

CULLEN/FROST BANKERS, INC.

Form 11-K

June 22, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 11-K

✓ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2017

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-13221

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

THE 401(k) STOCK PURCHASE PLAN  
FOR EMPLOYEES OF CULLEN/FROST  
BANKERS, INC. AND ITS AFFILIATES

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CULLEN/FROST BANKERS, INC.

100 W. Houston Street

San Antonio, TX 78205

Telephone Number: (210) 220-4011

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The 401(k) Stock Purchase Plan for Employees of  
Cullen/Frost Bankers, Inc. and Its Affiliates  
Financial Statements  
and Supplemental Schedule  
As of December 31, 2017 and 2016 and for the year ended December 31, 2017

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Report of Independent Registered Public Accounting Firm

To the Plan Participants and the Plan Administrator of The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates

Opinion on the Financial Statements

We have audited the accompanying statements of net assets available for benefits of The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates as of December 31, 2017 and 2016 (the Plan), and the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2017 and 2016, and the changes in its net assets available for benefits for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on the Plan’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental Schedule

The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2017, has been subjected to audit procedures performed in conjunction with the audit of the Plan’s financial statements. The information in the supplemental schedule is the responsibility of the Plan’s management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Ernst & Young LLP

We have served as the Plan’s auditor since 1986.

San Antonio, TX

June 22, 2018



The 401(k) Stock Purchase Plan for Employees of  
 Cullen/Frost Bankers, Inc. and Its Affiliates  
 Statements of Net Assets Available for Benefits  
 (Dollars in thousands)

	December 31,	
	2017	2016
Assets		
Participant-directed investments, at fair value	\$660,069	\$599,372
Receivables:		
Employer contributions	891	814
Participant contributions	615	614
Notes receivable from participants	14,214	13,682
Net assets available for benefits	\$675,789	\$614,482
See accompanying Notes to Financial Statements.		

The 401(k) Stock Purchase Plan for Employees of  
 Cullen/Frost Bankers, Inc. and Its Affiliates  
 Statement of Changes in Net Assets Available for Benefits  
 Year Ended December 31, 2017  
 (Dollars in thousands)

Additions:	
Interest income on notes receivable from participants	\$497
Dividend income on investments	26,056
Net appreciation in fair value of investments	48,803
Contributions:	
Employer - cash	14,288
Participant	20,038
Participant roll-overs	1,769
Total additions	111,451
Deductions:	
Benefits paid to participants	49,979
Administrative fees	165
Total deductions	50,144
Net change	61,307
Net assets available for benefits:	
Beginning of year	614,482
End of year	\$675,789

See accompanying Notes to Financial Statements.

The 401(k) Stock Purchase Plan for Employees of  
Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements

December 31, 2017 and 2016

(Table amounts in thousands)

1. Significant Accounting Policies

**Basis of Presentation.** The accounting records of The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates (the Plan) are maintained on the accrual basis of accounting.

**Investments.** The Plan's investments are composed of common stock of Cullen/Frost Bankers, Inc. (CFBI) and mutual funds. Investments in CFBI common stock and mutual funds are stated at fair value based on quoted market prices on the valuation date. Changes in fair value and gains and losses on the sale of investment securities are reflected in the statements of changes in net assets available for benefits as net appreciation or depreciation in fair value of investments.

Purchases and sales of securities are recorded on the trade-date basis. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

**Notes Receivable from Participants.** Notes receivable from participants are reported at the unpaid principal balance plus accrued interest on the loan. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2017 or 2016. If a participant ceases to make loan repayments and the Plan administrator (CFBI) deems the participant loan to be a distribution, the participant loan balance is reduced and a benefit payment is recorded.

**Administrative Expenses.** Certain administrative expenses of the Plan are paid by CFBI.

**Use of Estimates.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Description of the Plan

The following is a general description of the Plan. Participants should refer to the online summary of the Plan for a more complete description of the Plan's provisions.

**General.** The Plan is a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code (IRC) and covers full-time employees who complete 90 consecutive days of service and part-time employees who complete 90 consecutive days of service and are scheduled to work more than 1,000 hours in a year. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) as amended.

**Contributions and Investment Options.** Participants may contribute an amount not less than 2% and not exceeding 50% of their compensation, limited by 401(k) regulations, and may direct investments of their accounts into various investment options offered by the Plan. Participants are able to invest their contributions in these funds in 1% increments. Participants must contribute to the Plan to receive a CFBI matching contribution. CFBI matches 100% of each participant's contributions up to 6% of each participant's annual compensation. The match is initially invested in the common stock of CFBI. Each participant may elect to direct the investment of the matching contributions into other allowed investment options by electing to make investment transfers after the CFBI common stock contributions are allocated to the participant's account.

**Participant Accounts.** Each participant's account is credited with the participant's contributions and allocations of (i) CFBI's contributions and (ii) Plan earnings and charged with applicable expenses. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

**Vesting.** Participants are immediately vested in all contributions (both those made by the participant and by CFBI) plus actual earnings thereon.

**Participant Loans and Withdrawals.** Participants may borrow from their fund accounts a minimum of \$500 up to a maximum of \$50,000, reduced by the highest amount of any loan outstanding within the previous twelve months, or 50% of their vested account balance. Loan terms range from 1 to 5 years or up to 30 years for the purchase of a

primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates. Principal and interest are paid ratably through semimonthly payroll deductions. Subject to Internal Revenue Service (IRS) limitations, participants may make hardship withdrawals from a portion of their 401(k) contributions to pay for an immediate and heavy financial need.



