

CULLEN/FROST BANKERS, INC.

Form DEF 14A

March 20, 2013

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Cullen/Frost Bankers, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

A Texas Financial Services Family

100 West Houston Street

San Antonio, Texas 78205

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 25, 2013

To the Shareholders of

CULLEN/FROST BANKERS, INC.:

The Annual Meeting of Shareholders of Cullen/Frost Bankers, Inc. (Cullen/Frost) will be held in the Commanders Room at Frost Bank, 100 West Houston Street, San Antonio, Texas 78205, on Thursday, April 25, 2013, at 11:00 a.m., San Antonio time, for the following purposes:

1. To elect thirteen nominees to serve as Directors for a one-year term that will expire at the 2014 Annual Meeting of Shareholders;
2. To approve the Cullen/Frost Bankers, Inc. 2005 Omnibus Incentive Plan, as amended and restated;
3. To ratify the selection of Ernst & Young LLP to act as independent auditors of Cullen/Frost for the fiscal year that began January 1, 2013;
4. To provide nonbinding approval of executive compensation; and
5. To transact any other business that may properly come before the meeting.

The record date for the determination of the shareholders entitled to vote at the Annual Meeting, or any adjournments or postponements thereof, was the close of business on March 6, 2013. A list of all shareholders entitled to vote is available for inspection by a shareholder during regular business hours for ten days prior to the Annual Meeting at our principal offices at 100 West Houston Street, Suite 1270, San Antonio, Texas 78205. This list will be available at the meeting.

Your vote is very important. Whether or not you plan to attend the Annual Meeting of Shareholders, we urge you to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum. If you attend the meeting, you will have the right to revoke the proxy and vote your shares in person.

Edgar Filing: CULLEN/FROST BANKERS, INC. - Form DEF 14A

Shareholders of record may vote:

1. By Internet: go to www.cfrvoteproxy.com; or
2. By phone: call 1-866-390-5375 (toll-free); or
3. By mail: complete and return the enclosed proxy card in the postage prepaid envelope provided.

If your shares are held in the name of a broker, bank or other shareholder of record, please follow the voting instructions that you receive from the shareholder of record entitled to vote your shares.

All shareholders are cordially invited to attend the Annual Meeting.

By Order of the Board of Directors,

STANLEY E. McCORMICK, JR.

Executive Vice President

Corporate Counsel and Secretary

Dated: March 20, 2013

Table of Contents

TABLE OF CONTENTS

	Page
<u>NOTICE OF ANNUAL MEETING OF SHAREHOLDERS</u>	
<u>PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS</u>	1
<u>ELECTION OF DIRECTORS (Item 1 On Proxy Card)</u>	4
<u>GENERAL INFORMATION ABOUT THE BOARD OF DIRECTORS</u>	6
<u>CERTAIN CORPORATE GOVERNANCE MATTERS</u>	13
<u>Director Independence</u>	13
<u>Meetings of Non-Management Directors</u>	14
<u>Communications with Directors</u>	14
<u>Corporate Governance Guidelines</u>	15
<u>Code of Business Conduct and Ethics</u>	15
<u>EXECUTIVE COMPENSATION AND RELATED INFORMATION</u>	15
<u>Compensation and Benefits Committee Governance</u>	15
<u>Compensation and Benefits Committee Report</u>	17
<u>Compensation Discussion and Analysis</u>	17
<u>2012 Say On Pay Vote</u>	18
<u>Objectives of the Compensation Program</u>	19
<u>Design of the Total Compensation Program and Overview of Compensation Decisions made in 2012</u>	19
<u>Relation of Pay Practices to Risk Management</u>	21
<u>Policy on 162(m)</u>	29
<u>Other Policies</u>	29
<u>Policy on Recovery of Awards</u>	30
<u>2012 Compensation</u>	31
<u>2012 Grants of Plan Based Awards</u>	33
<u>Holdings of Previously Awarded Equity</u>	34
<u>2012 Post-Employment Benefits</u>	36
<u>Potential Payments on Termination</u>	39
<u>Executive Stock Ownership</u>	41
<u>PRINCIPAL SHAREHOLDERS</u>	42
<u>CERTAIN TRANSACTIONS AND RELATIONSHIPS</u>	42
<u>APPROVAL OF THE 2005 OMNIBUS INCENTIVE PLAN AS AMENDED AND RESTATED (Item 2 On Proxy Card)</u>	43
<u>SUMMARY DESCRIPTION OF THE AMENDMENT TO THE 2005 OMNIBUS INCENTIVE PLAN</u>	45
<u>SUMMARY DESCRIPTION OF THE EXISTING 2005 OMNIBUS INCENTIVE PLAN</u>	46
<u>ADDITIONAL INFORMATION REGARDING CULLEN/FROST'S EQUITY COMPENSATION PLANS</u>	54
<u>OTHER MATTERS</u>	54
<u>SELECTION OF AUDITORS (Item 3 On Proxy Card)</u>	54
<u>NONBINDING APPROVAL OF EXECUTIVE COMPENSATION (Item 4 On Proxy Card)</u>	55
<u>AUDIT COMMITTEE REPORT</u>	56
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	57
<u>SHAREHOLDER PROPOSALS</u>	57
<u>OTHER MATTERS</u>	57
<u>ANNEX A - CULLEN/FROST BANKERS, INC. 2005 OMNIBUS INCENTIVE PLAN, AS AMENDED AND RESTATED</u>	A-1

Table of Contents

A Texas Financial Services Family

100 West Houston Street

San Antonio, Texas 78205

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 25, 2013

INTRODUCTION

The Board of Directors of Cullen/Frost Bankers, Inc. (Cullen/Frost or the Company) is soliciting proxies to be used at the Annual Meeting of Shareholders and any adjournment or postponement thereof. The meeting will be held in the Commanders Room at Frost Bank, 100 West Houston Street, San Antonio, Texas 78205, on Thursday, April 25, 2013 at 11:00 a.m., San Antonio time. This Proxy Statement and the accompanying proxy card will be mailed to shareholders beginning on or about March 20, 2013.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2013 ANNUAL MEETING OF SHAREHOLDERS:

This Proxy Statement for the 2013 Annual Meeting of Shareholders and our 2012 Annual Report to Shareholders are available at www.cfrvoteproxy.com.

We are pleased to provide access to our proxy materials on the Internet. We have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This Proxy Statement for the 2013 Annual Meeting of Shareholders and our 2012 Annual Report to Shareholders are available at our proxy materials website at <http://www.cfrvoteproxy.com>. This website does not use any functions that identify you as a visitor to the website, and thus protects your privacy.

You have the option to vote and submit your proxy by the Internet. If you have Internet access, we encourage you to record your vote by the Internet. We believe it will be convenient for you, and it saves postage and processing costs. In addition, when you vote by the Internet, your vote is recorded immediately, and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted. If you do not vote by the Internet, please vote by telephone or by completing and returning the enclosed proxy card in the postage prepaid envelope provided. Submitting your proxy by either Internet, telephone or proxy card will not affect your right to vote in person if you decide to attend the Annual Meeting.

Record Date and Voting Rights

The close of business on March 6, 2013 has been fixed as the record date for the determination of shareholders entitled to vote at the Annual Meeting. The only class of securities of Cullen/Frost outstanding and entitled to vote at the Annual Meeting is our Common Stock, par value

Edgar Filing: CULLEN/FROST BANKERS, INC. - Form DEF 14A

\$0.01 per share. On March 6, 2013, there were 61,632,464 shares of Common Stock outstanding, with each share entitled to one vote.

Proxies

All shares of Cullen/Frost Common Stock represented by properly executed proxies, if timely returned and not subsequently revoked, will be voted at the Annual Meeting in the manner directed in the proxy. If a properly

Table of Contents

executed proxy does not specify a choice on a matter, the shares will be voted for the thirteen nominees to serve as Directors for a one-year term that will expire at the 2014 Annual Meeting of Shareholders, for the approval of the 2005 Omnibus Incentive Plan, as amended and restated (the 2005 Omnibus Incentive Plan), for the ratification of Ernst & Young LLP to act as our independent auditors for the 2013 fiscal year, for the non-binding approval of executive compensation, and in the discretion of the persons named as proxies with respect to any other business that may properly come before the meeting.

