CULLEN FROST BANKERS INC
Form DEF 14A
April 18, 2005

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UNITED STATES
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Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Cullen/Frost Bankers, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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100 West Houston Street
San Antonio, Texas 78205

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on May 18, 2005

To the Shareholders of
CULLEN/ FROST BANKERS, INC.:

The Annual Meeting of Shareholders of Cullen/ Frost Bankers, Inc. (Cullen/ Frost) will be held in the Commanders Room at The Frost National Bank, 100 West Houston Street, San Antonio, Texas, on Wednesday, May 18, 2005, at 10:00 a.m., San Antonio time, for the following purposes:

1. To elect five nominees to serve as a Class III director for a three-year term that will expire at the 2008 Annual Meeting of Shareholders; and

2. To approve the Cullen/Frost Bankers, Inc. 2005 Omnibus Incentive Plan; and

3. To ratify the selection of Ernst & Young LLP to act as independent auditors of Cullen/Frost for the fiscal year that began January 1, 2005; and

4. To transact any other business that may properly come before the meeting.

You must be a shareholder of record at the close of business on April 8, 2005 to vote at the Annual Meeting. In order to hold the meeting, holders of a majority of the outstanding shares must be present either in person or by proxy.

Your vote is important, so please promptly complete and return the enclosed proxy card in the postage prepaid envelope provided.

All shareholders are cordially invited to attend the Annual Meeting.

By Order of the Board of Directors,

STAN McCORMICK
Corporate Secretary

Dated: April 18, 2005

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100 West Houston Street
San Antonio, Texas 78205

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held on May 18, 2005

INTRODUCTION

The Board of Directors of Cullen/Frost Bankers, Inc. (Cullen/Frost or the Company) is soliciting proxies to be used at the Annual Meeting of Shareholders. The meeting will be held in the Commanders Room at The Frost National Bank, 100 West Houston Street, San Antonio, Texas, on Wednesday, May 18, 2005 at 10:00 a.m., San Antonio time. This Proxy Statement and the accompanying proxy card will be mailed to shareholders beginning on or about April 18, 2005.

Record Date and Voting Rights

The close of business on April 8, 2005 has been fixed as the record date for the determination of shareholders entitled to vote at the Annual Meeting. The only class of securities of Cullen/Frost outstanding and entitled to vote at the Annual Meeting is Common Stock, par value $0.01 per share. On April 8, 2005, there were outstanding 51,841,353 shares of Common Stock, with each share entitled to one vote.

Proxies

All shares of Cullen/Frost Common Stock represented by properly executed proxies, if timely returned and not subsequently revoked, will be voted at the Annual Meeting in the manner directed in the proxy. If a properly executed proxy does not provide directions, it will be voted for all proposals listed on the proxy and in the discretion of the persons named as proxies with respect to any other business that may properly come before the meeting.

A shareholder may revoke a proxy at any time before it is voted by delivering a written revocation notice to the Corporate Secretary of Cullen/Frost Bankers, Inc., 100 West Houston Street, San Antonio, Texas 78205. A shareholder who attends the Annual Meeting may, if desired, vote by ballot at the meeting, and such vote will revoke any proxy previously given.

Quorum and Voting Requirements

A quorum of shareholders is required to hold a valid meeting. If the holders of at least a majority of the issued and outstanding shares of Company Common Stock are present at the Annual Meeting in person or represented by proxy, a quorum will exist. Shares for which votes are withheld, as well as abstentions and broker non-votes, are counted as present for establishing a quorum.

Directors are elected by a plurality of the votes cast at the Annual Meeting. Accordingly, the nominees receiving the highest number of votes will be elected. In the election of Directors, votes may be cast for or withhold authority with respect to any or all nominees. Votes that are withheld will be excluded entirely from the vote and will have no effect on the outcome of the vote.

With respect to other matters, including approval of the Cullen/Frost Bankers, Inc. 2005 Omnibus Incentive Plan (the Plan) and ratification of the selection of Ernst & Young LLP to act as independent auditors of Cullen/Frost for the fiscal year that began January 1, 2005, the affirmative vote of the holders of a majority of the outstanding shares having voting power present in person or represented by proxy will be the act of the shareholders. In the voting for these other matters, shares may be voted for or against or abstain . An abstention will have the effect of a vote against these other matters.

Under the rules of the National Association of Securities Dealers, Inc., member brokers generally may not vote shares held by them in street name for customers unless they are permitted to do so under the rules of any national securities exchange of which they are a member. Under the rules of the New York Stock Exchange, Inc. (NYSE), a member broker that holds shares in street name for customers has the authority to vote on certain items if it has transmitted proxy soliciting materials to the beneficial owner but has not received instructions from that owner. NYSE rules permit member brokers that do not receive instructions to vote on the election of Directors and the proposal to ratify the selection of Ernst & Young LLP to act as Cullen/Frost s independent auditors, but do not permit such brokers to vote on the proposal to approve the Plan. Under NYSE rules, the proposal to approve the Plan is a non-discretionary item, which means that NYSE member brokers that have not received instructions from beneficial owners of Company Common Stock do not have discretion to vote the shares of Company Common Stock held by those beneficial owners on the Plan. Because the affirmative vote of the holders of a majority of the outstanding shares having voting power present in person or represented by proxy is necessary to approve the Plan, any such broker non-votes will have no effect on the outcome of the vote.

Expenses of Solicitation

Cullen/Frost will pay the expenses of the solicitation of proxies for the Annual Meeting. In addition to the solicitation of proxies by mail, Directors, officers, and employees of Cullen/Frost may solicit proxies by telephone, facsimile, in person or by other means of communication. Cullen/Frost also has retained Georgeson Shareholder Communications Inc. (Georgeson) to assist with the solicitation of proxies. Directors, officers, and employees of Cullen/Frost will receive no additional compensation for the solicitation of proxies, and Georgeson will receive a fee not to exceed $6,500.00, plus reimbursement for out-of-pocket expenses. Cullen/Frost has requested that brokers, nominees, fiduciaries, and other custodians forward proxy-soliciting material to the beneficial owners of Cullen/Frost Common Stock. Cullen/Frost will reimburse these persons for out-of-pocket expenses they incur in connection with its request.

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ELECTION OF DIRECTORS
(Item 1 on Proxy Card)

The Company s Bylaws provide for a classified Board of Directors. Directors are assigned to one of three classes, and all classes are as equal in number as possible. The term of office of Class III will expire at the 2005 Annual Meeting. The term of office of Class I will expire at the 2006 Annual Meeting, and the term of office of Class II will expire at the 2007 Annual Meeting.

The following four Directors currently assigned to Class III have been nominated to serve for a new three-year term: Mr. R. Denny Alexander, Mr. Carlos Alvarez, Mr. Ruben M. Escobedo and Ms. Ida Clement Steen. The following two Directors currently assigned to Class III are not standing for re-election and will be retiring from the Board of Directors after the Annual Meeting pursuant to the Board of Directors retirement age policy: Mr. Eugene H. Dawson, Sr. and Mr. Joe R. Fulton. If any Director is unable to stand for re-election the Board may fill a directorship. The Board has nominated Mr. Royce S. Caldwell, who currently serves as a Class II Director, for election as a Class III Director to assist in equalizing the number of Directors in Class III. If any nominee is unable to serve, the individuals named as proxies on the enclosed proxy card will vote the shares to elect the remaining nominees and any substitute nominee or nominees designated by the Board.

The tables below provide information on each nominee, as well as each Director whose term continues after the meeting.

Nominees for Three-Year Term Expiring in 2008 (Class III):

				Shares Owned[1,2]	
Name	Age	Principal Occupation During Past Five Years	Director Since	Amount and Nature of Beneficial Ownership	Percent
R. Denny Alexander	59	Investments; former Chairman, Overton Bank & Trust and former Director, Overton Bancshares, Inc. (merged with Cullen/Frost)	1998	132,550[3]	0.25%
Carlos Alvarez	54	Chairman, President and Chief Executive Officer of The Gambrinus Company	2001	26,000	0.05%
Royce S. Caldwell	66	Former Vice Chairman, SBC Corporation, SBC Communications Inc.	1994	12,800	0.02%
Ruben M. Escobedo	67	Certified Public Accountant	1996	29,000	0.05%
Ida Clement Steen	52	Investments	1996	26,300[4]	0.05%

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Directors Continuing in Office Term Expiring in 2007 (Class II):

Name	Age	Principal Occupation During Past Five Years	Director Since	Shares Owned[1,2] Amount and Nature of Beneficial Ownership	Percent
Richard W. Evans, Jr.	58	Chairman of the Board, Chief Executive Officer, and President of Cullen/Frost; Chairman of the Board and Chief Executive Officer of The Frost National Bank, a Cullen/Frost subsidiary	1993	803,491[5, 6]	1.51%
T. C. Frost	77	Senior Chairman of the Board of Cullen/Frost	1966	1,249,922[5,7]	2.35%
Preston M. Geren III	53	Special Assistant to the Secretary of Defense; Attorney; former Management Consultant, Public Strategies, Inc; former U.S. Congressman, 12th District of Texas	2001	253,840[8]	0.48%
Karen E. Jennings	54	Senior Executive Vice President Human Resources and Communications, SBC Communications Inc.	2001	2,100	0.00%
Richard M. Kleberg, III	62	Investments	1992	34,425[9]	0.06%
Horace Wilkins, Jr.	54	Former President, Special Markets, SBC Communications Inc.; former Regional President, Southwestern Bell Telephone Co.	1997	2,400	0.00%

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Directors Continuing in Office Term Expiring in 2006 (Class I):

				Shares Owned[1,2]	
Name	Age	Principal Occupation During Past Five Years	Director Since	Amount and Nature of Beneficial Ownership	Percent
Isaac Arnold, Jr.	69	Oil, real estate, investments	1977	43,968	0.08%
Harry H. Cullen	69	Oil, real estate, investments	1993	265,542[10]	0.50%
Patrick B. Frost	45	President, The Frost National Bank, a Cullen/Frost subsidiary	1997	361,881[5, 11]	0.68%
James L. Hayne	71	Chairman, Catto & Catto Insurance	1977	152,416[12]	0.29%
Robert S. McClane	66	President, McClane Partners, LLC; former Director of Prodigy Communications Corp.; former President of Cullen/Frost	1985	31,972	0.06%
Mary Beth Williamson	71	Education (Consultant)	1996	22,880	0.04%

(1) Beneficial ownership is stated as of December 31, 2004, except for Mr. T.C. Frost and Mr. Horace Wilkins, Jr., which is stated as of February 10, 2005 and Ms. Karen E. Jennings, which is stated as of February 14, 2005. The owners have sole voting and sole investment power for the shares of Company Common Stock reported unless otherwise indicated. Beneficial ownership includes the following shares that the individual had a right to acquire pursuant to stock options exercisable within sixty (60) days from December 31, 2004 (or February 10, 2005, in the case of Mr. T.C. Frost and Mr. Horace Wilkins, Jr. or February 14, 2005 in the case of Ms. Karen E. Jennings): Mr. T. C. Frost 148,000; Mr. Richard W. Evans, Jr. 507,000; Mr. Patrick B. Frost 202,000; Mr. Harry H. Cullen, Jr, Mr. James L. Hayne and Mr. Richard M. Kleberg, III 26,000; Ms. Ida Clement Steen 24,000; Mr. Ruben M. Escobedo 23,000; Ms. Mary Beth Williamson 22,000; Mr. R. Denny Alexander 20,000; Mr. Robert S. McClane and Mr. Isaac Arnold, Jr. 16,000; Mr. Carlos Alvarez, Mr. Royce S. Caldwell and Mr. Preston M. Geren III 12,000; Ms. Karen E. Jennings and Mr. Horace Wilkins, Jr. 2,000;. The number of shares of Cullen/Frost Common Stock beneficially owned by all Directors, nominees and named executive officers as a group is disclosed on page 18.

