

CULLEN FROST BANKERS INC

Form 10-Q

July 28, 2010

Table of Contents

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: June 30, 2010

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)

Edgar Filing: CULLEN FROST BANKERS INC - Form 10-Q

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 July 21, 2010, there were 60,677,936 shares of the registrant's Common Stock, \$.01 par value, outstanding.

Table of Contents

Cullen/Frost Bankers, Inc.

Quarterly Report on Form 10-Q

June 30, 2010

Table of Contents

	Page
<u>Part I - Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	50
<u>Part II - Other Information</u>	
Item 1. <u>Legal Proceedings</u>	51
Item 1A. <u>Risk Factors</u>	51
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 3. <u>Defaults Upon Senior Securities</u>	51
Item 5. <u>Other Information</u>	51
Item 6. <u>Exhibits</u>	51
<u>Signatures</u>	52

Table of Contents**Part I. Financial Information****Item 1. Financial Statements (Unaudited)****Cullen/Frost Bankers, Inc.****Consolidated Statements of Income**

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income:				
Loans, including fees	\$ 102,512	\$ 109,512	\$ 205,024	\$ 217,804
Securities:				
Taxable	31,482	32,105	60,557	65,206
Tax-exempt	20,310	15,285	40,019	27,567
Interest-bearing deposits	989	261	1,844	523
Federal funds sold and resell agreements	21	62	31	181
Total interest income	155,314	157,225	307,475	311,281
Interest expense:				
Deposits	7,377	14,804	15,938	31,390
Federal funds purchased and repurchase agreements	116	298	174	685
Junior subordinated deferrable interest debentures	1,783	1,818	3,556	3,625
Other long-term borrowings	4,142	5,841	8,327	11,485
Total interest expense	13,418	22,761	27,995	47,185
Net interest income	141,896	134,464	279,480	264,096
Provision for possible loan losses	8,650	16,601	22,221	26,202
Net interest income after provision for possible loan losses	133,246	117,863	257,259	237,894
Non-interest income:				
Trust fees	17,037	16,875	34,000	32,844
Service charges on deposit accounts	24,925	25,152	49,734	50,062
Insurance commissions and fees	7,512	7,106	18,650	17,857
Other charges, commissions and fees	8,029	6,288	14,948	13,050
Net gain (loss) on securities transactions	1	49	6	49
Other	12,428	12,536	23,987	24,008
Total non-interest income	69,932	68,006	141,325	137,870
Non-interest expense:				
Salaries and wages	58,827	56,540	119,102	113,316
Employee benefits	12,675	13,783	27,196	29,023
Net occupancy	11,637	10,864	22,772	21,554
Furniture and equipment	11,662	10,662	23,151	21,025
Deposit insurance	5,429	11,667	10,872	16,043
Intangible amortization	1,299	1,719	2,632	3,500
Other	33,125	31,054	63,523	61,327
Total non-interest expense	134,654	136,289	269,248	265,788

Edgar Filing: CULLEN FROST BANKERS INC - Form 10-Q

Income before income taxes	68,524	49,580	129,336	109,976
Income taxes	15,624	11,721	28,618	27,135

Net income	\$ 52,900	\$ 37,859	\$ 100,718	\$ 82,841
-------------------	-----------	-----------	------------	-----------

Earnings per common share:

Basic	\$ 0.87	\$ 0.64	\$ 1.67	\$ 1.39
Diluted	0.87	0.63	1.66	1.39

See Notes to Consolidated Financial Statements.

Table of Contents**Cullen/Frost Bankers, Inc.****Consolidated Balance Sheets**

(Dollars in thousands, except per share amounts)

	June 30, 2010	December 31, 2009	June 30, 2009
Assets:			
Cash and due from banks	\$ 491,747	\$ 558,490	\$ 653,497
Interest-bearing deposits	2,145,003	1,157,699	57,426
Federal funds sold and resell agreements	12,063	5,290	803,950
Total cash and cash equivalents	2,648,813	1,721,479	1,514,873
Securities held to maturity, at amortized cost	252,995	6,115	6,583
Securities available for sale, at estimated fair value	4,753,608	4,884,257	4,327,628
Trading account securities	15,833	16,126	15,514
Loans, net of unearned discounts	8,065,679	8,367,780	8,643,693
Less: Allowance for possible loan losses	(125,442)	(125,309)	(122,501)
Net loans	7,940,237	8,242,471	8,521,192
Premises and equipment, net	318,921	324,098	295,767
Goodwill	527,684	527,684	527,197
Other intangible assets, net	16,828	19,460	21,839
Cash surrender value of life insurance policies	127,579	125,405	123,579
Accrued interest receivable and other assets	457,381	420,943	430,640
Total assets	\$ 17,059,879	\$ 16,288,038	\$ 15,784,812
Liabilities:			
Deposits:			
Non-interest-bearing demand deposits	\$ 5,062,023	\$ 4,645,802	\$ 4,359,904
Interest-bearing deposits	8,890,137	8,667,508	8,136,833
Total deposits	13,952,160	13,313,310	12,496,737
Federal funds purchased and repurchase agreements	438,496	482,048	656,363
Junior subordinated deferrable interest debentures	136,084	136,084	136,084
Other long-term borrowings	250,054	256,562	486,571
Accrued interest payable and other liabilities	242,234	205,610	212,060
Total liabilities	15,019,028	14,393,614	13,987,815
Shareholders Equity:			
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; none issued			
Junior participating preferred stock, par value \$0.01 per share; 250,000 shares authorized; none issued			
Common stock, par value \$0.01 per share; 210,000,000 shares authorized; 60,656,360 shares issued at June 30, 2010 and 60,236,862 shares issued at December 31, 2009 and June 30, 2009	606	602	602
Additional paid-in capital	628,227	600,355	596,076
Retained earnings	1,196,254	1,150,103	1,109,504
Accumulated other comprehensive income (loss), net of tax	215,764	154,205	122,017
		(10,841)	(31,202)

Edgar Filing: CULLEN FROST BANKERS INC - Form 10-Q

Treasury stock, 198,586 shares at December 31,2009 and 584,304 shares, at June 30, 2009,
at cost

Total shareholders' equity	2,040,851
----------------------------	-----------