A shareholder may revoke a proxy at any time before it is voted by delivering a written revocation notice to the Corporate Secretary of Cullen/Frost Bankers, Inc., 100 West Houston Street, San Antonio, Texas 78205. A shareholder who attends the Annual Meeting may, if desired, vote by ballot at the meeting, and such vote will revoke any proxy previously given.

Quorum and Voting Requirements

A quorum of shareholders is required to hold a valid meeting. If the holders of a majority of the issued and outstanding shares of Cullen/Frost Common Stock entitled to vote are present at the Annual Meeting in person or represented by proxy, a quorum will exist. Shares for which votes are withheld, as well as abstentions and broker non-votes, are counted as present for establishing a quorum.

Directors are elected by a plurality of the votes cast at the Annual Meeting. Accordingly, the nominees receiving the highest number of votes will be elected. In the election of Directors, votes may be cast for or withhold authority with respect to any or all nominees. Votes that are withheld will be excluded entirely from the vote and will have no effect on the outcome of the vote. Broker non-votes (as further discussed below) will have no effect on the outcome of this vote.

With respect to the approval of the Cullen/Frost Bankers, Inc. 2005 Omnibus Incentive Plan, as amended and restated, the affirmative vote of the holders of a majority of the shares of Cullen/Frost's Common Stock entitled to vote on, and who voted for, against or expressly abstained with respect to, this proposal will be the act of the shareholders; provided that the total votes cast on this proposal represent over 50% of the outstanding shares of Cullen/Frost's Common Stock. In voting for this matter, shares may be voted for, against or abstain. An abstention will have the effect of a vote against this matter. Broker non-votes (as further discussed below) are not counted as votes cast and therefore could prevent the total votes cast on this proposal from representing over 50% of the outstanding shares of Common Stock, but will not otherwise have an effect on this vote.

With respect to the ratification of Ernst & Young LLP to act as our independent auditors for the 2013 fiscal year, the affirmative vote of the holders of a majority of the shares of Cullen/Frost's Common Stock entitled to vote on, and who voted for, against or expressly abstained with respect to, this proposal will be the act of the shareholders. In voting for this matter, shares may be voted for, against or abstain. An abstention will have the effect of a vote against this matter.

With respect to the resolution to provide nonbinding approval of executive compensation, the affirmative vote of the holders of a majority of the shares of Cullen/Frost's Common Stock entitled to vote on, and who voted for, against or expressly abstained with respect to, this proposal will be the act of the shareholders. In voting for this matter, shares may be voted for, against or abstain. An abstention will have the effect of a vote against this matter. Broker non-votes (as further discussed below) will have no effect on the outcome of this vote. This resolution is advisory only and will not be binding upon Cullen/Frost or the Board of Directors.

Under the rules of the Financial Industry Regulatory Authority, Inc., member brokers generally may not vote shares held by them in street name for customers who do not provide voting instructions, and instead must submit a so-called broker non-vote unless they are permitted to vote the shares in their discretion under the rules of any national securities exchange of which they are members. Under the rules of the New York Stock Exchange, Inc. (NYSE), a member broker that holds shares in street name for customers has authority to vote

Table of Contents

on certain routine items if it has transmitted proxy-soliciting materials to the beneficial owner but has not received instructions from that owner. The proposal to ratify the selection of Ernst & Young LLP to act as Cullen/Frost's independent auditors is a routine item, and the NYSE rules permit member brokers that do not receive instructions to vote on this item. However, the NYSE rules do not permit member brokers that do not receive instructions, to vote on the election of Directors, on the 2005 Omnibus Incentive Plan, as amended and restated, or on the shareholder advisory vote relating to executive compensation. Thus, it is very important that you cast your vote regarding all items of business proposed in the proxy.

Expenses of Solicitation

Cullen/Frost will pay the expenses of the solicitation of proxies for the Annual Meeting. In addition to the solicitation of proxies by mail, Directors, officers, and employees of Cullen/Frost may solicit proxies by telephone, facsimile, in person or by other means of communication. Cullen/Frost also has retained Okapi Partners LLC (Okapi) to assist with the solicitation of proxies. Directors, officers, and employees of Cullen/Frost will receive no additional compensation for the solicitation of proxies, and Okapi will receive a fee not to exceed \$6,500.00, plus reimbursement for out-of-pocket expenses. Cullen/Frost has requested that brokers, nominees, fiduciaries and other custodians forward proxy-soliciting material to the beneficial owners of Cullen/Frost Common Stock. Cullen/Frost will reimburse these persons for out-of-pocket expenses they incur in connection with its request.

Table of Contents**ELECTION OF DIRECTORS****(Item 1 On Proxy Card)**

The following thirteen Directors have been nominated to serve for a new one-year term: Mr. R. Denny Alexander, Mr. Carlos Alvarez, Mr. Royce S. Caldwell, Mr. Crawford H. Edwards, Mr. Ruben M. Escobedo, Mr. Richard W. Evans, Jr., Mr. Patrick B. Frost, Mr. David J. Haemisegger, Ms. Karen E. Jennings, Mr. Richard M. Kleberg, III, Mr. Charles W. Matthews, Ms. Ida Clement Steen, and Mr. Horace Wilkins, Jr. If any nominee is unable to serve, the individuals named as proxies on the enclosed proxy card will vote the shares to elect the remaining nominees and any substitute nominee or nominees designated by the Board.

The tables below provide information on each nominee.

Nominees for One-Year Term Expiring in 2014:

Name	Age	Principal Occupation During Past Five Years	Director Since	Shares Owned ⁽¹⁾	
				Amount and Nature of Beneficial Ownership	Percent
R. Denny Alexander	67	Investments; former Chairman, Overton Bank & Trust and former Director, Overton Bancshares, Inc. (merged with Cullen/Frost)	1998	73,775 ⁽²⁾	0.12%
Carlos Alvarez	62	Chairman and Chief Executive Officer, The Gambrinus Company	2001	332,725	0.54%
Royce S. Caldwell	74	Former Vice Chairman, AT&T Inc.	1994	5,525	0.01%
Crawford H. Edwards	54	General Manager of Edwards Geren Limited; President, Cassco Land Co., Inc.	2005	262,961 ⁽³⁾	0.43%
Ruben M. Escobedo	75	Former Senior Partner at Ruben Escobedo & Co., CPAs	1996	32,875 ⁽⁴⁾	0.05%
Richard W. Evans, Jr.	66	Chairman of the Board, Chief Executive Officer and President of Cullen/Frost; Chairman of the Board and Chief Executive Officer of Frost Bank, a Cullen/Frost subsidiary	1993	940,145 ^(5,6)	1.53%

Table of Contents**Nominees for One-Year Term Expiring in 2014 (continued):**

Patrick B. Frost.	53	President, Frost Bank, a Cullen/Frost subsidiary	1997	945,693 ^(5,7)	1.54%
David J. Haemisegger	59	President, NorthPark Management Company	2008	2,199	0.00%
Karen E. Jennings	62	Former Senior Executive Vice President, Advertising and Corporate Communications, AT&T Inc.	2001	4,825	0.01%
Richard M. Kleberg, III.	70	Investments	1992	39,150 ⁽⁸⁾	0.06%
Charles W. Matthews	68	Former Vice President, General Counsel of Exxon Mobil Corporation	2010	3,019	0.00%
Ida Clement Steen	60	Investments	1996	4,325 ⁽⁹⁾	0.01%
Horace Wilkins, Jr.	62	Former President, Special Markets, AT&T Inc.; former Regional President, AT&T Inc.	1997	3,125	0.01%

- (1) Beneficial ownership is stated as of March 6, 2013. The owners have sole voting and sole investment power for the shares of Cullen/Frost Common Stock reported unless otherwise indicated. The amount beneficially owned also includes deferred stock units granted to each non-employee Director, with delivery of the underlying Cullen/Frost Common Stock deferred until that Director ceases to be a member of the Board of Directors. The number of shares of Cullen/Frost Common Stock beneficially owned by all Directors, nominees and executive officers as a group is disclosed on page 41.
- (2) Includes 54,050 shares held by a limited partnership of which Mr. Alexander is the general partner and 17,000 shares held by a charitable foundation for which Mr. Alexander disclaims beneficial ownership.
- (3) Includes (a) 74,118 shares held by three trusts of which Mr. Edwards is a trustee (b) 53,617 shares held by a trust of which Mr. Edwards is the trustee and for which voting and investment power rests with the majority of three trustees of the trust.
- (4) Includes 2,150 shares for which Mr. Escobedo shares voting and investment power with his wife.
- (5) Includes the following shares allocated under the 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc., for which each beneficial owner has both sole voting and sole investment power: Mr. Richard W. Evans, Jr. 54,283 and Mr. Patrick B. Frost 27,113.
- (6) Includes 120,003 shares held by a family limited partnership of which the general partner is a limited liability company of which Mr. Evans is the sole manager.