(2) Reflects 2-for-1 stock split of the Company s Common Stock in each of 1996 and 1999.

(3) Includes 21,000 shares held by a charitable foundation for which Mr. R. Denny Alexander disclaims beneficial ownership.

(4) Includes 1,100 shares for which Ms. Ida Clement Steen shares voting and investment power with her husband.

(5) Includes the following shares allocated under the 401(k) Stock Purchase Plan for Employees of Cullen/ Frost Bankers, Inc. for which each beneficial owner has both sole voting and sole investment power: Mr. T. C. Frost

48,284; Mr. Richard W. Evans, Jr. 38,931; and Mr. Patrick B. Frost 17,580.

(6) Includes 120,003 shares held by a family limited partnership of which the general partner is a limited liability company of which Mr. Richard W. Evans, Jr. is the sole manager.

(7) Includes (a) 664,911 shares held by a limited partnership of which the general partner is a limited liability company of which Mr. T.C. Frost is the sole manager, (b) 336,992 shares held by various trusts of which Mr. T.C. Frost is the trustee, and (c) 33,684 shares held by the Pat and Tom Frost Foundation Trust for which Mr. T.C. Frost disclaims beneficial ownership.

(8) Includes (a) 58,390 shares held by a family limited partnership of which Mr. Preston M. Geren III is a general partner and of which Mr. Preston M. Geren III and his wife are limited partners and for which Mr. Preston M. Geren III shares voting and investment power, (b) 4,310 shares for which Mr. Preston M. Geren III shares voting and investment power with his wife, and (c) 26,520 shares held by family trusts for which Mr. Preston M. Geren III disclaims beneficial ownership.

(9) Includes 8,400 shares held by a family partnership for which Mr. Richard M. Kleberg, III has sole voting and sole investment power.

(10) Includes 57,656 shares held by trusts for which Mr. Harry H. Cullen shares voting power and investment power.

(11) Includes (a) 43,582 shares held by a trust of which Mr. Patrick B. Frost is the trustee, (b) 12,270 shares held by Mr. Patrick B. Frost s children for which Mr. Patrick B. Frost is the custodian, and (c) 630 shares held by Mr. Patrick B. Frost s wife for which Mr. Patrick B. Frost disclaims beneficial ownership.

(12) Includes 106,820 shares held by a limited partnership in which Mr. James L. Hayne s wife owns an interest. Mr. James L. Hayne disclaims beneficial ownership of such shares.

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GENERAL INFORMATION ABOUT THE BOARD OF DIRECTORS

Meetings and Attendance

The Board of Directors had four meetings in 2004. Each of the Company s current Directors attended at least 75 percent of the meetings of the Board and the Committees of the Board on which he or she served during 2004.

At the meeting of the Board of Directors held on October 28, 2004, the Board adopted a policy that encourages Directors to attend Annual Meetings of Shareholders. In furtherance of this policy, the Board will hold one of its meetings on the same day as the 2005 Annual Meeting. In 2004, four Directors attended the Annual Meeting.

Committees of the Board

The Board of Directors has five Committees, each of which is described in the chart below.

Committee	Members	Primary Responsibilities	Meetings in 2004
Audit	Eugene H. Dawson, Sr. (Chair) Isaac Arnold, Jr. Royce S. Caldwell Ruben M. Escobedo Richard M. Kleberg, III	Assists Board oversight of the integrity of Cullen/Frost s financial statements, Cullen/Frost s compliance with legal and regulatory requirements, the independent auditors qualifications and independence and the performance of the independent auditors and Cullen/Frost s internal audit function. Appoints, compensates, retains and oversees the independent auditors, and pre-approves all audit and non-audit services.	6
Compensation and Benefits	Mary Beth Williamson (Chair) Ruben M. Escobedo Karen E. Jennings	Oversees the development and implementation of Cullen/Frost s compensation and benefit programs. Reviews and approves the corporate goals and objectives relevant to the compensation of the CEO, evaluates the CEO s performance based on these goals and objectives and sets the CEO s compensation based on the evaluation. Administers Cullen/Frost s compensation and benefit plans.	2
Corporate Governance and Nominating	Mary Beth Williamson (Chair) Ruben M. Escobedo Karen E. Jennings	Maintains and reviews Cullen/Frost s corporate governance principles. Oversees and establishes procedures for the evaluation of the Board. Identifies and recommends candidates for election to the Board.	2
Executive	Richard W. Evans, Jr. (Chair) Patrick B. Frost T.C. Frost	Acts for the Board of Directors between meetings, except as limited by resolutions of the Board, Cullen/Frost s Articles of Incorporation or By-Laws and applicable law.	3

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Committee	Members	Primary Responsibilities	Meetings in 2004
Strategic Planning	Richard W. Evans, Jr. (Chair) R. Denny Alexander Isaac Arnold, Jr. Royce S. Caldwell Eugene H. Dawson, Sr. T.C. Frost James L. Hayne	Analyzes the strategic direction for Cullen/Frost, including reviewing short-term and long-term goals. Monitors Cullen/Frost s corporate mission statement and capital planning.	4

The Board has adopted written charters for the Audit Committee, the Compensation and Benefits Committee and the Corporate Governance and Nominating Committee. The charter for the Audit Committee is attached as Annex A to this Proxy Statement. It is also available, together with the charter for the Compensation and Benefits Committee and the charter for the Corporate Governance and Nominating Committee, at www.frostbank.com.

As described in more detail below under Certain Corporate Governance Matters Director Independence, the Board has determined that each member of the Audit Committee, the Compensation and Benefits Committee and the Corporate Governance and Nominating Committee is independent within the meaning of the rules of the NYSE. The Board has also determined that each member of the Audit Committee is independent within the meaning of the rules of the Securities and Exchange Commission (the SEC). In addition, the Board has determined that each member of the Audit Committee is financially literate and that at least one member of the Audit Committee has accounting or related financial management expertise, in each case within the meaning of the NYSE s rules. The Board has also determined that Mr. Ruben M. Escobedo is an audit committee financial expert within the meaning of the SEC s rules.

Director Nomination Process

The Corporate Governance and Nominating Committee is responsible for identifying individuals qualified to become members of the Board of Directors and for recommending to the Board the nominees to stand for election as Directors.

In identifying Director candidates, the Corporate Governance and Nominating Committee may seek input from Cullen/Frost s management and from current members of the Board. In addition, it may use the services of an outside consultant, although it has not done so in the past. The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders. Shareholders that wish to recommend candidates may do so by writing to the Corporate Governance and Nominating Committee of Cullen/Frost Bankers, Inc., c/ o Corporate Secretary, 100 West Houston Street, San Antonio, Texas 78205. Recommendations may be submitted at any time, but recommendations for consideration as nominees at the Annual Meeting of Shareholders must be received not less than 120 days before the first anniversary of the date of the proxy statement released to shareholders in connection with the previous year s Annual Meeting. Therefore, to recommend a candidate for consideration as a nominee for Director at the 2006 Annual Meeting, a shareholder must submit the recommendation by December 19, 2005. The written recommendation must include the name of the candidate, the number of shares of Cullen/Frost Common Stock owned by the candidate and the information regarding the candidate that would be included in a proxy statement for the election of Directors pursuant to paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the SEC.

In evaluating Director candidates, the Corporate Governance and Nominating Committee initially considers the Board s need for additional or replacement Directors. It also considers the criteria approved by the Board and set forth in Cullen/Frost s Corporate Governance Guidelines, which include, among other things, the candidate s personal qualities (in light of the Company s core values and mission statement), accomplishments and reputation in the business community, the fit of the candidate s skills and personality

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with those of other Directors and candidates and the ability of the candidate to commit adequate time to Board and committee matters. The objective is to build a Board that is effective, collegial and responsive to the needs of Cullen/ Frost. In addition, considerable emphasis is given to Cullen/ Frost s mission statement and core values, statutory and regulatory requirements, the Board s goal of having a substantial majority of independent directors and the Board s retirement policy.

The Corporate Governance and Nominating Committee evaluates all Director candidates in the same manner, including candidates recommended by shareholders. In considering whether candidates satisfy the criteria described above, it will initially utilize the information it receives with the recommendation or otherwise possesses. If it determines, in consultation with other Board members, including the Chairman, that more information is needed, it may, among other things, conduct interviews.

Director Compensation

Cullen/ Frost employees receive no fees for their services as members of the Board of Directors or any of its committees. Non-employee Directors receive an annual retainer fee of $8,000 and $2,000 for each Board meeting attended. In addition, non-employee Directors receive $1,000 for attending each meeting of a committee of the Board to which they have been appointed, except that the Chairman of the Audit Committee receives $1,500 for each meeting of the Audit Committee attended. Non-employee Directors are also eligible to receive stock options each year under Cullen/ Frost s 1997 Director Stock Plan. In July 2004, each non-employee Director received options to purchase 2,000 shares of the Company s Common Stock. A total of 32,000 stock options were granted to non-employee Directors in 2004. The options have a term of six years from the date of the grant, are exercisable immediately from the date of the grant and have an exercise price of $43.08, which is equal to the closing price of the Company s Common Stock on the date of the grant.

In addition, the Board of Directors also serves as the Board of Directors for The Frost National Bank, a subsidiary of Cullen/ Frost, and non-employee Directors receive fees for serving in this capacity. In particular, non-employee Directors receive $2,000 for each meeting of such Board attended and $1,000 for attending each meeting of a committee of such Board to which they have been appointed.

Other Directorships

The following are directorships held by nominees and Directors in public companies other than Cullen/ Frost, or in registered investment companies:

Mr. Arnold	Plains Exploration & Production Company
Mr. Caldwell	SABRE Corporation
Mr. Escobedo	Valero Energy Corporation
Mr. Geren	Anadarko Petroleum Corporation

Miscellaneous Information

There are no arrangements or understandings between any nominee or Director of Cullen/ Frost and any other person regarding such nominee s or Director s selection as such, except that Mr. Robert S. McClane s retirement agreement with Cullen/ Frost provides that, until he reaches age 70, subject to the sole discretion of the Board of Directors, he will be considered as a candidate for reelection to the Board. In addition, pursuant to such retirement agreement, Mr. McClane is entitled to office space and secretarial services and support until he reaches age 70. The only family relationships among the Directors or executive officers of Cullen/ Frost that are first cousin or closer are those of Messrs. T.C. Frost and Patrick B. Frost, who are father and son, and Messrs. Harry H. Cullen and Isaac Arnold, Jr., who are first cousins.

CERTAIN CORPORATE GOVERNANCE MATTERS

Cullen/ Frost believes that it has operated over the years with sound corporate governance practices that exemplify its commitment to integrity and protect both the interests of its shareholders and the other constituencies that it serves. These practices include a substantially independent Board of Directors, periodic meetings of non-management Directors and a sound and comprehensive code of conduct, which obligates Directors and all employees to adhere to the highest legal and ethical business practices. A review of some of Cullen/ Frost s corporate governance measures is set forth below.

Director Independence

The Board of Directors believes that a substantial majority of its members should be independent within the meaning of the NYSE s rules. To this end, the Board reviews annually the relevant facts and circumstances regarding relationships between Directors and Cullen/ Frost. The purpose of the Board s review is to determine whether any Director has a material relationship with Cullen/ Frost (either directly or as a partner, shareholder or officer of an organization that has a relationship with Cullen/ Frost).

In connection with the Board s latest review, the Board determined that the following Directors, which compose 84% of the Board, are independent within the meaning of the NYSE s rules: Mr. R. Denny Alexander, Mr. Carlos Alvarez, Mr. Isaac Arnold, Jr., Mr. Royce S. Caldwell, Mr. Harry H. Cullen, Mr. Eugene H. Dawson, Sr., Mr. Ruben M. Escobedo, Mr. Joe R. Fulton, Mr. Preston M. Geren III, Mr. James L. Hayne, Ms. Karen E. Jennings, Mr. Richard M. Kleberg, III, Mr. Robert S. McClane, Ms. Ida Clement Steen, Mr. Horace Wilkins, Jr. and Ms. Mary Beth Williamson. Mr. T.C. Frost, Mr. Richard W. Evans and Mr. Patrick B. Frost are not independent because they are executive officers of Cullen/ Frost.

