

CULLEN/FROST BANKERS, INC.

Form 10-Q

April 26, 2018

Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2018

Or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number: 001-13221

Cullen/Frost Bankers, Inc.

(Exact name of registrant as specified in its charter)

Texas 74-1751768

(I.R.S.

(State or other jurisdiction of Employer

incorporation or organization) Identification

No.)

100 W. Houston Street, San Antonio, Texas 78205

(Address of principal executive offices) (Zip code)

(210) 220-4011

(Registrant’s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý

As of April 19, 2018 there were 63,797,196 shares of the registrant’s Common Stock, \$.01 par value, outstanding.

Table of Contents

Cullen/Frost Bankers, Inc.
 Quarterly Report on Form 10-Q
 March 31, 2018
 Table of Contents

	Page
<u>Part I - Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Income</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>5</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>35</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
Item 4. <u>Controls and Procedures</u>	<u>55</u>
<u>Part II - Other Information</u>	
Item 1. <u>Legal Proceedings</u>	<u>56</u>
Item 1A. <u>Risk Factors</u>	<u>56</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>56</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>56</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>56</u>
Item 5. <u>Other Information</u>	<u>56</u>
Item 6. <u>Exhibits</u>	<u>56</u>
<u>Signatures</u>	<u>57</u>

Table of Contents

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Cullen/Frost Bankers, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	March 31, 2018	December 31, 2017
Assets:		
Cash and due from banks	\$434,155	\$545,542
Interest-bearing deposits	3,907,051	4,347,538
Federal funds sold and resell agreements	339,742	159,967
Total cash and cash equivalents	4,680,948	5,053,047
Securities held to maturity, at amortized cost	1,247,154	1,432,098
Securities available for sale, at estimated fair value	10,536,532	10,489,009
Trading account securities	19,772	21,098
Loans, net of unearned discounts	13,364,029	13,145,665
Less: Allowance for loan losses	(149,885)	(155,364)
Net loans	13,214,144	12,990,301
Premises and equipment, net	521,202	520,958
Goodwill	654,952	654,952
Other intangible assets, net	4,685	5,073
Cash surrender value of life insurance policies	181,297	180,477
Accrued interest receivable and other assets	398,546	400,867
Total assets	\$31,459,232	\$31,747,880
Liabilities:		
Deposits:		
Non-interest-bearing demand deposits	\$10,934,162	\$11,197,093
Interest-bearing deposits	15,743,616	15,675,296
Total deposits	26,677,778	26,872,389
Federal funds purchased and repurchase agreements	1,032,221	1,147,824
Junior subordinated deferrable interest debentures, net of unamortized issuance costs	136,198	136,184
Subordinated notes, net of unamortized issuance costs	98,591	98,552
Accrued interest payable and other liabilities	271,014	195,068
Total liabilities	28,215,802	28,450,017
Shareholders' Equity:		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; 6,000,000 Series A shares (\$25 liquidation preference) issued at March 31, 2018 and December 31, 2017	144,486	144,486
Common stock, par value \$0.01 per share; 210,000,000 shares authorized; 64,236,306 shares issued at both March 31, 2018 and December 31, 2017	642	642
Additional paid-in capital	956,536	953,361
Retained earnings	2,234,301	2,187,069
Accumulated other comprehensive income, net of tax	(53,354)	79,512
Treasury stock, at cost; 442,610 shares at March 31, 2018 and 760,720 shares at December 31, 2017	(39,181)	(67,207)
Total shareholders' equity	3,243,430	3,297,863
Total liabilities and shareholders' equity	\$31,459,232	\$31,747,880

See Notes to Consolidated Financial Statements.

Table of Contents

Cullen/Frost Bankers, Inc.

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Loans, including fees	\$ 151,202	\$ 122,600
Securities:		
Taxable	20,558	25,302
Tax-exempt	56,711	56,947
Interest-bearing deposits	14,094	6,836
Federal funds sold and resell agreements	761	107
Total interest income	243,326	211,792
Interest expense:		
Deposits	10,638	1,868
Federal funds purchased and repurchase agreements	634	139
Junior subordinated deferrable interest debentures	1,142	908
Other long-term borrowings	1,164	368
Total interest expense	13,578	3,283
Net interest income	229,748	208,509
Provision for loan losses	6,945	7,952
Net interest income after provision for loan losses	222,803	200,557
Non-interest income:		
Trust and investment management fees	29,587	26,470
Service charges on deposit accounts	20,843	20,769
Insurance commissions and fees	15,980	13,821
Interchange and debit card transaction fees	3,158	5,574
Other charges, commissions and fees	9,007	9,592
Net gain (loss) on securities transactions	(19) —
Other	12,889	7,474
Total non-interest income	91,445	83,700
Non-interest expense:		
Salaries and wages	86,683	82,512
Employee benefits	21,995	21,625