Edgar Filing: CULLEN/FROST BANKERS, INC. - Form DEF 14A

- (7) Includes (a) 707,493 shares held by a limited partnership of which the general partner is a limited liability company of which Mr. Frost is the sole manager (b) 3,855 shares held by Mr. Frost's children for which Mr. Frost is the custodian and (c) 630 shares held by Mr. Frost's wife for which Mr. Frost disclaims beneficial ownership. With respect to the 707,493 shares held by a limited partnership, Mr. Frost has sole voting rights over all shares, sole investment power over 70,749 shares and shared investment power over 636,744 shares.

- (8) Includes 8,400 shares held by a family partnership for which Mr. Kleberg has sole voting and sole investment power.

- (9) Includes 400 shares in two trusts for which Ms. Steen shares voting and investment power with her husband.

Table of Contents**GENERAL INFORMATION ABOUT THE BOARD OF DIRECTORS****Meetings and Attendance**

The Board of Directors had seven meetings in 2012. Each of Cullen/Frost's current Directors attended 75% or more of the meetings of the Board and the Committees of the Board on which he or she served during 2012.

The Board of Directors has a policy which encourages all Directors to attend the Annual Meeting of Shareholders, and in 2012 each of Cullen/Frost's current Directors attended the Annual Meeting of Shareholders.

Committees of the Board

The Board of Directors has five Committees, each of which is described in the chart below.

Committee	Members	Primary Responsibilities	Meetings in 2012
Audit	Ruben M. Escobedo (Chair) Royce S. Caldwell David J. Haemisegger Richard M. Kleberg, III	Assists Board oversight of the integrity of Cullen/Frost's financial statements, Cullen/Frost's compliance with legal and regulatory requirements, the independent auditors qualifications and independence, and the performance of the independent auditors and Cullen/Frost's internal audit function. Appoints, compensates, retains and oversees the independent auditors, and pre-approves all audit and non-audit services.	6
Compensation and Benefits	Royce S. Caldwell (Chair) Ruben M. Escobedo Karen E. Jennings Charles W. Matthews	Oversees the development and implementation of Cullen/Frost's compensation and benefits programs. Reviews and approves the corporate goals and objectives relevant to the compensation of the CEO, evaluates the CEO's performance based on those goals and objectives, and sets the CEO's compensation based on the evaluation. Oversees the administration of Cullen/Frost's compensation and benefits plans.	3
Corporate Governance and Nominating	Royce S. Caldwell (Chair) Ruben M. Escobedo Karen E. Jennings Charles W. Matthews	Maintains and reviews Cullen/Frost's corporate governance principles. Oversees and establishes procedures for the evaluation of the Board. Identifies and recommends candidates for election to the Board.	2
Executive	Richard W. Evans, Jr. (Chair) Royce S. Caldwell	Acts for the Board of Directors between meetings, except as limited by resolutions of the Board, Cullen/Frost's Articles of Incorporation or By-Laws, and	4

Patrick B. Frost

applicable law.

-6-

Table of Contents

Committee	Members	Primary Responsibilities	Meetings in 2012
Strategic Planning	Richard W. Evans, Jr. (Chair)	Analyzes the strategic direction for Cullen/Frost, including reviewing short-term and long-term goals.	4
	R. Denny Alexander		
	Carlos Alvarez	Monitors Cullen/Frost's corporate mission statement and capital planning.	
	Royce S. Caldwell		
	Charles W. Matthews		

The Board has adopted written charters for the Audit Committee, the Compensation and Benefits Committee and the Corporate Governance and Nominating Committee. All of these charters are available at www.frostbank.com or in print to any shareholder making a request by contacting the Corporate Secretary, Stan McCormick, at 100 West Houston Street, San Antonio, Texas 78205.

As described in more detail below under "Certain Corporate Governance Matters Director Independence," the Board has determined that each member of the Audit Committee, the Compensation and Benefits Committee and the Corporate Governance and Nominating Committee is independent within the meaning of the rules of the NYSE. The Board has also determined that each member of the Audit Committee is independent within the meaning of the rules of the SEC. In addition, the Board has determined that each member of the Audit Committee is financially literate and that at least one member of the Audit Committee has accounting or related financial management expertise, in each case within the meaning of the NYSE's rules. The Board has also determined that Mr. Ruben M. Escobedo is an audit committee financial expert within the meaning of the SEC's rules.

Leadership Structure

As provided in our Corporate Governance Guidelines, our Board selects its Chairman, Lead Director and CEO in a way that it considers to be in the best interests of Cullen/Frost. The Board does not have a policy on whether the role of Chairman and CEO should be separate or combined, but believes that the most effective leadership structure for Cullen/Frost is to combine these responsibilities. This structure avoids the potential confusion and conflict over who is leading the company, both within the company and when dealing with investors, customers and counterparties, and the duplication of efforts that can result from the roles being separated. The Board also believes that combining these roles in one person enhances accountability for the performance of Cullen/Frost. Furthermore, as Cullen/Frost has traditionally combined these roles (for some 30+ years now), separating them could cause significant disruption in oversight and lines of reporting. Nevertheless, depending upon the circumstances, the Board could choose to separate the roles of Chairman and CEO in the future.

To help ensure strong oversight by our non-management directors, our Audit Committee, Corporate Governance and Nominating Committee and Compensation and Benefits Committee are composed only of independent directors. In accordance with our Corporate Governance Guidelines, the Chair of the Corporate Governance and Nominating Committee acts as the Lead Director and presides at executive sessions of non-management directors and presents to the full Board any matters that may need to be considered by the full Board. Mr. Royce S. Caldwell, the current Lead Director, also is the Chair of the Compensation and Benefits Committee and is a member of several other Board committees. As a result, the Lead Director is fully informed of all activities of the Board and all of its committees. In addition to presiding at the executive sessions of the non-management directors, the Lead Director also reviews the agenda, schedule and materials for each Board Meeting and Board committee meeting and executive session, and facilitates communication between the non-management directors and the Chairman and CEO.

The Board is responsible for overseeing all aspects of management of Cullen/Frost, including risk oversight, which is effected primarily through the Audit Committee. Furthermore, certain members of the Board of Cullen/Frost also serves as the Board of Directors of Frost Bank, and as such receive regular reports on the operations of

Table of Contents

Frost Bank. The Board of Frost Bank has additional committees that are not committees of the Board of Cullen/Frost. These Frost Bank Board committees have a majority of independent directors and review risks and approve policy exceptions in lending and trust services. Each standing committee of the Boards of Cullen/Frost and Frost Bank has oversight responsibility for risks inherent within its area of oversight. The Audit Committee receives reports on, and reviews, the Bank's principal risk exposure, including financial reporting, credit, and liquidity risk. The Risk Committee of the Frost Bank Board receives reports on, and reviews the firm's credit and operational risk. Cullen/Frost management regularly discusses macro- and business-specific environmental factors with the Audit Committee and Risk Committee, as well as the potential impact of these factors on the risk profile (including the financial situation) of the Company. Cullen/Frost management also periodically reviews with the Board specific risk analyses, such as sensitivity and scenario analyses. In addition, the Audit Committee and Risk Committee receive written packages and detailed oral postings on various types of risk and other matters (which come from a combination of the Company's CEO, CFO, and Chief Risk Officer/Chief Credit Officer) at regularly scheduled meetings. The Board also interacts on a regular basis with executive officers, from both the control and line of business sides of Cullen/Frost. It is through these various channels that the Board seeks the information to oversee the Company's risk management.

