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CULLEN/FROST BANKERS, INC.

YEAR 2004

ANNUAL REPORT

A TEXAS FINANCIAL SERVICES FAMILY

Cullen/Frost Bankers, Inc.

is a financial holding company, headquartered in San Antonio, with assets of $10 billion at December 31, 2004. The corporation provides a full range of commercial and consumer banking products, investment and brokerage services, insurance products and investment banking services. Its subsidiary, Frost National Bank, operates 78 financial centers across Texas in Austin, Boerne, Corpus Christi, Dallas, Fort Worth, Galveston, Harlingen, Houston, McAllen, New Braunfels, San Antonio and San Marcos.

The Annual Meeting of Shareholders

MAY 18, 2005

Frost National Bank / 100 West Houston Street / San Antonio, Texas

10 A.M. IN THE COMMANDERS ROOM

Financial Highlights

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	2004	2003
NET INCOME	$ 141,325	$ 130,501
PER COMMON SHARE DATA		
Net Income – Basic	$ 2.74	$ 2.54
Net Income – Diluted	2.66	2.48
Cash Dividends	1.035	0.94
Book Value	15.84	14.87
PERFORMANCE RATIOS		
Return on Average Assets	1.47 %	1.36 %
Return on Average Equity	17.91	17.78
Net Interest Margin	4.05	3.98
Dividend Pay-out Ratio	38.06	37.15
YEAR-END BALANCE SHEET DATA		
Loans	$ 5,164,991	$ 4,590,746
Securities	2,978,681	2,971,415
Earning Assets	8,891,859	8,132,479
Total Assets	9,952,787	9,672,114
Non-interest-bearing Demand Deposits	2,969,387	3,143,473
Interest-bearing Deposits	5,136,291	4,925,384
Total Deposits	8,105,678	8,068,857
Long-Term Debt and Other Borrowings	377,677	255,845
Shareholders' Equity	822,395	770,004

To Our Shareholders:

THIS WAS ANOTHER OUTSTANDING YEAR FOR OUR COMPANY, as our annual earnings reached a record $141.3 million. In reporting our results for 2004, I was pleased to report that we achieved all-time highs in three key areas. At year-end, loans were at $5.2 billion–the highest level ever; deposits were $8.1 billion–the highest level ever; and trust assets were $17.1 billion–the highest level ever. Of course, these elevated volumes didn't just happen; they were a direct result of a strong sales discipline we have instilled in our staff at all levels throughout the company.

This growth was also helped along by national and Texas economies that continued to improve throughout the year, as well as a gradually increasing interest rate environment that is a positive for an asset-sensitive company such as ours. While rates will likely rise throughout 2005, we feel confident they will remain at a level low enough to appeal to both business and consumer borrowers. I was also pleased to see net interest margin for the year 2004 rise for the first time since 2000, to 4.05 percent.

Net interest income represents some 60 percent of our revenue, yet we were able to increase our profitability during an extended period of low interest rates. The reason for this sustained profitability is that we did other things extremely well when interest rates dropped and loan volumes were flat. We dug in, maintained a strict expense discipline, worked very hard, and grew our non-interest income businesses.

Service charges on deposits, at $87.4 million, represented 39 percent of our non-interest income revenue stream for 2004. This service charge revenue has grown at a compound annual growth rate of 7.6 percent over the past five years, reflecting expansion in both commercial and retail fee income, as well as fees from our correspondent banking operations.

Another cornerstone of our fee income is our Financial Management Group, which was established more than 80 years ago and has continued over the years to make a significant contribution to our revenue stream. Our trust assets reached another record this year, $17.1 billion, a result of improved equity markets as well as adding new accounts.

Within our Financial Management Group, we have added a new division, Wealth Management Services. One of the changes brought about by Sarbanes-Oxley was that accounting firms could no longer offer both consulting and audit work for the same clients. This created an opportunity for us when a part of the wealth management division of a major accounting firm in our headquarters city of San Antonio made the decision, after a number of meetings with our Financial Management Group, to join Frost. The move allowed them to continue to take care of their high net worth clients and expanded our ability to offer a broader range of services to the specialized needs of this client base.

Our insurance subsidiary has also had a positive impact on this non-interest income piece of our revenue pie. Over the past five years, we have built an agency that ranks among the top 40 banks in insurance revenue nationwide. Frost Insurance Agency provides a full range of property and casualty, group employee benefits, estate planning and business succession, and personal insurance throughout Texas.

During 2004, we strengthened Frost Insurance Agency by acquiring The Sammons Group, a full-service Dallas-based insurance agency. This was a strategic move for Frost Insurance Agency, and we were pleased to welcome this outstanding Dallas agency to the Frost family, as it reinforces our commitment to building a first-class, statewide insurance brokerage operation. We now offer a full range of insurance services in the major Texas markets.

I've heard Cullen/Frost described as a company for the long term, and I agree with that assessment. Almost every major decision we make is evaluated and examined not only for its impact on the short term, but how it will affect our company—and our brand—over an extended period of time. Historically, our company has found balance in managing expenses, while at the same time investing for future growth, and that was certainly the case in 2004. We continue to invest in opportunities that will help us make this company better and stronger.

One of the investments we've made in the past few years is in building an infrastructure for delivering a high-quality online banking experience. During 2004, we brought our bill pay system in-house, which allows us to better take care of our customers. We have seen continued growth in both consumer and business customers wanting to do business with us through the Internet, with 47 percent of our checking account customers signing up for our online banking service. This service allows us to deepen and lengthen customer relationships, and we have seen a high level of both satisfaction and retention with our online banking customers, especially those who use bill pay.