In making its independence determinations, the Board considers the NYSE s rules, as well as the standards set forth below. The Board adopted these standards pursuant to the NYSE s rules to assist it in making independence determinations. For purposes of the standards, the term Cullen/ Frost entity means, collectively, Cullen/ Frost and each of its subsidiaries.

Credit Relationships. A proposed or outstanding relationship that consists of an extension of credit by a Cullen/ Frost entity to a Director or a person or entity that is affiliated, associated or related to a Director should not be deemed to be a material relationship if it satisfies each of the following criteria:

It is not categorized as classified by the Cullen/ Frost entity or any regulatory authority that supervises the Cullen/ Frost Entity.

It is made on terms and under circumstances, including credit standards, that are substantially similar to those prevailing at the time for comparable relationships with other unrelated persons or entities and, if subject to the Federal Reserve Board s Regulation O (12 C.F.R. Part 215), is made in accordance with Regulation O.

In the event that it was not made, in the case of a proposed extension of credit, or it was terminated in the normal course of the Cullen/ Frost entity s business, in the case of an outstanding extension of credit, the action would not reasonably be expected to have a material adverse effect on the Director or the business, results of operations or financial condition of any person or entity related to such Director.

Non-Credit Banking or Financial Products or Services Relationships. A proposed or outstanding relationship in which a Director or a person or entity that is affiliated, associated or related to a Director procures non-credit banking or financial products or services from a Cullen/ Frost entity should not be deemed to be a material relationship if it (i) has been or will be offered in the ordinary course of the Cullen/ Frost entity s business and (ii) has been or will be offered on terms and under circumstances that were or are substantially similar to those prevailing at the time for comparable non-credit banking or financial products or services provided by the Cullen/ Frost entity to other unrelated persons or entities.

Property or Services Relationships. A proposed or outstanding relationship in which a Director or a person or entity that is affiliated, associated or related to a Director provides property or services to a Cullen/ Frost entity should not be deemed to be a material relationship if the property or services (i) have been or will be procured in the ordinary course of the Cullen/ Frost entity s business and (ii) have been or will be procured on terms and under circumstances that were or are substantially similar to those that the Cullen/ Frost entity would expect in procuring comparable property or services from other unrelated persons or entities.

Meetings of Non-Management Directors

Cullen/ Frost s non-management Directors meet in executive sessions without members of management present at each regularly scheduled meeting of the Board. The Chair of the Board s Corporate Governance and Nominating Committee, who is currently Ms. Mary Beth Williamson, presides at the executive sessions.

Communications with Directors

The Board of Directors has established a mechanism for shareholders or other interested parties to communicate with the non-management Directors as a group and the presiding non-management Director. All such communications should be addressed to the Board of Directors of Cullen/ Frost Bankers, Inc., c/o Corporate Counsel, 100 West Houston Street, San Antonio, Texas 78205.

In addition, the Board of Directors has established a mechanism for shareholders or other interested parties that have concerns or complaints regarding accounting, internal accounting controls or auditing matters to communicate them to the Audit Committee. Such concerns or complaints should be addressed to the Audit Committee of Cullen/ Frost Bankers, Inc., c/o Corporate Counsel, 100 West Houston Street, San Antonio, Texas 78205.

For shareholders or other interested parties desiring to communicate with the non-management Directors, the presiding non-management Director or the Audit Committee by e-mail or telephone, please see the information set forth on Cullen/ Frost s website at www.frostbank.com.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines, which reaffirm Cullen/ Frost s commitment to having strong corporate governance practices. The Guidelines set forth, among other things, the policies of the Board with respect to Board composition, selection of Directors, retirement of Directors, Director orientation and continuing training, executive sessions of non-management Directors, Director compensation and Director responsibilities. The Guidelines are available on Cullen/ Frost s website at www.frostbank.com.

Code of Business Conduct and Ethics

The Board of Directors has adopted a Code of Business Conduct and Ethics to promote the highest legal and ethical business practices by Cullen/ Frost. The Code applies to Directors and Cullen/ Frost employees, including Cullen/ Frost s Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code addresses, among other things, honest and ethical conduct, accurate and timely financial reporting, compliance with applicable laws, accountability for adherence to the Code and prompt internal reporting of violations of the Code. The Code is available on Cullen/ Frost s website at www.frostbank.com. Cullen/ Frost intends to disclose any amendments to or waivers from the Code that apply to its Chief Executive Officer, Chief Financial Officer and principal accounting officer by posting such information on its website at www.frostbank.com.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation and Benefits Committee Report on Executive Compensation

The Compensation and Benefits Committee of the Board of Directors is composed of three Directors that the Board has determined to be independent within the meaning of the NYSE s rules. The duties and responsibilities of the Compensation and Benefits Committee, as well as certain components of Cullen/Frost s compensation philosophy, are set forth below.

Compensation and Benefits Committee Duties and Responsibilities

The duties and responsibilities of the Compensation and Benefits Committee include, among other things, the following:

In consultation with management, to establish Cullen/Frost s general compensation philosophy and oversee the development of Cullen/Frost s compensation and benefit programs;

To review and approve corporate goals and objectives relevant to the compensation of Cullen/Frost s Chief Executive Officer, evaluate his performance in light of those goals and objectives, and set his compensation level based on this evaluation.

Certain Components of Cullen/Frost s Compensation Philosophy

Compensation levels should be competitive with the median of comparable financial organizations to attract and maintain a stable, successful management team;

Executives total compensation packages should depend upon the level of success in meeting specified Company and individual performance goals;

Executive ownership of the Company s Common Stock should be encouraged to align executives interests with shareholders interests; and

Sustained superior performance by individual executives should be rewarded.

Each year an independent consultant engaged by the Compensation and Benefits Committee provides a comprehensive analysis of competitive market data for senior executives, which compares Cullen/Frost s compensation practices and programs to a group of comparator companies that have similar business operations, total assets, market capitalizations, and lines of business. These companies include, but are not limited to, the companies in the Standard & Poor s (S&P) Bank Index. The Compensation and Benefits Committee has chosen not to use the S&P s Bank Index as its sole comparator group for compensation purposes since detailed data for all senior executives at the banks comprising the index is not available.

The S&P s Bank Index was used for comparison of total shareholder return shown in the Performance Graph on page 20.

The elements of Cullen/ Frost s executive compensation are base salary, annual incentives, and long-term compensation, which are discussed below. The Compensation and Benefits Committee considers all elements of an executive s total compensation package, including severance plans, insurance, and other benefits, as set forth below.

Base Salary

Reviewed annually for each of the Company s four named executive officers.

Based on subjective evaluation of individual performance, achievement, and contribution to growth.

May be adjusted to reflect competitive market levels following performance evaluations.

May be adjusted to attract and retain appropriate officers.

Company base salary levels for the senior executive group were overall slightly above market levels of comparator companies in 2004.

Annual Incentives

Designed to promote and reward teamwork as measured by overall corporate performance and also recognize individual contributions.

Generally, bonus pools are established when the Company achieves a predetermined level of financial performance, as established by the Compensation and Benefits Committee.

Compensation and Benefits Committee has authority to adjust the total bonus pool up or down based on Company s overall performance.

Compensation and Benefits Committee authorized payouts at target for 2004 based on Company s superior performance.

Actual award sizes recognized individual contributions and teamwork.

Long-Term Incentives

Size of award depends on levels of responsibility, prior experience, individual performance, and compensation practices at comparator companies.

Current stock holdings and the magnitude of outstanding long-term incentives are not considered in making current awards.

Stock Options

Primary long-term incentive award.

Nonqualified stock options granted at a price not less than the fair market value of Company Common Stock on the date of grant.

Size of stock option grants determined based on numerous factors including Company and individual performance, level of responsibility, competitive market, historical awards, and available option pool.

Compensation and Benefits Committee s objective is to deliver a competitive award opportunity.

Number awarded varies from year to year.

Awards granted in 2004 vest 100% three years from the date of grant.

Restricted Stock

Provides executives with immediate link to shareholder interests.

Helps maintain a stable executive team.

Restricted stock was granted to selected senior executives in 2004 as part of the annual long-term incentive package.

Awards granted in 2004 vest 100% four years from the date of grant to promote executive retention.

CEO Compensation

The Compensation and Benefits Committee continued Mr. Evans base salary at $630,000 for 2005, which approximates the median level of CEOs at comparator companies. The Compensation and Benefits

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Committee awarded Mr. Evans a bonus of $410,000 for 2004, based on the Company s superior financial performance and Mr. Evans outstanding leadership during 2004. In addition, Mr. Evans was granted 32,700 options with an exercise price of $47.40 as detailed in the table on page 16. Mr. Evans also received 25,000 shares of restricted stock, which will vest in October 2008. As of December 31, 2004, Mr. Evans had beneficial ownership of 803,491 shares of stock, which includes 507,000 shares that he has a right to acquire pursuant to presently exercisable options.

Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code generally limits the corporate tax deduction to $1,000,000 in a taxable year for compensation paid to each covered employee of the Company, which, under Section 162(m), includes the Company s Chief Executive Officer and the three other named executive officers, unless the compensation is performance-based . Under Section 162(m), one condition to qualify compensation as performance-based is to establish the amount of an incentive award by an objective formula that precludes any discretion. In order to preserve the Company s tax deduction, the Compensation and Benefits Committee has approved the Cullen/ Frost Bankers, Inc. Deferred Compensation Plan For Covered Employees. This plan requires that the compensation of a covered employee that would exceed the amount deductible under Section 162(m) be deferred until the plan year after he or she ceases to be a covered employee or upon his or her death or disability. Currently, Cullen/ Frost s Chief Executive Officer is the only covered employee under this plan. In 2004, $40,000 of the Chief Executive Officer s annual compensation was deferred into the plan. While the Compensation and Benefits Committee will continue to review the impact of Section 162(m), the Committee also believes it is in the Company s and shareholders best interests to retain the discretionary evaluation of individual performance as provided in the annual incentive plan.

Conclusion

The Compensation and Benefits Committee believes that Cullen/ Frost s executive compensation policies and programs effectively serve the interests of the Company and its shareholders. The various compensation arrangements offered are appropriately balanced to provide increased motivation for executives to contribute to the Company s overall future successes, thereby enhancing the value of the Company for the shareholders benefit.

The Compensation and Benefits Committee will continue to monitor the effectiveness of the Company s total compensation program to meet the current needs of the Company.

Mary Beth Williamson, Chair
Ruben M. Escobedo
Karen E. Jennings

Compensation and Benefits Committee Interlocks and Insider Participation

Some of the members of the Compensation and Benefits Committee, and some of these persons associates, are current or past customers of one or more of the Company s subsidiaries. Since January 1, 2004, the transactions between these persons and such subsidiaries have occurred, including borrowings. In the opinion of management, all of the transactions have been in the ordinary course of business, have had substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility. Additional transactions may take place in the future.

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Summary of Cash and Certain Other Compensation

SUMMARY COMPENSATION TABLE

The table below gives information on compensation for the Senior Chairman of Cullen/ Frost, the CEO of Cullen/ Frost and the other most highly compensated executive officers of Cullen/ Frost (collectively, the named executive officers).