Director Nomination Process

The Corporate Governance and Nominating Committee is responsible for identifying individuals qualified to become members of the Board of Directors and for recommending to the Board the nominees to stand for election as Directors.

In identifying Director candidates, the Corporate Governance and Nominating Committee may seek input from Cullen/Frost's management and from current members of the Board. In addition, it may use the services of an outside consultant, although it has not done so in the past. The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders. Shareholders who wish to recommend candidates may do so by writing to the Corporate Governance and Nominating Committee of Cullen/Frost Bankers, Inc., c/o Corporate Secretary, 100 West Houston Street, San Antonio, Texas 78205. Recommendations may be submitted at any time. The written recommendation must include the name of the candidate, the number of shares of Cullen/Frost Common Stock owned by the candidate and the information regarding the candidate that would be included in a proxy statement for the election of Directors pursuant to paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the SEC.

In evaluating Director candidates, the Corporate Governance and Nominating Committee initially considers the Board's need for additional or replacement Directors. It also considers the criteria approved by the Board and set forth in Cullen/Frost's Corporate Governance Guidelines, which include, among other things, the candidate's personal qualities (in light of Cullen/Frost's core values and mission statement), accomplishments and reputation in the business community, the fit of the candidate's skills and personality with those of other Directors and candidates and the ability of the candidate to commit adequate time to Board and committee matters. The objective is to build a Board that is effective, collegial and responsive to the needs of Cullen/Frost and that includes a diversity of viewpoints, background, experience and other demographics. In addition, considerable emphasis is given to Cullen/Frost's mission statement and core values, statutory and regulatory requirements, and the Board's goal of having a substantial majority of independent directors.

The Corporate Governance and Nominating Committee evaluates all Director candidates in the same manner, including candidates recommended by shareholders. In considering whether candidates satisfy the criteria described above, the committee will initially utilize the information it receives with the recommendation it otherwise possesses. If it determines, in consultation with other Board members, including the Chairman, that more information is needed, it may, among other things, conduct interviews.

Table of Contents**2012 Director Compensation***2012 Director Compensation Table*

Name ⁽¹⁾	Fees earned or paid in cash ⁽²⁾ (\$)	Stock Awards ⁽³⁾ (\$)	Option Awards ⁽⁴⁾ (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other	Total (\$)
R. Denny Alexander	69,000	29,972				98,972
Carlos Alvarez	67,000	29,972				96,972
Royce S. Caldwell	103,500	29,972				133,472
Crawford H. Edwards	80,000	29,972				109,972
Ruben M. Escobedo	87,500	29,972				117,472
David J. Haemisegger	72,000	29,972				101,972
Karen E. Jennings	85,000	29,972				114,972
Richard M. Kleberg, III	76,000	29,972				105,972
Charles W. Matthews	77,000	29,972				106,972
Ida Clement Steen	79,500	29,972				109,472
Horace Wilkins, Jr.	91,500	29,972				121,472

- Mr. Evans, Cullen/Frost's Chief Executive Officer, is not included in this table because he is a Named Executive Officer of Cullen/Frost and receives no compensation for his service as a Director. For further information on the compensation paid to Mr. Evans, as well as his holdings of stock awards and option awards, see the Summary Compensation Table and the Grants of Plan-Based Awards Table. Mr. Frost, the President of Frost Bank is not included in this table because he is an executive officer of Cullen/Frost and receives no compensation for his services as a Director.
- Amounts shown as Fees Earned or Paid in Cash represent fees paid for serving both on the boards of Cullen/Frost and of Frost Bank.
- Amounts shown represent the grant date fair value of Deferred Stock Units granted to the non-employee Directors during 2012. Each non-employee Director was granted 512 Deferred Stock Units on April 26, 2012. The grant date fair value of each Deferred Stock Unit was \$58.54, which was the closing price of Cullen/Frost's stock on that day.
- The following information indicates the aggregate number of option awards previously awarded and outstanding for the following directors as of December 31, 2012:

R. Denny Alexander 2,000;

Carlos Alvarez 2,000;

Royce S. Caldwell 0;

Crawford H. Edwards 2,000;

Ruben M. Escobedo 0;

David J. Haemisegger 0;

Karen E. Jennings 2,000;

Table of Contents

Richard M. Kleberg, III 2,000;

Charles W. Matthews 0;

Ida Clement Steen 2,000; and

Horace Wilkins, Jr. 0.

Cullen/Frost employees receive no fees for their services as members of the Board of Directors or any of its committees. Non-employee Directors receive an annual retainer fee of \$38,000 and a fee of \$4,000 for each Cullen/Frost Board meeting attended. In addition, non-employee Directors receive \$1,000 for attending each meeting of a committee of the Board to which they have been appointed, except that the Chairman of the Audit Committee receives \$1,500 for each meeting of the Audit Committee attended and all non-employee Committee Chairs receive an annual retainer fee of \$7,500. Non-employee Directors are also eligible to receive stock-based compensation each year under Cullen/Frost's 2007 Outside Directors Incentive Plan. In April 2012, each non-employee Director in office at that time received 512 deferred stock units. Upon retirement from Cullen/Frost's Board of Directors, non-employee directors will receive one share of Cullen/Frost's Common Stock for each deferred stock unit held. The deferred stock units were fully vested upon being awarded and will receive equivalent dividend payments as such dividends are declared on Cullen/Frost's Common Stock.

In addition, Cullen/Frost Directors Crawford H. Edwards, Richard W. Evans, Jr. Patrick B. Frost, Karen E. Jennings and Horace Wilkins Jr., also serve as the Board of Directors for Frost Bank, a subsidiary of Cullen/Frost.

Other Directorships

The following are directorships held by nominees and Directors in public companies other than Cullen/Frost or in registered investment companies:

Mr. Escobedo	Valero Energy Corporation
Mr. Matthews	Trinity Industries, Inc. and Forestar Group, Inc.
Mr. Wilkins	U.S. Sugar

Director Qualifications

All members of our Board have worked for all or substantial parts of their careers in Texas and have significant knowledge of the markets that we serve and extensive ties to local community and business leaders. Below is additional information about the qualifications of our Directors.

R. Denny Alexander

Director since 1998

During the past five years, Mr. Alexander's principal occupation has been managing investments. Until 1998, he was the Chairman of Overton Bank & Trust and a Director of Overton Bancshares, Inc., a company which merged with Cullen/Frost. It is because of his experience in banking and wealth management, as well as his knowledge of the communities we serve, that the Board has concluded that Mr. Alexander should continue serving on the Board.

Table of Contents

Carlos Alvarez **Director since 2001**

Since 1986, Mr. Alvarez has been the Chairman and Chief Executive Officer of the Gambrinus Company, a highly successful brewer and beer distributor in San Antonio, Texas. Mr. Alvarez has extensive experience in all facets of the business, including a strong background in operations and sales. He has an exceptional understanding of the role marketing strategy and branding plays in the success of a company. It is because of his business acumen, as well as his knowledge of the communities we serve, that the Board has concluded that Mr. Alvarez should continue serving on the Board.

Royce S. Caldwell **Director since 1994**

Until 2002, Mr. Caldwell was the Vice Chairman of AT&T, Inc. During his tenure with AT&T, he served as Chief Operating Officer and a Director, as well as Chairman and Chief Executive Officer of Ameritech, Pacific Bell Corp., Southern New England Corp., and Prodigy Corp. Mr. Caldwell also served as President and Chief Executive Officer of Southwestern Bell Corp. Until 2007, Mr. Caldwell was a Director of the Sabre Holdings Corporation, a travel marketing, distribution and technology company. It is because of his experience in business operations, management and telecommunications experience and years of experience at Cullen/Frost, as well as his knowledge of the communities we serve, that the Board has concluded that Mr. Caldwell should continue serving on the Board.

