

CULLEN/FROST BANKERS, INC.

Form 10-Q

April 23, 2014

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United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended: March 31, 2014

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

(State or other jurisdiction of

(I.R.S. 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

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

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

As of April 17, 2014, there were 60,911,318 shares of the registrant's Common Stock, \$.01 par value, outstanding.

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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, 2014	December 31, 2013
Assets:		
Cash and due from banks	\$692,272	\$885,121
Interest-bearing deposits	4,480,586	3,646,756
Federal funds sold and resell agreements	5,273	24,248
Total cash and cash equivalents	5,178,131	4,556,125
Securities held to maturity, at amortized cost	3,082,082	3,139,748
Securities available for sale, at estimated fair value	5,482,465	5,895,436
Trading account securities	15,524	16,398
Loans, net of unearned discounts	9,750,645	9,515,700
Less: Allowance for loan losses	(95,156)	(92,438)
Net loans	9,655,489	9,423,262
Premises and equipment, net	320,701	313,331
Goodwill	536,649	536,649
Other intangible assets, net	5,656	6,345
Cash surrender value of life insurance policies	141,790	141,108
Accrued interest receivable and other assets	266,598	284,537
Total assets	\$24,685,085	\$24,312,939
Liabilities:		
Deposits:		
Non-interest-bearing demand deposits	\$8,617,316	\$8,311,149
Interest-bearing deposits	12,448,317	12,377,637
Total deposits	21,065,633	20,688,786
Federal funds purchased and repurchase agreements	515,235	668,253
Junior subordinated deferrable interest debentures	123,712	123,712
Other long-term borrowings	100,000	100,000
Accrued interest payable and other liabilities	314,586	218,027
Total liabilities	22,119,166	21,798,778
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, 2014 and at December 31, 2013	144,486	144,486
Common stock, par value \$0.01 per share; 210,000,000 shares authorized; 61,632,464 shares issued at March 31, 2014 and December 31, 2013	617	617
Additional paid-in capital	727,677	724,197
Retained earnings	1,599,337	1,575,282
Accumulated other comprehensive income, net of tax	142,748	140,434
Treasury stock, at cost; 736,196 shares at March 31, 2014 and 1,066,021 shares at December 31, 2013	(48,946)	(70,855)
Total shareholders' equity	2,565,919	2,514,161
Total liabilities and shareholders' equity	\$24,685,085	\$24,312,939

See Notes to Consolidated Financial Statements.

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Cullen/Frost Bankers, Inc.

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2014	2013
Interest income:		
Loans, including fees	\$104,315	\$102,056
Securities:		
Taxable	21,403	27,377
Tax-exempt	35,564	27,954
Interest-bearing deposits	2,404	1,353
Federal funds sold and resell agreements	20	22
Total interest income	163,706	158,762
Interest expense:		
Deposits	2,561	4,008
Federal funds purchased and repurchase agreements	27	30
Junior subordinated deferrable interest debentures	561	1,673
Other long-term borrowings	222	238
Total interest expense	3,371	5,949
Net interest income	160,335	152,813
Provision for loan losses	6,600	6,000
Net interest income after provision for loan losses	153,735	146,813
Non-interest income:		
Trust and investment management fees	25,411	21,885
Service charges on deposit accounts	19,974	20,044
Insurance commissions and fees	13,126	13,070
Interchange and debit card transaction fees	4,243	4,011
Other charges, commissions and fees	8,207	7,755
Net gain (loss) on securities transactions	—	5
Other	6,529	11,010
Total non-interest income	77,490	77,780
Non-interest expense:		
Salaries and wages	70,217	66,465
Employee benefits	17,388	17,991
Net occupancy	12,953	11,979
Furniture and equipment	14,953	14,185
Deposit insurance	3,117	2,889
Intangible amortization	689	820
Other	38,624	41,485
Total non-interest expense	157,941	155,814
Income before income taxes	73,284	68,779
Income taxes	12,096	13,591
Net income	61,188	55,188
Preferred stock dividends	2,016	—
Net income available to common shareholders	\$59,172	\$55,188
Earnings per common share:		
Basic	\$0.97	\$0.91

Diluted	0.96	0.91
See Notes to Consolidated Financial Statements.		