		Annual Compensation			Long-Term Compensation		
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation(1)**	**Restricted Stock(2)**	**Stock Options (# of shares)**	**All Other Compensation(3)**
T.C. Frost	2004	$ 40,000	$	$ 43,528	$	4,000	$ 64,150
Senior Chairman	2003	$ 40,000	$	$ 48,510	$	4,000	$ 64,150
Cullen/Frost	2002	$ 30,000	$	$ 42,716	$	4,000	$ 64,155
Richard W. Evans, Jr.	2004	$ 630,000	$ 410,000	$ 19,821	$ 1,815,000	32,700	$ 50,950
Chairman and CEO	2003	$ 550,000	$ 410,000	$ 26,524	$ 953,000	32,700	$ 46,552
Cullen/Frost	2002	$ 550,000	$ 440,000	$ 26,737	$ 728,438	21,800	$ 47,552
Phillip D. Green	2004	$ 310,000	$ 140,000	$ 2,079	$ 308,100	9,300	$ 8,439
Chief Financial Officer	2003	$ 286,000	$ 130,000	$ 1,892	$ 247,780	9,300	$ 6,555
Cullen/Frost	2002	$ 275,000	$ 150,000	$ 1,979	$ 208,125	6,200	$ 6,895
Patrick B. Frost	2004	$ 296,000	$ 133,500	$ 1,801	$ 237,000	7,500	$ 6,110
President,	2003	$ 286,000	$ 126,000	$ 1,892	$ 190,600	7,500	$ 5,786
The Frost National Bank, a Cullen/Frost subsidiary	2002	$ 275,000	$ 138,000	$ 1,979	$ 166,500	5,000	$ 6,100

(1) Represents payments to compensate the named executive officer for income taxes on elective deferrals and Company matching contributions to Cullen/ Frost s 1991 Thrift Stock Purchase Plan (the 1991 Thrift Plan), which provides benefits comparable to the Company s 401(k) Stock Purchase Plan for employees whose participation in the 401(k) Plan is limited by IRS rules. Mr. T.C. Frost s values include $37,528 to reimburse him for taxes on life insurance premiums paid for by the Company and a $6,000 automobile allowance. Mr. Richard W. Evans values include $10,898 to reimburse him for taxes on life insurance premiums paid for by the Company. Amounts for 2003 and 2004 for Mr. Evans include a $6,000 automobile allowance.

(2) Represents the dollar value of restricted stock awards, based on the closing market price of Company Common Stock on the grant date. The total number of restricted shares and the aggregate market value of such shares held by the named executive officers at December 31, 2004 is as follows: Mr. T.C. Frost, 0 shares valued at $0; Mr. Richard W. Evans 71,875 shares valued at $3,493,125; Mr. Phillip D. Green, 19,250 shares valued at $935,550, and Mr. Patrick B. Frost, 15,000 shares valued at $729,000. Aggregate market value is based on fair

market value of $48.60 at December 31, 2004. Dividends are paid on the restricted shares at the same time and at the same rate as dividends paid to shareholders of unrestricted shares. Stock awarded in 2002, 2003 and 2004 vests at the end of four years from the date of the award.

(3) Represents total and/or imputed income from certain insurance premiums paid by Cullen/ Frost and the Company s contributions to the 1991 Thrift Plan. The amounts for insurance premiums and/or imputed income for 2004 were: Mr. T.C. Frost $64,150; Mr. Richard W. Evans $25,450; Mr. Phillip D. Green $2,139; and Mr. Patrick B. Frost $650. The Company s contribution to the 1991 Thrift Plan for 2004 for these executives was: Mr. T.C. Frost $0; Mr. Richard W. Evans $25,500; Mr. Phillip D. Green $6,300; and Mr. Patrick B. Frost $5,460.

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The following tables provide information on stock options granted to and held by the named executive officers in 2004 under the Cullen/Frost Bankers, Inc. 2001 Stock Plan:

OPTION/ SAR GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options/SARs Granted(1)	% of Total Options/SARs Granted to Employees in Fiscal Year(2)	Exercise Price(3)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Options Term(4)	
					5%	10%
T. C. Frost	4,000	0.6%	$ 47.40	10/12/2010	$ 64,482	$ 146,288
Richard W. Evans, Jr.	32,700	4.6%	$ 47.40	10/12/2010	$ 527,141	$ 1,195,904
Phillip D. Green	9,300	1.3%	$ 47.40	10/12/2010	$ 149,921	$ 340,120
Patrick B. Frost	7,500	1.0%	$ 47.40	10/12/2010	$ 120,904	$ 274,290

(1) These options become exercisable on October 12, 2007 and are subject to forfeiture under certain circumstances. Upon a change in control of Cullen/Frost, these options will immediately become exercisable.

(2) Based on 716,100 options granted to all employees in 2004.

(3) The exercise price is equal to the closing price of the Company s Common Stock on the grant date of the option.

(4) The dollar amounts in these two columns are the result of calculations at the 5% and 10% rates set by the SEC and therefore are not intended to forecast possible future appreciation, if any, of the Company s Common Stock. If the price of the Company s Common Stock does not increase above the exercise price, no value will be realizable from these options.

AGGREGATED OPTION/ SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/ SAR VALUES

Name	Shares Acquired on Exercise	Value Realized	Total Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End(#)(1)		Value of Unexercised In-The-Money Options/SARs Held at Fiscal Year-End($)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
T. C. Frost	110,000	$ 3,482,665	224,000	12,000	$ 7,381,640	$ 170,920

Richard W. Evans, Jr.	174,000	$ 3,731,611	507,000	87,200	$ 11,587,540	$ 715,476
Phillip D. Green	40,000	$ 775,345	125,000	24,800	$ 2,645,950	$ 203,484
Patrick B. Frost	48,000	$ 1,553,333	202,000	20,000	$ 5,060,120	$ 164,100

(1) Reflects 2-for-1 stock split in 1996 and 1999.

(2) Total value of options based on closing price of Company Stock on December 31, 2004, which was $48.60.

Other Plans and Agreements

Retirement Plan and Restoration Plan

Cullen/Frost has a non-contributory Retirement Plan and Trust for Employees of Cullen/Frost Bankers, Inc. and its Affiliates that is designed to comply with the requirements of the Employee Retirement Income Security Act of 1974. The Company also has a Restoration Plan that provides benefits in excess of the limits under Section 415 of the Internal Revenue Code and in excess of the limits on eligible earnings set by the Tax Reform Act of 1986. Benefits under such plan are provided in connection with both the Retirement Plan and a

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previous employee stock ownership plan. The entire cost of the Retirement Plan and Restoration Plan is supported by Cullen/Frost and its subsidiaries. Both of these plans were frozen effective December 31, 2001. There will be no additional accruals of compensation or service under either plan.

The Pension Plan Table below shows the anticipated annual benefit, computed on a straight line basis, payable under the frozen Retirement Plan and Restoration Plan upon the normal retirement of a vested executive officer of Cullen/Frost at age 65 after 15, 20, 25, 30, 35, 40, 45 and 50 years of credited service (as of December 31, 2001) at specified final average annual compensation levels.

PENSION PLAN TABLE

Final Average Compensation (12/31/2001)	**Years of Service as of December 31, 2001**							
	15	**20**	**25**	**30**	**35**	**40**	**45**	**50**
$ 175,000	$ 42,979	$ 57,306	$ 71,632	$ 85,958	$ 100,285	$ 111,222	$ 122,160	$ 133,097
200,000	49,542	66,056	82,570	99,083	115,597	128,097	140,597	153,097
225,000	56,104	74,806	93,507	112,208	130,910	144,972	159,035	173,097
250,000	62,667	83,556	104,445	125,333	146,222	161,847	177,472	193,097
300,000	75,792	101,056	126,320	151,583	176,847	195,597	214,347	233,097
400,000	102,042	136,056	170,070	204,083	238,097	263,097	288,097	313,097
450,000	115,167	153,556	191,945	230,333	268,722	296,847	324,972	353,097
500,000	128,292	171,056	213,820	256,583	299,347	330,597	361,847	393,097
550,000	141,417	188,556	235,695	282,833	329,972	364,347	398,722	433,097
600,000	154,542	206,056	257,570	309,083	360,597	398,097	435,597	473,097
650,000	167,667	223,556	279,445	335,333	391,222	431,847	472,472	513,097

The frozen Retirement Plan provides a monthly benefit based on a percentage of an eligible employee s final average compensation based on the highest three years of compensation during the last ten years of service prior to January 1, 2002. Included in compensation according to the Retirement Plan are salary, overtime, bonuses, commissions, and wages deferred for the Company 401(k) Plan or used to pay health care premiums, expenses, or parking under the Company Pre Tax Plan (IRS Section 125 Plan). Participants in the Retirement Plan are fully vested in their accrued benefits under such plan upon attaining age 65 or after five years of service, whichever occurs first. Death benefits are provided to married participants who have completed five years of service. Normal retirement is at age 65, but early retirement is available starting at age 55. Early Retirement benefits are provided on a reduced basis. The benefit amounts listed in the table represent amounts payable from the plans and are not subject to any additional deduction for Social Security benefits or other offset amounts.

The years of credited service under the Retirement Plan as of December 31, 2001 for each person named in the Summary Compensation Table on page 15 are: Mr. T.C. Frost 52 years; Mr. Richard W. Evans 31 years; Mr. Phillip D. Green 21 years; and Mr. Patrick B. Frost 17 years. Mr. T.C. Frost activated his retirement benefit effective July 1, 1994, but still remains an active employee.

The Company also maintains a supplemental executive retirement plan (SERP). The plan provides for target retirement benefits, as a percentage of annual cash compensation, beginning at age 55. The target percentage is 45% of annual cash compensation at age 55, increasing to 60% at age 60 and later. Benefits under the SERP are reduced dollar-for-dollar by benefits received under the Retirement Plan and Restoration Plan, described previously, and any Social Security benefits. Effective January 1, 2002, SERP benefits will also be reduced by the annuity equivalent of any account balance in the Company s Profit Sharing Plan at retirement. The Profit Sharing Plan was implemented by the Company effective January 1, 2002. Contributions to the Profit Sharing Plan are made annually to each participant s account based on the profitability of the Company.

Mr. Evans currently participates in the SERP. At current salary levels, at age 60, it is estimated that Mr. Evans will receive $211,965 annually. This benefit has been reduced by a projected Profit Sharing Plan account balance.

Change-in-Control Agreements

Cullen/Frost has change-in-control agreements with three of the four named executives above and other key employees. The main purposes of these agreements are (i) to help executives evaluate objectively whether a potential change in control is in the best interests of shareholders, (ii) to help protect against the departure of executives, thus assuring continuity of management, in the event of an actual or threatened merger or change in control; and (iii) to maintain compensation and benefits comparable to those available from competing employers. Change-in-control is generally defined in the agreements as (a) an acquisition of beneficial ownership of 20 percent or more of Cullen/Frost Common Stock by an individual, corporation, partnership, group, association, or other person; (b) certain changes in the composition of a majority of the Board of Directors; or (c) certain other events involving a merger or consolidation of Cullen/Frost or a sale of substantially all of its assets.

Under the change-in-control agreements, Messrs. Richard W. Evans, Phillip D. Green and Patrick B. Frost could receive severance payments equal to three times their base salary and target bonus if their position is terminated by the Company within two years following a change-in-control, if the termination is for reasons other than cause, death, disability or retirement. Cause is generally defined in the agreements as an executive s (i) willful and continued failure to substantially perform his duties after delivery of a written demand for substantial performance, (ii) willful engagement in conduct materially injurious to Cullen/Frost; or (iii) conviction of a felony. In addition, the change-in-control agreements provide that Messrs. Richard W. Evans, Phillip D. Green and Patrick B. Frost could receive severance payments described above if they terminate their employment for good reason within two years following a change-in-control. Good reason is generally defined in the agreements as the occurrence of one or more of the following events: (a) a significant change or reduction in the executive s responsibilities, (b) an involuntary transfer of the executive to a location that is 50 miles further than the distance between the executive s current residence and Cullen/Frost s headquarters, (c) a significant reduction in the executive s current compensation, (d) the failure of any successor to Cullen/Frost to assume the executive s change-in-control agreement; or (e) any termination of the executive s employment that is not effected pursuant to a written notice which indicates the reasons for the termination. The change-in-control agreements also provide for a continuation of certain employee benefits and a tax gross-up payment in an amount necessary to make the executive whole for any excise taxes paid as a result of the severance payments.