During the year, we also invested in technology in preparation for Check 21, which will eventually change the way checks are processed for payment. We have an unusually strong item processing business—rare for a $10 billion bank—supported with processing operations in Dallas, Houston and San Antonio. Within the first few months of 2005, we will open a new state-of-the-art processing center in Houston that will double the size of our existing facility. It will also increase our capacity to provide lockbox and processing services to commercial clients and meet the needs of our correspondent banking clients in that part of the state.

As a result of the sales discipline we've introduced throughout our company, which I mentioned earlier, we saw good growth in both our deposits and in commercial and consumer loans last year.

Deposits grew to $8.1 billion for the year, in part because of the sales discipline and a strong sales effort. Also contributing to growth in deposits was the introduction, late in 2003, of a new consumer checking product line that included a free checking account.

As I mentioned earlier, loans reached their highest level ever in 2004, ending the year at $5.2 billion. On the business side, a combination of an improving economy and strong sales activity resulted in higher volumes, with commercial and industrial loans increasing 14.3 percent over 2003. More than 50 percent of new loan commitments comes from our core relationship managers, whose focus and determined sales effort has resulted in outstanding performance for the year.

We saw a 19.2 percent increase in core consumer lending—excluding indirect auto loans and mortgage loans for one- to four-family homes, which we no longer offer, as well as student loans, which are primarily originated for resale. Home equity loans and lines of credit now represent one-third of our consumer loan portfolio, reflecting an outstanding sales and referral effort among our consumer bankers. At the same time, we realigned our loan operations area to allow for and support this growth.

"I'VE HEARD CULLEN/FROST DESCRIBED AS A COMPANY FOR THE LONG TERM, AND I AGREE WITH THAT ASSESSMENT."

One of the key factors in the stability and strength of our company is a high level of liquidity in comparison to our peer banks. This is a safe place for depositors, and we have money to lend. Our asset quality is strong, with net charge-offs averaging a low 0.20 percent of average loans in 2004. Credit quality has also improved, as non-performing assets dropped 25.9 percent from 2003, resulting in lower credit costs.

"THIS IS A COMPANY WITH A STRONG SENSE OF WHERE WE'VE BEEN, AND ALSO A CLEAR VISION OF WHERE WE'RE GOING."

Over the past few years, we've seen a number of banks expand operations into the state and jump on the Texas bandwagon, and we welcome the challenge competition brings. It's been interesting to see other banks come to understand what we have always known—that this is a great state in which to do business. With a population of 21.3 million, Texas ranks second among U.S. states. In fact, from 1990 to 2000, our population grew 22.8 percent, compared to U.S. population growth of 13.2 percent. We have chosen to operate in Texas markets that represent 70 percent of the state's population, including three of the 10 largest cities in the U.S. The Texas economy, which would rank 8th in the world if it were a separate nation, is expected to once again outpace the nation, and the future looks bright.

It's not our style to boast, but since this annual letter gives me a forum for sharing my thoughts, I would like to tell you what makes Cullen/Frost special.

This is a company with a strong sense of where we've been, and also a clear vision of where we're going. What started out as a small storefront business in downtown San Antonio in 1868 has grown into a $10 billion financial services corporation that's not only survived, but prospered, for 137 years. Through the centuries, we have never lost touch with the values and philosophy that brought us this far. With these values as a foundation, we have built a company with a clear sense of both history and purpose.

I continue to be moved and impressed by the quiet strengths of our people—living our philosophy, embodying our core values of integrity, caring and excellence, and sharing the value of relationship banking with our customers. I extend my deepest appreciation to our exceptional staff, whose dedication, focus and belief in the values that built this company are an inspiration. They bring the Frost Philosophy to life every day and make our success possible.

We have some of the best customers any company could want—individuals and businesses who see us as financial partners in their journey—and we are committed to adding value to these relationships. Now more than ever, our Board of Directors has been outstanding as we navigate the new regulatory environment. Their insight and support have been invaluable to me personally, and to the company.

And to you, our loyal shareholders, I say thank you for the continued confidence and faith you place in our company.

SINCERELY,

Dick Evans

DICK EVANS

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

THE BOARD OF DIRECTORS

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Certified Public Accountant

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5. Chair, Compensation & Benefits Committee 6. Chair, Corporate Governance & Nominating Committee

Cullen/Frost Bankers, Inc.

A Texas Financial Services Family

Market Locations

San Antonio (210) 220-4011	Austin (512) 473-4343	Boerne (830) 249-2551
Corpus Christi (361) 844-1010	Dallas (214) 515-4900	Fort Worth (817) 420-5200
Galveston (409) 763-1151	Harlingen (956) 430-6595	Houston (713) 388-7600
McAllen (956) 682-1241	New Braunfels (830) 643-3500	San Marcos (512) 393-5600

Cullen/Frost Bankers, Inc.

CORPORATE HEADQUARTERS

100 West Houston Street | (210) 220-4011
San Antonio, Texas 78205 | frostbank@frostbank.com

www.frostbank.com

Certifications

The certifications of the Chief Executive Officer and the Chief Financial Officer of Cullen/Frost Bankers, Inc., required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to Cullen/Frost's 2004 Annual Report on Form 10-K. In addition, the certification of the Chief Executive Officer of Cullen/Frost, required under the rules of the New York Stock Exchange, Inc., has been filed with the Exchange.

Form 10-K and Investor Inquiries

Analysts, investors and others desiring additional financial data about Cullen/Frost Bankers, Inc. may contact Greg Parker, Senior Vice President, Director of Investor Relations, at (210) 220-5632.

Transfer Agent and Registrar

Bank of New York

101 Barclay Street / No. 12 East / New York, NY 10286 / 1-800-524-4458

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