Crawford H. Edwards **Director since 2005**

Since 2005, Mr. Edwards has been the President of Cassco Land Co., Inc. and has been engaged in the investment and management of commercial real estate, agribusiness and oil and gas, and because of this experience, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Edwards should continue serving on the Board.

Ruben M. Escobedo **Director since 1996**

Until 2010, Mr. Escobedo had been a certified public accountant for 47 years. He was Senior Partner at Ruben Escobedo & Co., CPAs. Mr. Escobedo is also a Director, Chairman of the Audit Committee, and a member of the Executive Committee at Valero Energy Corporation. It is because of his extensive and varied accounting experience and years of experience at Cullen/Frost, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Escobedo should continue serving on the Board.

Richard W. Evans, Jr. **Director since 1993**

Mr. Evans has been the Chairman of the Board, Chief Executive Officer and President of Cullen/Frost since 1997. Mr. Evans is also the Chairman of the Board and Chief Executive Officer of Frost Bank. He is a member of the Federal Advisory Council to the Board of Governors of the Federal Reserve System in Washington, D.C. and a former member of the Board of Directors of the Federal Reserve Bank of Dallas. It is because of his experience in banking and years of experience at Cullen/Frost, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Evans should continue serving on the Board.

Patrick B. Frost **Director since 1997**

Since 1993, Mr. Frost has been the President of Frost Bank. He is the Chairman of the Audit Committee of the University of Texas Health Science Center, Chairman of the San Antonio Bowl Association, Chairman of the Cancer Therapy Research Center Board of Governors and Treasurer of the Christus Santa Rosa Children's Hospital Foundation. It is because of his experience in banking and his many years at Cullen/Frost, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Frost should continue serving on the Board.

Table of Contents

David J. Haemisegger **Director since 2008**

Since 1995, Mr. Haemisegger has been the President of the NorthPark Management Company, which manages NorthPark Center, a major shopping mall in Dallas, Texas. He is a member of the Board of Trustees and the Audit and Finance Committees at the Nasher Foundation and the Nasher Sculpture Center. Mr. Haemisegger is also a member of the Board of Trustees and the Finance and Executive Committees at the Hockaday School. In addition, Mr. Haemisegger is a member of the Board of Trustees and the Finance Committee at the Dallas Museum of Art and a former member of the Board of Directors and the Audit, Loan and Executive Committees of the NorthPark National Bank. It is because of his experience in banking and real estate, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Haemisegger should continue serving on the Board.

Karen E. Jennings **Director since 2001**

Until 2007, Ms. Jennings was the Senior Executive Vice President of Advertising and Corporate Communications of AT&T, Inc. During her tenure at AT&T, she also held the position of Senior Executive Vice President of Human Resources, Senior and Corporate Communications, and President Missouri for Southwestern Bell Telephone Company. It is because of her experience in business operations, management and telecommunications experience, as well as her knowledge of the communities we serve, that our Board has concluded that Ms. Jennings should continue serving on the Board.

Richard M. Kleberg III **Director since 1992**

During the past 30 years, Mr. Kleberg has been President and the Managing Partner of SFD Enterprises, LLC, a private investment partnership. He has over 30 years of experience in the banking business as a Director or part of an ownership group. He served on the Board and Audit Committee of the Abraxas Petroleum Corporation, a public company, for 16 years; as a Director and on various committees, including the Audit Committee, of Kleberg First National Bank for a period of approximately 18 years; as a Director and as a member of various committees, including the Investment/Finance and Compensation Committee of the King Ranch, Inc., for 14 years; and as a member of the Trinity University Board of Trustees and various committees, including the Finance Committee for over 25 years. In addition, he was a commercial lending officer at Frost Bank for ten years. It is because of his experience in banking and his years of experience at Cullen/Frost, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Kleberg should continue serving on the Board.

Charles W. Matthews **Director since 2010**

Until 2010, Mr. Matthews was the Vice President and General Counsel of Exxon Mobil Corporation, having served in the law department for over 30 years. He continues to practice law and is a member of the Board of Trinity Industries, Inc., Forestar Group, Inc. and Children's Medical Center of Dallas. Mr. Matthews is Chair of the University of Texas Development Board and is a member of the University of Texas System Foundation. It is because of his experience in corporate governance and the in-depth knowledge of the opportunities and challenges facing energy companies, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Matthews should continue serving on the Board.

Ida Clement Steen **Director since 1996**

Ms. Steen has investment experience derived from managing personal holdings for the past 30 years. She has also served on the Committee of Finance and acted as special liaison to the Texas Growth Fund Board for the Board of Regents of the Texas A&M University System. It is because of her experience in investing and her years of experience at Cullen/Frost, as well as her knowledge of the communities we serve, that our Board has concluded that Ms. Steen should continue serving on the Board.

Table of Contents

Horace Wilkins, Jr.

Director since 1997

Until 2000, Mr. Wilkins was the President of Special Markets at AT&T, Inc. and a Regional President of AT&T, Inc. He is a member of the Board and Compensation and Benefits Committee of U.S. Sugar. It is because of his experience in business operations, management and telecommunications experience and his years of experience at Cullen/Frost, as well as his knowledge of the communities we serve, that our Board has concluded that Mr. Wilkins should continue serving on the Board.

Miscellaneous Information

There are no arrangements or understandings between any nominee or Director of Cullen/Frost and any other person regarding such nominee's or Director's selection as such.

CERTAIN CORPORATE GOVERNANCE MATTERS

Cullen/Frost believes that it has operated over the years with sound corporate governance practices that exemplify its commitment to integrity and to protect both the interests of its shareholders and the other constituencies that it serves. These practices include a substantially independent Board of Directors, periodic meetings of non-management Directors, and a sound and comprehensive code of conduct, which obligates Directors and all employees to adhere to the highest legal and ethical business practices. A review of some of Cullen/Frost's corporate governance measures is set forth below.

Director Independence

The Board of Directors believes that a substantial majority of its members should be independent within the meaning of the NYSE's rules. To this end, the Board reviews annually the relevant facts and circumstances regarding relationships between Directors and Cullen/Frost. The purpose of the Board's review is to determine whether any Director has a material relationship with Cullen/Frost (either directly or as a partner, shareholder or officer of an organization that has a relationship with Cullen/Frost).

In connection with the Board's latest review, the Board determined that the following Directors, who compose 85% of the Board, are independent within the meaning of the NYSE's rules: Mr. R. Denny Alexander, Mr. Carlos Alvarez, Mr. Royce S. Caldwell, Mr. Crawford H. Edwards, Mr. Ruben M. Escobedo, Mr. David J. Haemisegger, Ms. Karen E. Jennings, Mr. Richard M. Kleberg, III, Mr. Charles W. Matthews, Ms. Ida Clement Steen and Mr. Horace Wilkins, Jr. Mr. Richard W. Evans, Jr. and Mr. Patrick B. Frost are not independent because they are executive officers of Cullen/Frost.

In making its independence determinations, the Board considers the NYSE's rules, as well as the standards set forth below. The Board adopted these standards pursuant to the NYSE's rules to assist in making independence determinations. For purposes of the standards, the term Cullen/Frost Entity means, collectively, Cullen/Frost and each of its subsidiaries.

Credit Relationships. A proposed or outstanding relationship that consists of an extension of credit by a Cullen/Frost Entity to a Director or a person or entity that is affiliated, associated or related to a Director should not be deemed to be a material relationship if it satisfies each of the following criteria:

It is not categorized as "classified" by the Cullen/Frost Entity or any regulatory authority that supervises the Cullen/Frost Entity.

It is made on terms and under circumstances, including credit standards, that are substantially similar to those prevailing at the time for comparable relationships with other unrelated persons or entities and, if subject to the Federal Reserve Board's Regulation O (12 C.F.R. Part 215), is made in accordance with Regulation O.

Table of Contents

In the event that it was not made, in the case of a proposed extension of credit, or it was terminated in the normal course of the Cullen/Frost Entity's business, in the case of an outstanding extension of credit, the action would not reasonably be expected to have a material adverse effect on the Director or the business, results of operations or financial condition of any person or entity related to such Director.