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Cullen/Frost Bankers, Inc.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2014	2013
Net income	\$61,188	\$55,188
Other comprehensive income (loss), before tax:		
Securities available for sale and transferred securities:		
Change in net unrealized gain/loss during the period	21,431	(21,344)
Change in net unrealized gain on securities transferred to held to maturity	(9,198)	(8,459)
Reclassification adjustment for net (gains) losses included in net income	—	(5)
Total securities available for sale and transferred securities	12,233	(29,808)
Defined-benefit post-retirement benefit plans:		
Change in the net actuarial gain/loss	672	1,640
Derivatives:		
Change in the accumulated gain/loss on effective cash flow hedge derivatives	—	—
Reclassification adjustments for (gains) losses included in net income:		
Interest rate swaps on variable-rate loans	(9,345)	(9,345)
Interest rate swap on junior subordinated deferrable interest debentures	—	1,085
Total derivatives	(9,345)	(8,260)
Other comprehensive income (loss), before tax	3,560	(36,428)
Deferred tax expense (benefit) related to other comprehensive income	1,246	(12,750)
Other comprehensive income (loss), net of tax	2,314	(23,678)
Comprehensive income	\$63,502	\$31,510
See Notes to Consolidated Financial Statements.		

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Cullen/Frost Bankers, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2014	2013
Total shareholders' equity at beginning of period	\$2,514,161	\$2,417,482
Net income	61,188	55,188
Other comprehensive income (loss)	2,314	(23,678)
Stock option exercises (329,825 shares in 2014 and 395,425 shares in 2013)	17,279	20,446
Stock compensation expense recognized in earnings	2,136	2,342
Tax benefits (deficiencies) related to stock compensation	1,344	(209)
Issuance of preferred stock (6,000,000 shares in 2013)	—	144,539
Purchase of treasury stock (1,905,077 shares in 2013)	—	(115,200)
Accelerated share repurchase forward contract	—	(28,800)
Cash dividends – preferred stock (approximately \$0.34 per share in 2014)	(2,016)	—
Cash dividends – common stock (\$0.50 per share in 2014 and \$0.48 per share in 2013)	30,487)	(28,779)
Total shareholders' equity at end of period	\$2,565,919	\$2,443,331

See Notes to Consolidated Financial Statements.

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Cullen/Frost Bankers, Inc.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2014	2013
Operating Activities:		
Net income	\$61,188	\$55,188
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	6,600	6,000
Deferred tax expense (benefit)	(1,933	) (2,118
Accretion of loan discounts	(3,503	) (2,900
Securities premium amortization (discount accretion), net	13,810	8,710
Net (gain) loss on securities transactions	—	(5
Depreciation and amortization	9,702	9,464
Net (gain) loss on sale/write-down of assets/foreclosed assets	147	3,342
Stock-based compensation	2,136	2,342
Net tax benefit (deficiency) from stock-based compensation	9	(331
Excess tax benefits from stock-based compensation	(1,335	) (122
Earnings on life insurance policies	(682	) (893
Net change in:		
Trading account securities	909	7,410
Accrued interest receivable and other assets	14,633	9,460
Accrued interest payable and other liabilities	(29,098	) (140,719
Net cash from operating activities	72,583	(45,172
Investing Activities:		
Securities held to maturity:		
Purchases	—	(133,832
Maturities, calls and principal repayments	42,113	8,133
Securities available for sale:		
Purchases	(617,914	) (4,498,091
Sales	—	4,498,102
Maturities, calls and principal repayments	1,163,981	321,322
Net change in loans	(237,216	) 47,259
Net cash paid in acquisitions	—	—
Proceeds from sales of premises and equipment	15	12,550
Purchases of premises and equipment	(13,215	) (6,834
Proceeds from sales of repossessed properties	1,719	2,142
Net cash from investing activities	339,483	250,751
Financing Activities:		
Net change in deposits	376,847	(453,462
Net change in short-term borrowings	(153,018	) (50,959
Principal payments on long-term borrowings	—	(5
Proceeds from stock option exercises	17,279	20,446
Excess tax benefits from stock-based compensation	1,335	122
Proceeds from issuance of preferred stock	—	144,539
Purchase of treasury stock	—	(115,200

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Accelerated share repurchase forward contract	—	(28,800)
Cash dividends paid on preferred stock	(2,016) —)
Cash dividends paid on common stock	(30,487	) (28,779)