

Ruben R. Cardenas
Cardenas, Whitis & Stephen, L.L.P.

Henry E. Catto, Jr.
Partner, Catto & Catto

Bob W. Coleman
Chairman and CEO, Texace Corporation

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Chairman of the Board,
Pape-Dawson Consulting Engineers

Cass O. Edwards
Managing Partner, Edwards Trust

Ruben M. Escobedo, C.P.A.

Dick Evans
Chairman and CEO,
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Robert E. Fawcett, Jr.
Special Advisory Director

Pat Frost
President, Frost Bank

Tom Frost
Senior Chairman,
Cullen/Frost Bankers, Inc.

Joe R. Fulton
President, Fulton Construction Company

James W. Gorman, Jr.
Oil, Real Estate, Investments

James L. Hayne
Managing Partner, Catto & Catto

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Herman Richter 1917-2000 – Director, Cullen/Frost Bankers, Inc. 1987-2000 and Frost Bank 1967-2000

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