The Board of Directors determined that credit relationships with each of our independent Directors satisfied these criteria.

Non-Credit Banking or Financial Products or Services Relationships. A proposed or outstanding relationship in which a Director or a person or Entity that is affiliated, associated or related to a Director procures non-credit banking or financial products or services from a Cullen/Frost Entity should not be deemed to be a material relationship if it (i) has been or will be offered in the ordinary course of the Cullen/Frost Entity's business and (ii) has been or will be offered on terms and under circumstances that were or are substantially similar to those prevailing at the time for comparable non-credit banking or financial products or services provided by the Cullen/Frost Entity to other unrelated persons or entities. The Board of Directors determined that non-credit banking or financial products or services relationships with each of our independent Directors satisfied these criteria.

Property or Services Relationships. A proposed or outstanding relationship in which a Director or a person or Entity that is affiliated, associated or related to a Director provides property or services to a Cullen/Frost Entity should not be deemed to be a material relationship if the property or services (i) have been or will be procured in the ordinary course of the Cullen/Frost Entity's business and (ii) have been or will be procured on terms and under circumstances that were or are substantially similar to those that the Cullen/Frost Entity would expect in procuring comparable property or services from other unrelated persons or entities. The Board of Directors determined that the lease payments to companies in which Mr. R. Denny Alexander and Mr. Crawford H. Edwards have interests, as further described under Certain Transactions and Relationships on page 42, below, satisfied these criteria.

Meetings of Non-Management Directors

Cullen/Frost's non-management Directors meet in executive sessions without members of management present at each regularly scheduled meeting of the Board. The Lead Director and Chair of the Board's Corporate Governance and Nominating Committee, who is currently Mr. Royce S. Caldwell, presides at the executive sessions.

Communications with Directors

The Board of Directors has established a mechanism for shareholders or other interested parties to communicate with the non-management Directors as a group and with the presiding non-management Lead Director. All such communications, which can be anonymous or confidential, should be addressed to the Board of Directors of Cullen/Frost Bankers, Inc., c/o Corporate Counsel, 100 West Houston Street, San Antonio, Texas 78205.

In addition, the Board of Directors has established a mechanism for shareholders or other interested parties that have concerns or complaints regarding accounting, internal accounting controls or auditing matters to communicate them to the Audit Committee. Such concerns or complaints, which can be anonymous or confidential, should be addressed to the Audit Committee of Cullen/Frost Bankers, Inc., c/o Corporate Counsel, 100 West Houston Street, San Antonio, Texas 78205.

For shareholders or other interested parties desiring to communicate with the non-management Directors, the presiding non-management Lead Director or the Audit Committee by e-mail, telephone or U.S. mail, please see the information set forth on Cullen/Frost's website at www.frostbank.com. Alternatively, any shareholder or

Table of Contents

other interested party may communicate in writing by contacting the Corporate Secretary, Stan McCormick, at 100 West Houston Street, San Antonio, Texas 78205. These communications can be anonymous or confidential.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines, which reaffirm Cullen/Frost's commitment to having strong corporate governance practices. The Guidelines set forth, among other things, the policies of the Board with respect to Board composition, selection of Directors, retirement of Directors, Director orientation and continuing training, executive sessions of non-management Directors, Director compensation and Director responsibilities. The Guidelines are available on Cullen/Frost's website at www.frostbank.com or in print, to any shareholder making a request by contacting the Corporate Secretary, Stan McCormick, at 100 West Houston Street, San Antonio, Texas 78205.

Code of Business Conduct and Ethics

The Board of Directors has adopted a Code of Business Conduct and Ethics to promote the highest legal and ethical business practices by Cullen/Frost. The Code applies to Directors and Cullen/Frost employees, including Cullen/Frost's Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code addresses, among other things, honest and ethical conduct, accurate and timely financial reporting, compliance with applicable laws, accountability for adherence to the Code and prompt internal reporting of violations of the Code. The Code prohibits retaliation against any Director, officer or employee who in good faith reports a potential violation. The Code is available on Cullen/Frost's website at www.frostbank.com or in print, to any shareholder making a request by contacting the Corporate Secretary, Stan McCormick at 100 West Houston Street, San Antonio, Texas 78205. As required by law, Cullen/Frost will disclose any amendments to or waivers from the Code that apply to its Chief Executive Officer, Chief Financial Officer and principal accounting officer by posting such information on its website at www.frostbank.com.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation and Benefits Committee Governance

Charter. The Compensation and Benefits Committee's charter is posted on Cullen/Frost's website at www.frostbank.com.

Scope of authority. The primary function of the Compensation and Benefits Committee (the Committee) is to assist the Board in fulfilling its oversight responsibility with respect to:

- A. establishing, in consultation with senior management, Cullen/Frost's general compensation philosophy, and overseeing the development of Cullen/Frost's compensation and benefits programs;
- B. overseeing the evaluation of Cullen/Frost's executive management;
- C. reviewing and approving the corporate goals and objectives relevant to the compensation of the CEO, evaluating the performance of the CEO in light of those goals and objectives and setting the CEO's compensation level based on this evaluation;
- D. making recommendations to the Board with respect to, and if appropriate under the circumstances, approving on behalf of the Board, non-CEO Executive Officer compensation and any adoption of or amendment to a material compensation or benefit plan, including any incentive compensation plan or equity based plan;

- E. discharging any duties or responsibilities imposed on the Committee by any of Cullen/Frost's compensation or benefit plans;

Table of Contents

- F. providing oversight of regulatory compliance with respect to compensation matters;
 - G. reviewing and making recommendations to the Board with respect to the components and amount of Board compensation in relation to other similarly situated companies. The Board retains the authority to set director compensation and to make changes to director compensation;
 - H. preparing any report or other disclosure required to be prepared by the Committee for inclusion in Cullen/Frost's annual proxy statement in accordance with applicable rules and regulations of the Securities and Exchange Commission; and
 - I. preparing a summary of the actions taken at each Committee meeting to be presented to the Board at the next Board meeting.
- Delegation authority.* While the Committee approves the annual normal grant of stock options and restricted stock/restricted stock units to officers, it delegates authority to the CEO to allocate a specified pool of stock options to address special needs as they arise.

Role of executive officers. After consulting with management's compensation consultant, and with the Committee's compensation consultant, the CEO recommends to the Committee base salary, target bonus levels, actual bonus payments and long-term incentive grants for Company officers. The Committee considers, discusses and modifies the CEO's recommendations, as appropriate, and takes action on such proposals. The CEO does not make recommendations to the Committee on his own pay levels. The Committee, in executive session and without members of Company management present, determines the pay levels for the CEO to be ratified by the Board of Directors.

Role of compensation consultants. Beginning in 2005, the Committee directly retained Aon Hewitt as its outside compensation consultant. During the course of 2010, the Committee, along with senior management, began to consider the benefits of retaining two different independent outside compensation consultants, one to advise the Committee and a separate one to advise management. On October 1, 2010, the Committee engaged Meridian Compensation Partners, LLC (Meridian) to serve as its outside compensation consultant. Management continues to retain Aon Hewitt as its outside compensation consultant.

The role of the Committee's independent consultant, Meridian, is to serve and assist the Committee in its review and oversight of executive and director compensation practices. The role of management's consultant, Aon Hewitt, is to assist the CEO and company management in reviewing, assessing, and developing recommendations for the Company's executive compensation programs.

The nature and scope of services rendered by Meridian on the Committee's behalf is described below:

Review of competitive market pay analyses, as needed, including executive compensation benchmarking services, proxy data studies, Board of Director pay studies, dilution analyses, and market trends;

Ongoing support with regard to the latest relevant regulatory, technical, and/or accounting considerations impacting compensation and benefit programs;

Assistance with the redesign of any compensation or benefit programs, if desired/needed;

Edgar Filing: CULLEN/FROST BANKERS, INC. - Form DEF 14A

Preparation for and attendance at selected management, committee, or Board of Director meetings; and

Other miscellaneous requests that occur throughout the year.

