

CULLEN/FROST BANKERS, INC.

Form 10-Q

April 25, 2012

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United States
Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2012

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
(State or other jurisdiction of
incorporation or organization)

74-1751768
(I.R.S. Employer
Identification No.)

100 W. Houston Street, San Antonio, Texas
(Address of principal executive offices)

78205
(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)

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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 19, 2012, there were 61,372,763 shares of the registrant's Common Stock, \$.01 par value, outstanding.

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Cullen/Frost Bankers, Inc.

Quarterly Report on Form 10-Q

March 31, 2012

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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, 2012	December 31, 2011	March 31, 2011
Assets:			
Cash and due from banks	\$ 623,204	\$ 574,039	\$ 587,655
Interest-bearing deposits	1,497,478	2,314,251	2,101,014
Federal funds sold and resell agreements	8,052	19,302	10,002
Total cash and cash equivalents	2,128,734	2,907,592	2,698,671
Securities held to maturity, at amortized cost	365,603	365,996	341,034
Securities available for sale, at estimated fair value	8,568,215	7,789,700	5,662,211
Trading account securities	16,846	13,609	20,746
Loans, net of unearned discounts	8,126,713	7,995,129	8,025,080
Less: Allowance for loan losses	(107,181)	(110,147)	(124,321)
Net loans	8,019,532	7,884,982	7,900,759
Premises and equipment, net	321,681	319,042	313,233
Goodwill	535,560	528,072	527,684
Other intangible assets, net	11,033	10,604	13,215
Cash surrender value of life insurance policies	135,035	133,967	130,910
Accrued interest receivable and other assets	314,942	363,681	333,181
Total assets	\$ 20,417,181	\$ 20,317,245	\$ 17,941,644
Liabilities:			
Deposits:			
Non-interest-bearing demand deposits	\$ 6,784,112	\$ 6,672,555	\$ 5,413,002
Interest-bearing deposits	10,124,909	10,084,193	9,296,557
Total deposits	16,909,021	16,756,748	14,709,559
Federal funds purchased and repurchase agreements	637,098	722,202	553,571
Junior subordinated deferrable interest debentures	123,712	123,712	123,712
Other long-term borrowings	100,022	100,026	250,040
Accrued interest payable and other liabilities	326,615	331,020	207,411
Total liabilities	18,096,468	18,033,708	15,844,293
Shareholders' Equity:			
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; none issued			
Common stock, par value \$0.01 per share; 210,000,000 shares authorized; 61,372,763, shares issued at March 31, 2012, 61,271,603 shares issued at December 31, 2011 and 61,244,157 shares issued at March 31, 2011	614	613	613
Additional paid-in capital	688,150	680,803	668,237
Retained earnings	1,387,553	1,354,759	1,273,826
Accumulated other comprehensive income, net of tax	244,396	247,734	154,818
		(372)	(143)

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Treasury stock, 7,640 shares at December 31, 2011 and 2,464 shares at March 31, 2011, at cost

Total shareholders' equity	2,320,713	2,283,537	2,097,351
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Total liabilities and shareholders' equity	\$ 20,417,181	\$ 20,317,245	\$ 17,941,644
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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,	
	2012	2011
Interest income:		
Loans, including fees	\$ 97,351	\$ 98,488
Securities:		
Taxable	36,066	31,185
Tax-exempt	22,503	22,733
Interest-bearing deposits	930	1,171
Federal funds sold and resell agreements	15	16
Total interest income	156,865	153,593
Interest expense:		
Deposits	4,572	5,951
Federal funds purchased and repurchase agreements	34	131
Junior subordinated deferrable interest debentures	1,674	1,672
Other long-term borrowings	878	4,080
Total interest expense	7,158	11,834
Net interest income	149,707	141,759
Provision for loan losses	1,100	9,450
Net interest income after provision for loan losses	148,607	132,309
Non-interest income:		
Trust and investment management fees	20,652	19,471
Service charges on deposit accounts	20,794	21,250
Insurance commissions and fees	12,377	10,494
Interchange and debit card transaction fees	4,117	8,045
Other charges, commissions and fees	7,350	7,228
Net gain (loss) on securities transactions	(491)	5
Other	7,180	5,840
Total non-interest income	71,979	72,333
Non-interest expense:		
Salaries and wages	63,702	62,430
Employee benefits	16,701	15,311
Net occupancy	11,797	11,652
Furniture and equipment	13,420	12,281
Deposit insurance	2,497	4,760
Intangible amortization	1,011	1,120
Other	32,912	32,507
Total non-interest expense	142,040	140,061
Income before income taxes	78,546	64,581
Income taxes	17,513	12,653

Net income	\$ 61,033	\$ 51,928
Earnings per common share:		
Basic	\$ 0.99	\$ 0.85
Diluted	0.99	0.85

See Notes to Consolidated Financial Statements.

Table of Contents**Cullen/Frost Bankers, Inc.****Consolidated Statements of Comprehensive Income**

(Dollars in thousands)

	Three Months Ended March 31,	
	2012	2011
Net income	\$ 61,033	\$ 51,928
Other comprehensive income (loss), before tax:		
Securities available for sale:		
Change in net unrealized gain/loss during the period	1,882	8,290
Reclassification adjustment for net (gains) losses included in net income	491	(5)
Total securities available for sale	2,373	8,285
Defined-benefit post-retirement benefit plans:		
Change in the net actuarial gain/loss	1,229	783
Derivatives:		
Change in the accumulated gain/loss on effective cash flow hedge derivatives	(427)	65
Reclassification adjustments for (gains) losses included in net income:		
Interest rate swaps on variable-rate loans		