Payment of Benefits. In the event of termination of employment, disability, retirement or death, the participant's account will be distributed to the participant or the participant's beneficiary, in the event of death, according to Plan terms. The payment shall equal the amount of the participant's vested account in the Plan.

Plan Termination. Although it has not expressed any present intent to do so, CFBI has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

### 3. Reconciliation of Financial Statements to the Form 5500

The following is a reconciliation of net assets available for benefits as reported in the accompanying financial statements to net assets as reported in the Plan's Form 5500 as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
Net assets available for benefits	\$675,789	\$614,482
Less: Contributions receivable		
Employer	(891 )	(814 )
Participant	(615 )	(614 )
Net assets as reported on Form 5500	\$674,283	\$613,054

The following is a reconciliation of net increase in net assets available for benefits as reported in the accompanying financial statements to net income as reported in the Plan's annual report Form 5500 for the year ended December 31, 2017:

Net increase in net assets available for benefits	\$61,307
Less: Contributions receivable as of December 31, 2017	
Employer	(891 )
Participant	(615 )
Plus: Contributions receivable as of December 31, 2016	
Employer	814
Participant	614
Net income as reported on Form 5500	\$61,229

### 4. Income Tax Status

The Plan has received a determination letter from the IRS dated June 27, 2014, stating that the Plan is qualified under Section 401(a) of the IRC and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the IRS the Plan was amended and restated. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualified status. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and therefore believes the Plan, as amended and restated, is qualified and related trust is tax-exempt.

U.S. generally accepted accounting principles require Plan management to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that, as of December 31, 2017, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### 5. Party-In-Interest Transactions

Parties-in-interest are defined under Department of Labor regulations as any fiduciary of the Plan, any party rendering services to the Plan, the employer, and certain others. Accordingly, transactions conducted by the trustee, Frost Bank; sub-custodian, Reliance Trust Company; the record-keeper, Massachusetts Mutual Life Insurance Company; and CFBI and its Affiliates, qualify as party-in-interest transactions.

Plan assets are held and managed by the sub-custodian and the record-keeper. The sub-custodian invests cash received, interest and dividend income as directed by the participants of the Plan. The record-keeper also makes distributions to participants.

Certain administrative functions are performed by employees of CFBI or its Affiliates; however, no such employees receive compensation from the Plan. Certain other administrative expenses are paid directly by CFBI.

#### 6. Risks and Uncertainties

The Plan provides for various investments in common stock and mutual funds. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances.

#### 7. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. Accounting Standards Codification (ASC) Topic 820 “Fair Value Measurements and Disclosures” establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy includes (i) Level 1 inputs that are unadjusted quoted prices in active markets for identical assets or liabilities, (ii) Level 2 inputs that are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly and (iii) Level 3 inputs that are unobservable inputs for determining the fair values of assets or liabilities that reflect assumptions that market participants would use in pricing the assets or liabilities.

All investments held by the Plan during the reported periods, as summarized in the table below, are considered Level 1 investments under the fair value hierarchy as fair value is based on quoted prices in active markets.

	December 31,	
	2017	2016
Common stock	\$275,429	\$276,825
Mutual funds	384,640	322,547
Total investments	\$660,069	\$599,372

## Supplemental Schedule

The 401(k) Stock Purchase Plan for Employees of  
Cullen/Frost Bankers, Inc. and Its Affiliates  
EIN: 74-1751768 Plan No.: 003

Schedule H, Line 4i—Schedule of Assets (Held at End of Year)  
December 31, 2017  
(Dollar and share amounts in thousands)

Identity of Issue, Borrower, Lessor, or Similar Party	Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value		Current Value
Common Stock			
*Cullen/Frost Bankers, Inc.	2,910	shares	\$ 275,429
Mutual Funds			
Aberdeen Emerging Markets Fund	420	shares	6,774
American Funds AMCAP	850	shares	27,040
American Funds American Balanced	1,182	shares	32,110
Invesco Real Estate Fund	343	shares	7,290
Invesco Treasury Portfolio Fund	57,171	shares	57,171
John Hancock Disciplined Value Mid Cap Fund	753	shares	17,527
Lazard International Equity Fund	1,057	shares	20,707
MFS Conservative Asset Allocation Fund	860	shares	13,324
MFS Growth Allocation Fund	495	shares	10,161
MFS Moderate Allocation Fund	1,064	shares	18,865
MFS Value Fund	532	shares	21,590
PIMCO Real Return Fund	430	shares	4,758
T Rowe Price Mid Cap Growth Fund	243	shares	21,142
Vanguard Institutional Index Fund	142	shares	34,484
Vanguard Small Cap Index Fund	206	shares	14,571
Victory Sycamore Small Company Opportunity Fund	131	shares	6,166
*Frost Growth Equity Fund	1,826	shares	23,078
*Frost Low Duration Bond Fund	1,020	shares	10,406
*Frost Total Return Bond Fund	2,736	shares	28,537
*Frost Value Equity Fund	981	shares	8,939
			384,640
Total Investments			\$ 660,069
		Interest rates ranging from 3.25% to 8.75%; varying maturity dates	\$ 14,214
*Participant Loans			

\*Denotes party-in-interest



Signatures

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

The 401(k) Stock  
Purchase Plan for  
Employees of  
Cullen/Frost Bankers,  
Inc. and Its Affiliates

Date: June 22, 2018 By: /s/ Annette  
Alonzo  
Plan  
Administrator,  
Plan Chief  
Executive  
Officer and  
Plan Chief  
Financial  
Officer  
(Duly  
Authorized  
Officer)

Exhibit Index

Exhibit Number Description

23.1 Consent of Independent Registered Public Accounting Firm

32.1 Section 1350 Certification

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