Executive Stock Ownership

The table below lists the number of shares of Cullen/Frost Common Stock beneficially owned by each of the named executive officers and by all Directors, nominees, and named executive officers of Cullen/Frost as a group:

	Shares Owned[1,2]	
Name	**Amount and Nature of Beneficial Ownership[3]**	**Percent**
T.C. Frost	1,249,922(4)	2.35%
Richard W. Evans, Jr.	803,491(5)	1.51%
Phillip D. Green	183,631	0.35%
Patrick B. Frost	361,881(6)	0.68%
All Directors, nominees and named executive officers as a Group (20 persons)	3,739,521(7)	7.03%

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(1) Beneficial ownership is stated as of December 31, 2004, except for T.C. Frost, which is stated as of February 10, 2005. The owners have sole voting and investment power for the shares of Company Common Stock reported unless otherwise indicated. Beneficial ownership includes the following shares that the individual had a right to acquire pursuant to stock options exercisable within sixty (60) days from December 31, 2004 (or February 10, 2005, in the case of Mr. T.C. Frost): Mr. T. C. Frost 148,000; Mr. Richard W. Evans, Jr. 507,000; Mr. Phillip D. Green 125,000; Mr. Patrick B. Frost 202,000 and all Directors, nominees and named executive officers as a group 1,273,000.

(2) Reflects 2-for-1 stock split of the Company s Common Stock in each of 1996 and 1999.

(3) Includes the following shares allocated under the 401(k) Stock Purchase Plan for which each beneficial owner has both sole voting and sole investment power: Mr. T.C. Frost 48,284; Mr. Richard W. Evans, Jr. 38,931; Mr. Phillip D. Green 21,252 and Mr. Patrick B. Frost 17,580.

(4) Includes (a) 663,911 shares held by a limited partnership of which the general partner is a limited liability company of which Mr. T.C. Frost is the sole manager, (b) 336,992 shares held by various trusts of which Mr. T.C. Frost is the trustee, and (c) 33,684 shares held by the Pat and Tom Frost Foundation Trust for which Mr. T.C. Frost disclaims beneficial ownership.

(5) Includes 120,003 shares held by a family limited partnership of which the general partner is a limited liability company of which Mr. Richard W. Evans, Jr. is the sole manager.

(6) Includes (a) 43,582 shares held by a trust of which Mr. Patrick B. Frost is the trustee, (b) 12,270 shares held by Mr. Patrick B. Frost s children for which Mr. Patrick B. Frost is the custodian, and (c) 630 shares held by Mr. Patrick B. Frost s wife for which Mr. Patrick B. Frost disclaims beneficial ownership.

(7) Includes 96,462 shares for which Directors, nominees and named executive officers share voting power and investment power with others. Also includes 126,047 shares allocated under the 401(k) Stock Purchase Plan for which the named executive officers have both sole voting power and sole investment power.

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PERFORMANCE GRAPH

The performance graph below compares the cumulative total shareholder return on Cullen/ Frost Common Stock with the cumulative total return on the equity securities of companies included in the Standard & Poor s 500 Stock Index and the Standard & Poor s 500 Bank Index. The graph assumes an investment of $100.00 on December 31, 1999 and reinvestment of dividends on the date of payment without commissions. The performance shown in the graph represents past performance and should not be considered to be an indication of future performance.

Cumulative Total Returns
on $100 Investment Made on December 31, 1999

	Dec 31 1999	Dec 31 2000	Dec 31 2001	Dec 31 2002	Dec 31 2003	Dec 31 2004
Cullen/Frost	$100.00	$166.43	$126.26	$137.12	$174.77	$214.15
S&P 500	$100.00	$91.85	$80.56	$62.72	$80.67	$89.53
S&P 500 Banks	$100.00	$125.52	$126.74	$129.31	$161.93	$181.99

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PRINCIPAL SHAREHOLDERS

At December 31, 2004, the only persons known by Cullen/Frost, based on public filings, to be the beneficial owners of more than five percent of the outstanding Common Stock of Cullen/Frost were as follows:

	Voting Authority			Investment Authority			Amount of	
Name and Address	Sole	Shared	None	Sole	Shared	None	Beneficial Ownership(1)	Percent of Class
Cullen/Frost Bankers, Inc. P.O. Box 1600 San Antonio, Texas 78296	369,547	1,873(2)	1,328,490	209,274	87,130	1,403,507(2)	4,784,037	9.2%

(1) Cullen/Frost owns no securities of Cullen/Frost for its own account. All of the shares are held by Cullen/Frost s subsidiary bank, The Frost National Bank. The Frost National Bank has reported that the securities registered in its name as fiduciary or in the names of various of its nominees are owned by many separate accounts. The accounts are governed by separate instruments which set forth the powers of the fiduciary with regard to the securities held.

(2) Does not include 3,084,127 shares held by participants in the Cullen/Frost 401(k) Stock Purchase Plan.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

Some of the Directors and executive officers of Cullen/Frost, and some of these persons associates, are current or past customers of one or more of the Company s subsidiaries. Since January 1, 2004, transactions between these persons and such subsidiaries have occurred, including borrowings. In addition, the offices of the Hulen Financial Center of The Frost National Bank in Fort Worth, Texas are leased on a long-term basis from OPNB Building J.V., a Texas joint venture of which Mr. R. Denny Alexander, a Director of Cullen/Frost, owns a 13.3 percent interest and is the managing general partner. During 2004, lease payments of $822,677.39 were made by The Frost National Bank and Frost Insurance Agency, Inc. to OPNB Building J.V. In the opinion of management, all of the foregoing transactions, including borrowings, have been in the ordinary course of business, have had substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility. Additional transactions may take place in the future.

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APPROVAL OF 2005 OMNIBUS INCENTIVE PLAN
(Item 2 on Proxy Card)

The Board of Directors has adopted the Plan, subject to shareholder approval. The Plan permits grants of incentive stock options (ISOs), nonqualified stock options (NQSOs), stock appreciation rights (SARs), restricted stock, restricted stock units, performance shares, performance units, cash-based awards, other stock-based awards and substitute awards. The purpose of the Plan is to enable the Company and its subsidiaries and affiliates to retain and motivate key employees, and to encourage stock ownership by such key employees, by providing them with a means to acquire and increase their proprietary interest in the success of the Company.

If the Plan is approved by shareholders, it will become effective as of May 18, 2005 and will expire on May 18, 2015. In addition, if the Plan is approved by shareholders, the Company will not, as of the Plan s effective date, grant any future awards under the Cullen/Frost Bankers, Inc. 2001 Stock Plan (the 2001 Plan). In general, the Plan updates the 2001 Plan to permit certain awards to be considered qualifying performance-based compensation under Section 162(m) of the Internal Revenue Code. Section 162(m) limits the deductibility of remuneration in excess of $1,000,000 paid by a public corporation to certain covered employees unless it is qualifying performance-based compensation. Under regulations promulgated pursuant to Section 162(m), at least three conditions must be satisfied in order for compensation to qualify as performance-based: (i) the compensation must be payable on account of the attainment of one or more pre-established, objective performance goals, (ii) the material terms of the compensation and the performance goals must be disclosed to and approved by shareholders before payment and (iii) a committee of the board of directors that is comprised solely of two or more outside directors must certify that the performance goals have been satisfied before payment. Notwithstanding the adoption of the Plan and its submission to shareholders, the Company reserves the right to pay its employees, including participants in the Plan, other amounts which may or may not be deductible under Section 162(m) or other provisions of the Internal Revenue Code.

The Plan is summarized below. The summary is subject, in all respects, to the terms of the Plan, which is attached as Annex B to this Proxy Statement.

Administration of the Plan

The Compensation and Benefits Committee of the Board is responsible for administering the Plan and has the discretionary power to:

- interpret the terms and intent of the Plan and any Plan-related documentation;
- determine eligibility for awards and the terms and conditions of awards; and
- adopt Plan-related rules, regulations, forms, instruments, and guidelines.

Determinations of the Compensation and Benefits Committee made under the Plan will be final and binding. The Compensation and Benefits Committee may delegate its administrative duties and powers under the Plan to one or more of its members or to one or more officers, agents or advisors of the Company and its subsidiaries and affiliates. The Committee may also delegate to one or more officers the power to designate other employees (other than executive officers) to be recipients of awards.

Eligibility and Participation

Employees of the Company and its subsidiaries and affiliates who are selected by the Compensation and Benefits Committee will be eligible to participate in the Plan. There are currently approximately 300 eligible employees.

Shares Available for Awards

The maximum number of shares available under the Plan will be 4,000,000 shares of the Company s Common Stock. Of the shares available, no more than 400,000 of such shares may be granted pursuant to full value awards, which are awards settled in shares other than ISOs, NQSOs and SARs.

Shares covered by an award will be counted against the shares available under the Plan only to the extent that such shares are issued. However, the full number of SARs granted that are to be settled by the issuance of shares will be counted against the shares available under the Plan, regardless of the number of shares actually issued upon the settlement of such SARs. Shares related to awards that are (i) terminated by expiration, forfeiture, cancellation or otherwise without the issuance of such shares, (ii) settled for cash in lieu of shares or (iii) exchanged with the Compensation and Benefits Committee s permission, prior to the issuance of shares, for awards not involving shares, will, in each case, be available again for grant under the Plan.

Limits on Awards

The Plan imposes annual per-participant award limits, as follows:

The maximum number of shares of Company Common Stock subject to stock options that may be granted to a participant in a calendar year is 400,000 plus the participant s unused limit for stock options as of the end of the prior year.

The maximum number of shares of Company Common Stock subject to SARs that may be granted to a participant in a calendar year is 400,000 plus the participant s unused limit for SARs as of the end of the prior year.

The maximum number of shares of restricted stock or restricted stock units that may be granted to a participant in a calendar year is 150,000 plus the participant s unused limit for restricted stock or restricted stock units as of the end of the prior year.

The maximum number of performance shares or performance units that may be granted to a participant in a calendar year is 150,000 shares or the value of 150,000 shares determined as of the date of vesting or payout, as applicable, plus the participant s unused limit for performance shares or performance units as of the end of the prior year.

The maximum amount of cash-based awards that may be granted to a participant in a calendar year is $2,000,000 plus the participant s unused limit for cash-based awards as of the end of the prior year.

The maximum number of shares of Company Common Stock subject to other stock-based awards that may be granted to a participant in a calendar year is 150,000 plus the participant s unused limit for other stock-based awards as of the end of the prior year.

The number and kind of shares that may be issued, the number and kind of shares subject to outstanding awards, the option price or grant price applicable to outstanding awards, the annual per-participant award limits, and other value determinations are subject to adjustment by the Compensation and Benefits Committee to reflect stock dividends, stock splits, reverse stock splits, and other corporate events or transactions, other than normal cash dividends.

Types of Awards

Under the Plan, the Compensation and Benefits Committee may grant various types of awards. A description of each of the types of awards is set forth below.

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Stock Options

The Plan permits the Compensation and Benefits Committee to grant options to purchase the Company s Common Stock. Stock options can be both ISOs and NQSOs. The exercise price for stock options cannot be less than the fair market value of the Company s Common Stock on the date of grant. Fair market value under the Plan may be determined by reference to market prices on a particular trading day or on an average of trading days. The exercise price may be paid with cash or its equivalent or, subject to the sole discretion of the Compensation and Benefits Committee, with previously acquired shares of Company Common Stock, by means of a broker-assisted exercise or by other means approved by the Compensation and Benefits Committee. The expiration date for stock options cannot be later than the tenth anniversary of the date of grant.

