

CULLEN/FROST BANKERS, INC.

AUDIT COMMITTEE CHARTER

(Restated as of January 26, 2006)

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
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.