The Committee did not direct Meridian to perform the above services in any particular manner or under any particular method. The Committee has the final authority to hire and terminate its consultant, and the Committee evaluates the consultant annually.

Meridian did not provide any services for the Committee or the Company outside of the compensation consulting services outlined above.

Table of Contents

In its January 2013 meeting, the Committee reviewed the independence of Meridian as its consultant. Specifically, the Committee took into account the six independence factors as adopted by the SEC in Rule 10C-1 under the Exchange Act and applicable NYSE rules. The Committee determined that Meridian is an independent adviser to the Committee.

As previously mentioned, Aon Hewitt serves as consultant to management, providing services to management similar to those Meridian provides to the Committee. Neither the Committee nor management directed Aon Hewitt to perform services in any particular manner or under any particular method. Management retains the final authority to hire and terminate its consultant. Management evaluates its consultant annually.

Both the Committee's Meridian consultant and the Company's Aon Hewitt consultant attended all of the Committee meetings in 2012 and assisted the Committee with the market data and an assessment of executive compensation levels and program design, CEO compensation, and support on various regulatory and technical issues.

Compensation and Benefits Committee Interlocks and Insider Participation

Some of the members of the Compensation and Benefits Committee, and some of their associates, are current or past customers of one or more of Cullen/Frost's subsidiaries. Since January 1, 2012, transactions between these persons and such subsidiaries have occurred, including borrowings. In the opinion of management, all of the transactions have been in the ordinary course of business, have had substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender, and did not involve more than the normal risk of collectability or present other unfavorable features. Additional transactions may take place in the future.

Compensation and Benefits Committee Report

The Compensation and Benefits Committee has reviewed and discussed the *Compensation Discussion and Analysis* with management. Based on our review and discussions, we have recommended to the Board of Directors that the *Compensation Discussion and Analysis* be included in this proxy statement and incorporated by reference into Cullen/Frost's Annual Report on Form 10-K for the year ended December 31, 2012.

Royce S. Caldwell, Committee Chairman

Ruben M. Escobedo

Karen E. Jennings

Charles W. Matthews

Compensation Discussion and Analysis

Executive Summary

We are a financial holding company, headquartered in San Antonio, Texas, with well over 100 financial centers throughout Texas. We provide a wide range of banking, investment and insurance services to businesses and individuals in the Austin, Corpus Christi, Dallas, Fort Worth, Houston, Rio Grande Valley and San Antonio regions. Founded in 1868, we have helped clients with their financial needs during three centuries. Over the years, we've grown a lot, but what hasn't changed is our commitment to our values and to the relationships we've forged. Those relationships include our employees. We believe a key factor in our success is consistency—consistency in culture, philosophy, management and executive pay philosophy and practices.

At Cullen/Frost, we enjoy a strong history of sound and profitable performance. We believe everyone is significant at our Company and successful performance occurs when everyone works together as a team with common goals. As a result, our executive rewards programs tend to focus on total company success. At Cullen/

Table of Contents

Frost, we believe in providing a square deal for our shareholders, customers and employees. Therefore, we benchmark our executive rewards, at target, at approximately the 50th percentile of the external market while taking into account various other factors, including market conditions, company performance, internal equity, and individual experience levels, among other things. Because we believe our Company to be a safe and sound place to do business, we strive to avoid excessive risk, and do not offer executive rewards programs that would encourage the taking of such risks. Further, the consistency and continuity of management serves to enhance our conservative risk profile. The average tenure with the Company of the five Named Executive Officers included in this proxy statement is in excess of 33 years. Finally, we believe we offer executive rewards that align management and shareholder interests.

2012 was a great year for Cullen/Frost. Our Company experienced strong earnings of \$238 million, exceeding budgeted expectations.

During 2012, the following decisions were made concerning compensation of the Named Executive Officers:

Increases to base pay approximating 10% on average, effective January 1, 2013;

Annual bonus payments for 2012 performance paid in 2013, exceeding target by 5% due to the strong financial performance of our Company which exceeded budgeted expectations; and

Long-term incentive award grants consisting of stock options and restricted stock/restricted stock units at value levels generally consistent with prior years.

We believe that our executive rewards programs successfully balance elements of fixed compensation, short- and long-term incentives and benefit programs consistent with our core values of integrity, caring and excellence.

2012 Say On Pay Vote

The 2012 Annual Shareholders Meeting was held on April 26. This marked the second annual Say on Pay vote by shareholders of Cullen/Frost. The shareholders overwhelmingly showed their approval of the Company's executive pay programs with 95% of all votes cast being in favor of approval of the executive pay programs. The Committee and the Board were very appreciative of the positive vote and the strong message it delivered. The strong shareholder support has reaffirmed the Committee's approach to executive compensation philosophy and programs. Accordingly, for 2012, the Committee has continued to administer the same conservative reward programs and to demonstrate the same consistent pay philosophies that have been in place historically.

Introduction

This discussion is included to provide the material information necessary to understand the objectives and policies of Cullen/Frost's compensation program for the CEO, the CFO and the other three most highly compensated executive officers of Cullen/Frost (collectively, the Named Executive Officers) and to describe how these policies were implemented for 2012 performance:

Richard W. Evans, Jr.	<i>Chairman of the Board, Chief Executive Officer, and President of Cullen/Frost; Chairman of the Board and Chief Executive Officer of Frost Bank</i>
Phillip D. Green	<i>Group Executive Vice President and Chief Financial Officer of Cullen/Frost; Group Executive Vice President and Chief Financial Officer of Frost Bank</i>
David W. Beck, Jr.	<i>President and Chief Business Banking Officer of Frost Bank</i>
Richard Kardys	<i>Group Executive Vice President and Executive Trust Officer of Frost Bank</i>
Paul Bracher	<i>President and Executive Officer of Statewide Functions of Frost Bank</i>

Table of Contents

Objectives of the Compensation Program

The Cullen/Frost compensation program is administered by the Compensation and Benefits Committee (Committee). The objectives of the program are to:

Reward current performance;

Motivate future performance;

Encourage teamwork;

Remain competitive as compared to the external marketplace;

Maintain a position of internal equity among our executive management team;

Effectively retain Cullen/Frost's executive management team; and

Increase shareholder value by strategically aligning executive management and shareholder interests.

Design of the Total Compensation Program and Overview of Compensation Decisions made in 2012

Pay Philosophy

In general, it is Cullen/Frost's compensation philosophy to target aggregate executive compensation at the 50th percentile of the external market (as described below). Actual compensation paid to executives reflects the Company's performance versus market and therefore may fall above or below the 50th percentile in a given year. In addition to external competitiveness, the Committee evaluates the following factors when making compensation decisions for executive officers:

Performance (Company, segment and individual);

Internal equity;

Experience;

Strategic importance;

Technical implications such as tax, accounting, and shareholder dilution; and

Advice from the independent compensation consultants.

The Committee does not assign a specific weighting to these factors and may exercise its discretion when making compensation decisions for Named Executive Officers.

When reviewing the components of the compensation program, the Committee, together with Mr. Evans and the Director of Human Resources, works to ensure the total package is competitive with the external marketplace and remains balanced from an internal equity standpoint. However, it is the total package that should be competitive, and not necessarily the individual elements.

Mr. Evans makes recommendations to the Committee on the pay levels of his direct reports for the Committee's review and approval. Mr. Evans does not make recommendations to the Committee on his own pay levels. The Committee, in executive session and without members of Company management present, determines the pay levels for Mr. Evans to be ratified by the Board of Directors.

The Committee does not maintain a stated policy with regard to cash versus non-cash compensation. However, the allocation of cash and non-cash compensation for each of the Named Executive Officers is reviewed annually.

In general, the Committee does not take into account amounts realizable from prior compensation when making future pay decisions. However, grant date amounts and values are contemplated, particularly when establishing long-term incentive award grants.

Table of Contents

The Committee reviews a total compensation tally sheet for Mr. Evans annually. Cullen/Frost uses the tally sheet to inform the Committee on Mr. Evans' total compensation and accumulated wealth from the Company's equity and retirement benefit plans.