Stock Appreciation Rights

The Compensation and Benefits Committee may grant SARs under the Plan either alone or in tandem with stock options. The grant price of a SAR cannot be less than the fair market value of the Company s Common Stock on the date of grant. The grant price of a SAR granted in tandem with a stock option will be the same as the exercise price of the tandem option. SARs cannot be exercised later than the tenth anniversary of the date of grant.

Freestanding SARs may be exercised on such terms as the Compensation and Benefits Committee determines, and tandem SARs may be exercised by relinquishing the related portion of the tandem option. Upon exercise of a SAR, the holder will receive shares of Company Common Stock that are equal in value to the difference between the fair market value of the Company Common Stock subject to the SAR, determined as described above, and the grant price.

Restricted Stock and Restricted Stock Units

Under the Plan, the Compensation and Benefits Committee may award shares of restricted stock and restricted stock units. Restricted stock awards consist of shares of Company Common Stock that are transferred to the participant subject to restrictions that may result in forfeiture if specified conditions are not satisfied. Restricted stock units are awards that result in a transfer of shares of Company Common Stock, cash or a combination thereof to the participant only after specified conditions are satisfied. A holder of restricted stock is treated as a current shareholder of the Company and is entitled to dividend and voting rights, whereas a holder of restricted stock units is treated as a shareholder only to the extent that shares of Company Common Stock are delivered in the future. The Compensation and Benefits Committee will determine the restrictions and conditions applicable to each award of restricted stock or restricted stock units.

Performance Shares and Performance Units

The Compensation and Benefits Committee may grant performance shares and performance units under the Plan. Performance shares will have an initial value that is based on the fair market value of the Company s Common Stock on the date of grant. Performance units will have an initial value that is determined by the Compensation and Benefits Committee. Generally, performance shares and performance units may be paid in the form of shares of Company Common Stock, cash or a combination thereof, as determined by the Compensation and Benefits Committee.

Performance shares and performance units will be earned only if performance goals are met over performance periods established by or under the direction of the Compensation and Benefits Committee. The performance goals may vary from participant to participant, group to group and period to period. The performance goals for performance shares and performance units and any other awards granted under the Plan that are intended to constitute qualified performance-based compensation will be based upon one or more of the following:

- net earnings or net income (before or after taxes);
- earnings per share;
- net sales or revenue growth;
- net operating profit;
- return measures (including return on assets, capital, invested capital, equity, sales or revenue);
- cash flow (including operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment);
- earnings before or after taxes, interest, depreciation, and/or amortization;
- gross or operating margins;
- productivity ratios;
- share price (including growth measures and total shareholder return);
- expense targets;
- margins;
- operating efficiency;
- market share;
- customer satisfaction;
- working capital targets;
- economic value added or EVA® (net operating profit after tax minus the sum of capital multiplied by the cost of capital); and
- performance against budget.

The Compensation and Benefits Committee will determine whether the performance targets or goals that have been chosen for a particular performance award have been met. The Compensation and Benefits Committee may provide in an award that any evaluation of performance may include or exclude any of the following events that occur during the applicable performance period:

- asset write-downs;
- litigation, claims, judgments or settlements;

the effect of changes in tax laws, accounting principles or other laws or provisions affecting reporting results;

reorganization and restructuring programs;

extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in the Company s annual report to shareholders for the applicable year;

acquisitions or divestitures; and

foreign exchange gains and losses.

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Awards that are designed to qualify as performance-based compensation may not be adjusted upward. However, the Compensation and Benefits Committee has the discretion to adjust such awards downward. In addition, the Compensation and Benefits Committee has the discretion to make awards that do not qualify as performance-based compensation.

Cash-Based Awards

The Plan permits the Compensation and Benefits Committee to grant cash-based awards. The terms and conditions of the awards, including whether vesting is dependent upon the achievement of specific performance goals, will be determined by the Compensation and Benefits Committee. Payment under any cash-based award will be made in Company Common Stock or cash, as determined by the Compensation and Benefits Committee.

Other Stock-Based Awards

Under the Plan, the Compensation and Benefits Committee may grant equity-based or equity-related awards, referred to as other stock-based awards, other than stock options, SARs, restricted stock, restricted stock units or performance shares. The terms and conditions of each other stock-based award will be determined by the Compensation and Benefits Committee. Payment under any other stock-based awards will be made in Company Common Stock or cash, as determined by the Compensation and Benefits Committee.

Substitute Awards

If the Company or a subsidiary acquires or combines with another company, the Compensation and Benefits Committee may grant substitute awards in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards. The terms and conditions of each substitute award will be determined by the Compensation and Benefits Committee. Payment under any substitute award will be made in Company Common Stock or cash, as determined by the Compensation and Benefits Committee.

Transferability and Other Terms of Awards

The Plan provides that neither ISOs nor, except as the Compensation and Benefits Committee otherwise expressly determines, other awards may be transferred other than by will or by the laws of descent and distribution. During a participant s lifetime, an ISO and, except as the Compensation and Benefits Committee may determine, other nontransferable awards requiring exercise, may be exercised only by the recipient.

If provided in an award agreement, a participant s rights to an award may be subject to the participant agreeing not to compete with the Company or its subsidiaries or affiliates, and not to solicit the business or employees of the Company or its subsidiaries or affiliates. In addition, participants may be subject to nondisclosure and nondisparagement requirements. A breach of these restrictions may result in cancellation of awards or the recovery by the Company of gain realized under awards.

To comply with applicable law in other countries in which the Company and its subsidiaries and affiliates operate or may operate or have employees, the Compensation and Benefits Committee may modify the terms of awards made to such participants or establish a subplan for such participants.

Amendment of Awards or Plan

The Compensation and Benefits Committee may at any time alter, amend, modify, suspend, or terminate an outstanding award or the Plan or in whole or in part. No amendment of an outstanding award may adversely affect the rights of a participant under the award without his or her consent, unless specifically provided for in the Plan. No amendment of the Plan will be made without shareholder approval if shareholder approval is required by applicable law.

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Termination of Employment

The Compensation and Benefits Committee will determine how each award will be treated following termination of the participant s employment with or service for the Company, including the extent to which unvested portions of the award will be forfeited and the extent to which options, SARs, or other awards requiring exercise will remain exercisable.

Change of Control of the Company

If there is a change of control of the Company, then, at the time of such change of control, all awards whose exercisability is based on satisfaction of a service obligation will vest and become fully exercisable, and any other equity awards will be treated as determined by the Compensation and Benefits Committee in connection with the grant of such awards.

Furthermore, unless a replacement award is provided to a participant to replace an award upon a change of control, the Compensation and Benefits Committee may determine that any or all outstanding awards granted under the Plan, whether or not then-exercisable, will be cancelled and terminated, and that the participant holding such cancelled or terminated award will receive a cash payment (or shares, other securities or a combination of cash, shares and other securities equivalent to such cash payment) equal to the difference, if any, between the consideration received by shareholders of the Company in respect of a share of Company Common Stock in connection with such transaction and the purchase price per share, if any, under the award multiplied by the number of shares of Company Common Stock subject to the award. However, if such product is zero or less or to the extent that the award is not then exercisable, the award will be cancelled and terminated without any payment. Alternatively, the Compensation and Benefits Committee may provide that the period to exercise stock options or SARs granted under the Plan will be extended, but not beyond the expiration date of such stock options or SARs.

An award qualifies as a replacement award if it meets all the following conditions:

it has a value at least equal to the value of the replaced award as determined by the Compensation and Benefits Committee in its sole discretion;

it relates to publicly traded equity securities of the Company or its successor following the change of control or another entity that is affiliated with the Company or its successor following the change of control; and

its other terms and conditions are not less favorable to the participant than the terms and conditions of the replaced award.

A replacement award may take the form of a continuation of the replaced award if the requirements listed above are met. The Compensation and Benefits Committee, as constituted immediately before the change of control, in its sole discretion, will determine whether the requirements for a replacement award are satisfied.

Under the Plan, a change of control may be triggered if:

a person becomes the beneficial owner of 20% or more of the Company s then-outstanding securities eligible to vote for the election of the Board of Directors;

a merger, consolidation or sale of the Company or one of its subsidiaries that requires approval of the Company s shareholders is consummated, unless, immediately following such transaction, (1) the Company s shareholders own more than 60% of the surviving corporation s securities eligible to elect the directors of the surviving corporation, (2) no person beneficially owns 20% or more of the surviving corporation s securities eligible to elect the directors of the surviving corporation and (3) at least 50% of the directors of the surviving corporation were members of the Board of Directors of the Company prior to the transaction.

during a period of two consecutive years, Directors serving on the Board of Directors of the Company at the beginning of such period cease to constitute a majority of the Board; or

a liquidation, dissolution or sale of all or substantially all of the Company s assets is approved.

Certain Federal Income Tax Consequences

Set forth below is a summary of certain federal income tax consequences of the issuance and receipt of stock options under the Plan under the law as in effect on the date of this Proxy Statement. The summary does not purport to cover all federal employment tax or other federal tax consequences that may be associated with the Plan, nor does it cover state, local, or non-U.S. taxes.

Incentive Stock Options

A participant will not be subject to tax upon the grant of an ISO or upon the exercise of an ISO. However, the excess of the fair market value of the shares of Company Common Stock on the date of exercise over the exercise price paid will be included in a participant s alternative minimum taxable income. Whether a participant is subject to the alternative minimum tax will depend on the participant s particular circumstances. The participant s basis in the shares received will be equal to the exercise price paid, and the participant s holding period in the shares will begin on the day following the date of exercise.

If a participant disposes of the shares of Company Common Stock on or after the later of (1) the second anniversary of the grant date of the ISO and (2) the first anniversary of the exercise date of the ISO (the statutory holding period), the participant will recognize capital gain or loss in an amount equal to the difference between the amount realized on such disposition and the participant s basis in the shares. If a participant disposes of the shares before the end of the statutory holding period, the participant will have engaged in a disqualifying disposition. As a result, the participant will be subject to tax:

on the excess of the fair market value of the shares on the exercise date (or the amount realized on the disqualifying disposition, if less) over the exercise price paid, as ordinary income; and

on the excess, if any, of the amount realized on the disqualifying disposition over the fair market value of the shares on the exercise date, as capital gain.

If the amount a participant realizes from a disqualifying disposition is less than the exercise price paid (*i.e.*, the participant s basis) and the loss sustained upon such disposition would otherwise be recognized, a participant will not recognize any ordinary income from such disqualifying disposition and instead the participant will recognize a capital loss. In the event of a disqualifying disposition, the Company or one of its subsidiaries can generally deduct the amount recognized as ordinary income by the participant.

The current position of the Internal Revenue Service is that income tax withholding and FICA and FUTA taxes (employment taxes) do not apply upon the exercise of an ISO or upon any subsequent disposition, including a disqualifying disposition, of shares acquired pursuant to the exercise of the ISO.

Nonqualified Stock Options

A participant will not be subject to tax upon the grant of an NQSO. Upon exercise of an NQSO, an amount equal to the excess of the fair market value of the shares of Company Common Stock acquired on the exercise date over the exercise price paid is taxable to the participant as ordinary income, and such amount is generally deductible by the Company or one of its subsidiaries. This amount of income will be subject to income tax withholding and employment taxes. The participant s basis in the shares of Company Common Stock received will equal the fair market value of the shares on the exercise date, and the participant s holding period in such shares will begin.

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Other Federal Income Tax Consequences

In general, under Section l62(m) of the Internal Revenue Code, remuneration paid by a public corporation to its chief executive officer or any of its other top four named executive officers, ranked by pay, is not deductible to the extent it exceeds $1,000,000 for any year. Taxable payments or benefits under the Plan may be subject to this deduction limit. However, under Section l62(m), qualifying performance-based compensation, including income from stock options and other performance-based awards that are made under shareholder approved plans and that meet certain other requirements, is exempt from the deduction limitation. The Plan has been designed so that the Compensation and Benefits Committee in its discretion may grant qualifying exempt performance-based awards under the Plan.

Under the so-called golden parachute provisions of the Internal Revenue Code, the accelerated vesting of stock options and benefits paid under other awards in connection with a change of control of a corporation may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change of control, in excess of certain limits. If these limits are exceeded, a portion of the amounts payable to the participant may be subject to an additional 20% federal tax and may be nondeductible to the corporation.

If any award granted under the Plan is considered deferred compensation under Section 409A of the Internal Revenue Code, then certain requirements must be met to have the deferral be effective for federal tax purposes. These requirements include:

- time periods for making the election to defer;
- limitations on distributions; and
- a prohibition on accelerating the time or schedule of any payment of deferred amounts except in circumstances permitted by the United States Department of the Treasury.

If the requirements set forth above are not met, a participant will immediately be taxed on such purportedly deferred amounts, a penalty of 20% of such amounts deferred after December 31, 2004 will be imposed, and penalty interest will accrue at the underpayment rate plus one percent.

New Plan Benefits

The benefits or amounts under the Plan that will be received by or allocated to the Company s CEO, other named executive officers and employees who are not executive officers are discretionary and, accordingly, are not presently determinable. In addition, the benefits or amounts that would have been received by or allocated to such persons for 2004 if the Plan had been in effect cannot be determined.

Additional Information Regarding Cullen/ Frost s Equity Compensation Plans

The Company currently maintains equity compensation plans. The following table provides information as of December 31, 2004 regarding equity based compensation awards outstanding and available for future grants, segregated between equity compensation plans approved by shareholders and equity compensation plans not approved by shareholders. The information with respect to the total number of shares available for future grants set forth in the table includes 1,061,773 shares available for future grant under the 2001 Plan and 98,000 shares available for future grant under the Cullen/ Frost Bankers, Inc. 1997 Director Stock Plan. The

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table does not include information regarding the Plan. If the Plan is approved by shareholders, the Company will not, as of the Plan s effective date, grant any future awards under the 2001 Plan.

Plan Category	Number of Shares to Be Issued Upon Exercise of Outstanding Awards	Weighted-Average Exercise Price of Outstanding Awards	Number of Shares Available for Future Grants
Plans approved by shareholders	6,043,950	$ 30.29	1,159,773
Plans not approved by shareholders			
Total	6,043,950	$ 30.29	1,159,773

Other Matters

The closing price of the Company s Common Stock reported by the New York Stock Exchange Composite Transactions Reporting System for April 8, 2005, was $45.25 per share.

The Board of Directors recommends a vote for approval of the Plan.

SELECTION OF AUDITORS
(Item 3 on Proxy Card)

The Board of Directors recommends that the shareholders of the Company ratify the selection of Ernst & Young LLP, certified public accountants, as independent auditors of Cullen/Frost. Ernst & Young LLP has audited the financial statements of Cullen/Frost since 1969.

Neither Cullen/Frost s Articles of Incorporation nor Bylaws requires that the shareholders ratify the selection of Ernst & Young LLP as its independent auditors. Cullen/Frost is doing so because it believes it is a matter of good corporate practice. Should the shareholders not ratify the selection, the Audit Committee will reconsider its determination to retain Ernst & Young LLP, but may elect to continue to retain Ernst & Young LLP. Even if the selection is ratified, the Audit Committee in its discretion may change the appointment at any time during the year if it determines that the change would be in the best interests of Cullen/Frost and its shareholders.

The following table provides information on fees paid by Cullen/Frost to Ernst & Young LLP.

Fees Paid To Independent Auditors

		2004		**2003**
Audit Fees(1)	$	703,410.00	$	498,250.00
Audit-Related Fees(2)	$	233,912.00	$	228,415.00
Tax Fees(3)	$	28,229.00	$	51,236.00
All Other Fees	$	0.00	$	0.00
Total Fees	**$**	**965,551.00**	**$**	**777,901.00**

(1) Audit fees for 2004 include fees for the audit of management s assessment of the effectiveness of the Company s internal control over financial reporting.

(2) Audit-related fees are fees for audits of employee benefit plans, audits of Trust Department collective investment funds, internal control reviews of Trust Department employee benefit operations and consultation concerning financial accounting and reporting standards.

(3) Tax fees are fees for review of the tax return, assistance with examination by taxing authorities, preparation of the Form 5500 for the employee retirement plan and for the Trust Department collective investment funds and consultation and technical advice on tax matters.

The Audit Committee pre-approves each audit and non-audit service provided by Ernst & Young LLP to Cullen/Frost. Pursuant to the Audit Committee s charter, the Audit Committee has delegated to each of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting.

Representatives from Ernst & Young LLP are not expected to be present at the Annual Meeting. If any shareholder desires to ask Ernst & Young LLP an appropriate question, management will ensure that the question is sent to them and that an appropriate response is made directly to the shareholder.

AUDIT COMMITTEE REPORT

The purpose of the Audit Committee is to assist the Board of Directors in its oversight of (i) the integrity of Cullen/Frost s financial statements, (ii) Cullen/Frost s compliance with legal and regulatory requirements, (iii) the independent auditors qualifications and independence and (iv) the performance of the independent auditors and Cullen/Frost s internal audit function. The Audit Committee operates pursuant to a written

charter that is attached hereto as Annex A and met six times in 2004. The Board has determined that each member of the Audit Committee is independent within the meaning of the NYSE s rules and the SEC s rules. The Board has also determined that each member of the Audit Committee is financially literate and that at least one member of the Audit Committee has accounting or related financial management expertise, in each case within the meaning of the NYSE s rules. In addition, the Board has determined that Mr. Ruben M. Escobedo is an audit committee financial expert within the meaning of the SEC s rules.

Management of Cullen/ Frost is responsible for the preparation, presentation and integrity of Cullen/ Frost s financial statements, for the effectiveness of internal control over financial reporting and for the maintenance of appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing Cullen/ Frost s financial statements, expressing an opinion as to conformity with generally accepted accounting principles and auditing management s assessment of internal control over financial reporting. Members of the Audit Committee are not full-time employees of Cullen/ Frost and are not, and do not represent themselves to be, performing the functions of auditors or accountants. Accordingly, as described above, the Audit Committee provides oversight of the responsibilities of management and the independent auditors.

In the performance of its oversight function, the Audit Committee has considered and discussed the audited financial statements with management and the independent auditors. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect, and has discussed with the independent auditors the independent auditors independence.

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in its charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Cullen/ Frost s Annual Report on Form 10-K for the year ended December 31, 2004 to be filed with the Securities and Exchange Commission.

Eugene H. Dawson, Sr., Chair
Isaac Arnold, Jr.
Royce S. Caldwell
Ruben M. Escobedo
Richard M. Kleberg, III

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s Directors and executive officers to file reports with the Securities and Exchange Commission and the NYSE relating to their ownership and changes in ownership of the Company s Common Stock. Based on information provided by the Company s Directors and executive officers and a review of such reports, the Company believes that all required reports were filed on a timely basis during 2004, except that due to inadvertent administrative oversight, Mr. Harry H. Cullen made a late filing related to the termination of a family trust; Mr. Richard W. Evans, Jr. made a late filing related to gifts of Common Stock to his children and Mr. Richard M. Kleberg, III made a late filing with respect to a sale of Common Stock.

SHAREHOLDER PROPOSALS

To be eligible under the Securities and Exchange Commission s shareholder proposal rule (Rule 14a-8) for inclusion in Cullen/ Frost s proxy statement, proxy card, and presentation at Cullen/ Frost s 2006 Annual Meeting of Shareholders (currently scheduled to be held on April 27, 2006), a proper shareholder proposal must be received by Cullen/ Frost at its principal offices no later than December 19, 2005. For a proper shareholder proposal submitted outside of the process provided by Rule 14a-8 to be eligible for presentation at Cullen/ Frost s 2006 Annual Meeting, timely notice thereof must be received by Cullen/ Frost not less than 60 days nor more than 90 days before the date of the meeting (for a April 27, 2006 meeting, the date on which the 2006 Annual Meeting is currently scheduled, notice is required by no later than February 26, 2006). The notice must be in the manner and form required by Cullen/ Frost s Bylaws. If the date of the 2006 Annual Meeting is changed, the dates set forth above will change.

OTHER MATTERS

Management of Cullen/ Frost knows of no other business to be presented at the meeting. If other matters do properly come before the meeting, the enclosed proxy card confers discretionary authority on the persons named as proxies to vote the shares represented by the proxy as to those other matters.

By Order of the Board of Directors,

STAN McCORMICK
Corporate Secretary

Dated: April 18, 2005

A copy of Cullen/ Frost s 2004 Annual Report on Form 10-K is available without charge (except for exhibits, which are available upon payment of a reasonable fee) upon written request to Cullen/ Frost Bankers, Inc., Attention: Greg Parker, 100 West Houston Street, San Antonio, Texas 78205. In addition, shareholders may obtain copies of Cullen/ Frost s Corporate Governance Guidelines and Code of Business Conduct and Ethics, as well as the charters for its Audit Committee, Compensation and Benefits Committee and Corporate Governance and Nominating Committee, by writing to the same address.

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ANNEX A

AUDIT COMMITTEE CHARTER
(Amended and Restated as of January 27, 2005)

I. Committee Membership

The Audit Committee (the Committee) of the Board of Directors (the Board) of Cullen/ Frost Bankers, Inc. (Cullen/ Frost) shall be comprised of three or more directors, each of whom the Board has determined is independent under the then-existing rules of the New York Stock Exchange, Inc., the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission (the SEC) promulgated thereunder, the Federal Deposit Insurance Corporation Improvement Act of 1991 and other applicable law and regulation. The Board shall also determine that each member of the Committee is financially literate and that one member has accounting or related financial management expertise, as such qualifications are interpreted by the Board in its business judgment, and whether any member of the Committee is an audit committee financial expert, as defined by the SEC.

No director may serve as a member of the Committee if such director serves on the audit committees of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee, and discloses this determination in Cullen/ Frost s annual proxy statement.

The members of the Committee shall be appointed by the Board. Members shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

The Committee shall designate one member of the Committee as its chairperson.

II. Committee Structure and Operations

The Committee shall meet once every fiscal quarter, or more frequently if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements, as applicable. The Committee should meet separately periodically with management, the director of the internal audit department and the independent auditors to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately. The Committee may request any officer or employee of Cullen/ Frost or Cullen/ Frost s outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

III. Purposes of the Committee

The purposes of the Committee are (i) to assist Board oversight of (A) the integrity of Cullen/ Frost s financial statements, (B) Cullen/ Frost s compliance with legal and regulatory requirements, (C) the independent auditors qualifications and independence, and (D) the performance of the independent auditors and Cullen/ Frost s internal audit function; and (ii) to prepare the report required to be prepared by the Committee pursuant to the rules of the SEC for inclusion in Cullen/ Frost s annual proxy statement.

The function of the Committee is oversight. The management of Cullen/ Frost is responsible for (i) the preparation, presentation and integrity of Cullen/ Frost s financial statements, (ii) the effectiveness of internal control over financial reporting and (iii) the maintenance of appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out a proper audit of Cullen/ Frost s annual financial statements, reviewing Cullen/ Frost s quarterly financial statements prior to the filing of each quarterly report on Form 10-Q, annually auditing management s assessment of the effectiveness of internal control over financial reporting (commencing the fiscal year ending December 31, 2004), preparing the reports required by this Charter and other procedures. In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of Cullen/ Frost and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures or to set auditor independence standards.

IV. Duties and Responsibilities of the Committee

To carry out its purposes, the Committee shall have the following duties and responsibilities:

A. With respect to the independent auditors,

1. To be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors, including the resolution of disagreements between management and the independent auditors regarding financial reporting (it being understood that the independent auditors shall report directly to the Committee);

2. To pre-approve, or to adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditors;

3. To obtain annually from the independent auditors a formal written statement of the following categories of fees billed by the independent auditors in each of the last two fiscal years: (a) the audit of Cullen/ Frost s annual financial statements and reviews of the financial statements included in Cullen/ Frost s Quarterly Reports on Form 10-Q for those fiscal years; (b) assurance and related services not included in clause (a) that are reasonably related to the performance of the audit or review of Cullen/ Frost s annual or quarterly financial statements in the aggregate and by each service; (c) tax compliance, tax consulting and tax planning services, in the aggregate and by each service; and (d) all other services rendered by the independent auditors, in the aggregate and by each service;

4. To obtain annually from the independent auditors a formal written statement (the Auditors Statement) (it being understood that the independent auditors are responsible for the accuracy and completeness of the Auditors Statement) describing: (a) the auditors internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review or peer review of the auditors, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and (c) (to assess the auditors independence) all relationships between the independent auditors and Cullen/ Frost, including at least the matters set forth in Independence Standards Board No. 1;

5. To discuss with the independent auditors any relationships or services disclosed in the Auditors Statement that may impact the quality of audit services or the objectivity and independence of Cullen/ Frost s independent auditors;

6. To take into account the opinions of management and Cullen/ Frost s internal audit department in assessing the independent auditors qualifications, performance and independence;

7. To review and evaluate the qualifications, performance and independence of the lead partner of the independent auditors;

8.

To discuss with the independent auditors the timing and process for implementing the rotation of the lead audit partner, concurring partner and any other active audit engagement team partner; and

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9. To obtain from the independent auditors in connection with any audit a timely report relating to Cullen/Frost s annual audited financial statements describing: (a) all critical accounting policies and practices used, (b) all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, (c) the ramifications of using such alternative disclosures and treatments, (d) the treatment preferred by the independent auditors, and (e) any material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences;

B. With respect to the internal audit department,

1. To review the appointment and replacement of the director of the internal audit department; and

2. To advise the director of the internal audit department that he or she is expected to provide to the Committee summaries of and, as appropriate, the significant reports to management prepared by the internal audit department and management s responses thereto;

C. With respect to accounting principles and policies, financial reporting and internal control over financial reporting,

1. To advise management, the internal audit department and the independent auditors that they are expected to provide to the Committee a timely analysis of significant issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting;

2. To consider any reports or communications (and management s and/or the internal audit department s responses thereto) submitted to the Committee by the independent auditors required by or referred to in SAS 61 (as codified by AU Section 380), as it may be modified or supplemented, or other professional standards, including reports and communications related to:

deficiencies, including significant deficiencies or material weaknesses, in internal control identified during the audit or other matters relating to internal control over financial reporting;

consideration of fraud in a financial statement audit;

detection of illegal acts;

the independent auditors responsibility under generally accepted auditing standards;

any restriction on audit scope;

significant accounting policies;

significant issues discussed with the national office respecting auditing or accounting issues presented by the engagement;

management judgments and accounting estimates;

any accounting adjustments arising from the audit that were noted or proposed by the auditors but were passed (as immaterial or otherwise);

the responsibility of the independent auditors for other information in documents containing audited financial statements;

disagreements with management;

consultation by management with other accountants;

major issues discussed with management prior to retention of the independent auditors;

- difficulties encountered with management in performing the audit;
- the independent auditors judgments about the quality of the entity s accounting principles;
- reviews of interim financial information conducted by the independent auditors; and
- the responsibilities, budget and staffing of Cullen/ Frost s internal audit function;

3. To meet with management, the independent auditors and, if appropriate, the director of the internal audit department:
   - to discuss the scope of the annual audit;
   - to review and discuss the annual audited financial statements and other financial disclosures in Cullen/ Frost s annual report on Form 10-K, the quarterly financial statements and other financial disclosures in Cullen/ Frost s quarterly reports on Form 10-Q, and Cullen/ Frost s specific disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations ;
   - to discuss any significant matters arising from any audit, including any audit problems or difficulties, whether raised by management, the internal audit department or the independent auditors, relating to Cullen/ Frost s financial statements;
   - to discuss any difficulties the independent auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management;
   - to discuss any management or internal control letter issued by the independent auditors to Cullen/ Frost;
   - to review the form of opinion the independent auditors propose to render to the Board and shareholders; and
   - to discuss, as appropriate: (a) any major issues regarding accounting principles and financial statement presentations, including any significant changes in Cullen/ Frost s selection or application of accounting principles, and major issues as to the adequacy of Cullen/ Frost s internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of Cullen/ Frost;
4. To inquire of Cullen/ Frost s Chief Executive Officer and Chief Financial Officer as to the existence of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect Cullen/ Frost s ability to record, process, summarize and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in Cullen/ Frost s internal control over financial reporting;
5. To discuss guidelines and policies governing the process by which senior management of Cullen/ Frost and the relevant departments of Cullen/ Frost assess and manage Cullen/ Frost s exposure to risk, and to discuss Cullen/ Frost s major financial risk exposures and the steps management has taken to monitor and

control such exposures;

6. To obtain from the independent auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets

forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934;

7. To discuss any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or Cullen/ Frost s business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies;

8. To discuss and review the type and presentation of information to be included in earnings press releases;

9. To discuss the types of financial information and earnings guidance provided, and the types of presentations made, to analysts and rating agencies;

10. To establish procedures for the receipt, retention and treatment of complaints received by Cullen/ Frost regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Cullen/ Frost employees of concerns regarding questionable accounting or auditing matters; and

11. To establish hiring policies for employees or former employees of the independent auditors;

D. With respect to Committee reports and recommendations,

1. To prepare any report or other disclosures, including any recommendation of the Committee, required by the rules of the SEC to be included in Cullen/ Frost s annual proxy statement; and

2. To report its activities to the full Board on a regular basis and to make such recommendations with respect to the above and other matters as the Committee may deem necessary or appropriate.

V. Delegation to Subcommittee

The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee. The Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Committee at its next scheduled meeting.

VI. Performance Evaluation

The Committee shall assist in the preparation of an annual performance evaluation of the Committee, which shall be conducted in accordance with the procedures established by the Corporate Governance and Nominating Committee of the Board. The performance evaluation must compare the performance of the Committee with the requirements of this Charter, and it should also recommend to the Board any improvements to this Charter deemed necessary or desirable by the Committee.

VII. Resources and Authority of the Committee

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special or independent counsel, accountants or other experts and advisors, as it deems necessary or appropriate, without seeking approval of the Board or management.

ANNEX B

2005 OMNIBUS INCENTIVE PLAN

Article 1. Establishment, Purpose, and Duration

1.1 *Establishment.* Cullen/Frost Bankers, Inc. (hereinafter referred to as the Company), establishes an incentive compensation plan to be known as the 2005 Omnibus Incentive Plan (hereinafter referred to as the Plan), as set forth in this document.

This Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, and Other Stock-Based Awards.

This Plan shall become effective upon stockholder approval (the Effective Date) and shall remain in effect as provided in Section 1.3 hereof.

1.2 *Purpose of this Plan.* The purpose of this Plan is to enable the Company and its Subsidiaries and Affiliates to retain and motivate key employees, and to encourage stock ownership by such key employees, by providing them with a means to acquire and increase their proprietary interest in the success of the Company.

1.3 *Duration of this Plan.* Unless sooner terminated as provided herein, this Plan shall terminate ten (10) years from the Effective Date. After this Plan is terminated, no new Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and this Plan s terms and conditions. Notwithstanding the foregoing, no Incentive Stock Options may be granted more than ten (10) years after the earlier of (a) adoption of this Plan by the Board or (b) the Effective Date.

Article 2. Definitions

Whenever used in this Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

2.1 *Affiliate* shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations of the Exchange Act.

2.2 *Annual Award Limit* or *Annual Award Limits* have the meaning set forth in Section 4.3.

2.3 *Award* means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, Other Stock-Based Awards, or Substitute Awards, in each case subject to the terms of this Plan.

2.4 *Award Agreement* means either (i) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (ii) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of such Award.

2.5 *Beneficial Owner* or *Beneficial Ownership* shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.6 *Board* or *Board of Directors* means the Board of Directors of the Company.

2.7 *Cash-Based Award* means an Award granted to a Participant as described in Article 10.

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2.8 *Change of Control* means any of the following events:

(a) any person (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the Exchange Act) and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company s then outstanding securities eligible to vote for the election of the Board (the Company Voting Securities); provided, however, that the event described in this paragraph (a) shall not be deemed to be a Change of Control by virtue of any of the following acquisitions: (A) by the Company or any Subsidiary, (B) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (C) by any underwriter temporarily holding securities pursuant to an offering of such securities or (D) a transaction (other than one described in (b) below) in which Company Voting Securities are acquired from the Company, if a majority of the incumbent Directors approve a resolution providing expressly that the acquisition pursuant to this clause (D) does not constitute a Change of Control under this paragraph (a);

(b) the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company s stockholders, whether for such transaction or the issuance of securities in the transaction (a Business Combination), unless immediately following such Business Combination: (A) more than 60% of the total voting power of (x) the corporation resulting from such Business Combination (the Surviving Corporation), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the Parent Corporation), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among (and only among) the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least 50% of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were incumbent Directors at the time of the Board s approval of the execution of the initial agreement providing for such Business Combination; or

(c) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in paragraph (a) or (b) of this section) whose election by the Board of Directors or nomination for election by the Company s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or a sale of all or substantially all of the Company s assets.

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Notwithstanding the foregoing, a Change of Control of the Company shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change of Control of the Company shall then occur.

2.9 *Code* means the U.S. Internal Revenue Code of 1986, as amended from time to time.

2.10 *Committee* means the Compensation and Benefits Committee of the Board or a subcommittee thereof, or any other committee designated by the Board to administer this Plan; provided that the Committee shall consist of three or more directors, each of whom is (1) an independent director under the New York Stock Exchange s listing requirements, (2) a Non-Employee Director within the meaning of Rule 16b-3 under the Exchange Act, and (3) an outside director within the meaning of Section 162(m) of the Code and the applicable regulation thereunder. However, if a member of the Committee does not meet each of the foregoing requirements, the Committee may delegate some or all of its functions under the Plan to a committee or subcommittee composed of members that meet the relevant requirements. The term Committee includes any such committee or subcommittee, to the extent of the Executive Compensation and Development Committee s delegation. The members of the Committee shall be appointed from time to time by and shall serve at the discretion of the Board.

2.11 *Company* means Cullen/Frost Bankers, Inc. and any successor thereto as provided in Article 22 herein.

2.12 *Consolidated Operating Earnings* means the consolidated earnings before income taxes of the Company, computed in accordance with generally accepted accounting principles, but shall exclude the effects of Extraordinary Items.

2.13 *Covered Employee* means any key Employee who is or may become a Covered Employee, as defined in Code Section 162(m), and who is designated, either as an individual Employee or class of Employees, by the Committee within the shorter of (i) ninety (90) days after the beginning of the Performance Period, or (ii) twenty five percent (25%) of the Performance Period has elapsed, as a Covered Employee under this Plan for such applicable Performance Period.

2.14 *Effective Date* has the meaning set forth in Section 1.1.

2.15 *Employee* means any person designated as an employee of the Company, its Affiliates, and/or its Subsidiaries on the payroll records thereof. An Employee shall not include any individual during any period he or she is classified or treated by the Company, Affiliate, and/or Subsidiary as an independent contractor, a consultant, or any employee of an employment, consulting, or temporary agency or any other entity other than the Company, Affiliate, and/or Subsidiary, without regard to whether such individual is subsequently determined to have been, or is subsequently retroactively reclassified as a common-l