In light of the volatility in the U.S. financial markets in the last several years and the concern over executive compensation among financial institutions, the Committee has taken the additional measure of meeting annually with senior officers, including the Chief Risk Officer, as well as the Committee's compensation consultant and Management's compensation consultant, to discuss the risk profile of our total executive compensation program for Named Executive Officers. For 2012, the Committee determined that the total compensation program, which balances fixed compensation (base pay and retirement benefits) and various forms of shorter- and longer-term incentive pay (annual cash bonus and equity compensation), did not encourage excessive or unnecessary risks.

Benchmarking and Peer Companies

Under the direction of the Committee, Cullen/Frost, together with the Committee's independent external compensation consultant and management's independent external compensation consultant, conducts annual benchmarking of base pay, annual incentive pay, and long-term incentive pay. The competitiveness of other forms of pay is reviewed on a periodic basis, as determined by the Committee.

External market data is provided by the Company's independent external compensation consultant, Aon Hewitt, and is reviewed by the Committee's independent external compensation consultant, Meridian Compensation Partners, LLC. The Committee believes that the external market should be defined as peer companies in the banking industry of a similar asset size to Cullen/Frost. For 2012, Aon Hewitt provided market data collected from public filings for the following 15 companies:

Associated Banc-Corp	Commerce Bancshares, Inc.	SVB Financial Group
Bancorpsouth Inc.	First Horizon National Corporation	Synovus Financial Corporation
Bank of Hawaii Corporation	Firstmerit Corporation	TCF Financial Corporation
Cathay General Bancorp	Fulton Financial Corporation	Valley National Bancorp
City National Corporation	Susquehanna Bancshares, Inc.	Webster Financial Corporation

The peer group used in 2012 was the same as the group used in 2011. The 2012 peer group was developed based on the following criteria:

Size Companies with assets comparable to Cullen/Frost, where the Company would approximate the peer group median. The median asset size of the peer group listed above is \$18.7 billion as of December 31, 2011 as compared to Cullen/Frost's asset size of \$20.3 billion as of that same date.

Industry Companies in the commercial banking industry sector.

Locality Commercial banks headquartered across the United States.

Sample Size A peer group with 15-20 companies.

Additionally, market data was collected by Aon Hewitt from multiple published survey sources representing national financial institutions of a similar asset size to Cullen/Frost. The Committee believes that the combination of peer company data and survey data reflects Cullen/Frost's external market for business and executive talent. Accordingly, the Committee uses both of these sources when targeting Cullen/Frost's executive target aggregate compensation at the 50th percentile of the external market. The Committee does not utilize any stated weighting of external market data relative to other factors to determine compensation levels of the Named Executive Officers. Instead, the Committee, in consultation with Meridian Compensation Partners, evaluates the market data prepared by Aon Hewitt, along with the other factors listed previously to determine the appropriate compensation levels of the Named Executive Officers on an individual basis.

Table of Contents

Relation of Pay Practices to Risk Management

Key elements of Cullen/Frost's mission are to build long-term relationships based on safe, sound assets. In support of its mission, our Company has long adhered to compensation policies and practices that are designed to support strong risk management. We pay base salaries to our employees that are competitive and that represent a significant portion of their compensation and, therefore, do not encourage excessive risk taking to increase compensation. We believe that our Company generally pays a greater share of total compensation to our employees in base salary than do our competitors. Cash incentive compensation, which represents a small percentage of the Company's total revenue, is awarded to many employees within Cullen/Frost to encourage excellence in delivering value to our customers and sustained superior financial performance to our shareholders. As our Company is dedicated to relationship banking, incentives for business line employees typically emphasize such factors as the level of client contact and success in meeting clients' overall needs, as well as production volume. We also note that our employees as a group, through long-term equity-based awards and investment in Company stock under the 401(k) Plan (described below) for Employees of Cullen/Frost and other holdings, are significant holders of Cullen/Frost stock. The Committee therefore does not believe that our compensation policies and practices encourage taking excessive or unnecessary risk. We regularly review all plans identified by human resources officers as potentially creating risk, regardless of magnitude, particularly with respect to executive officers. Based on the structure of our Company's longstanding compensation policies and practices, the Committee believes that those compensation policies and practices are not reasonably likely to have a material adverse effect on Cullen/Frost.

Elements of the Compensation Program

To ensure achievement of the program objectives, compensation is provided to the Named Executive Officers in the following elements:

Base Pay;

Annual Incentive Pay;

Long-Term Incentive Pay;

Benefits;

Perquisites; and

Post-Termination Pay.

The purpose, design, determination of amounts, and 2012 pay decisions are described below.

Base Pay

Base pay is an important element of executive compensation because it provides executives with a base level of monthly income. As discussed in the Pay Philosophy section, internal and external equity, performance, experience, and other factors are considered when establishing base salaries. The Committee does not assign a specific weighting to these factors when making compensation decisions. Base salary changes are generally approved in October of each year and are effective January 1st of the following year. No specific weighting is targeted for base salaries as a percentage of total compensation.

Edgar Filing: CULLEN/FROST BANKERS, INC. - Form DEF 14A

During its Fall 2012 meeting in October, the Committee approved base pay increases for Mr. Evans and the other Named Executive Officers. The increases were based on external market data, internal equity, and each individual's performance. The Committee observed that prior to the increases,

the base pay of Mr. Evans was slightly below the 50th percentile of the external market;

the base pay of Mr. Green was between the 50th percentile and the 75th percentile of the external market; and

the base pay levels for the remaining Named Executive Officers was approximately equal to the 50th percentile of the external market.

Table of Contents

The base pay increases approved by the Committee became effective January 1, 2013 and approximated an average of 10% of existing base pay, ranging from 4.1% to 12.5%. Base pay levels for 2012 can be seen in the Summary Compensation Table.

Annual Incentive Pay

Annual incentive pay is provided to Named Executive Officers to recognize achievement of annual financial targets and is paid in accordance with the quantitative and qualitative terms of the Bonus Plan for the Chief Executive Officer and the Executive Management Bonus Plan, which covers the other Named Executive Officers. This award is paid in the form of a cash bonus.

The Bonus Plan for the Chief Executive Officer differs from that of the other Named Executive Officers. Both bonus plans are described in the sections that follow.

Bonus Plan for the Chief Executive Officer

Annually, during its first-quarter meeting, the Committee establishes a cap tied to net income for the Chief Executive Officer's bonus, thereby directly relating the reward of the executive to the performance of Cullen/Frost. This measurement has historically been 0.8% of net income. After the close of the fiscal year, the Committee then exercises only downward discretion to arrive at a bonus payment amount to Mr. Evans. Traditionally, the Committee has not paid a bonus at the full 0.8% of fiscal year net income, but closer to a target of 90% of his base salary earnings.

For 2012, the Committee again approved a cap of 0.8% of fiscal year net income for Mr. Evans' bonus. To determine the bonus payment amount, the Committee exercises downward discretion based on the following qualitative measures approved by the Committee.

Performance Measures	Description
Operating Results	<i>Provides direction to ensure that Cullen/Frost meets its financial goals, both in terms of achieving budgetary results and in its commitment to performance compared to its peers.</i>
Leadership	<i>Leads Cullen/Frost, setting a philosophy based on the corporate culture that is well understood, widely supported, consistently applied, and effectively implemented.</i>
Strategic Planning	<i>Establishes clear objectives and develops strategic policies to ensure growth in Cullen/Frost's core business and expansion through appropriate acquisitions. Is committed to the utilization of advanced technology applications to support these growth goals, and maintains the long-term interest of Cullen/Frost in all actions.</i>
Human Capital Management and Development	<i>Ensures the effective recruitment of a diverse workforce, consistent retention of key employees and the ongoing motivation of all staff. Offers personal involvement in the recruiting process and provides feedback.</i>
Communications	<i>Serves as chief spokesperson for Cullen/Frost, communicating effectively with all of its stakeholders.</i>
External Relations	<i>Establishes and maintains relationships with the investment community to keep them informed on Cullen/Frost's progress. Serves in a leadership role in civic, professional and community organizations. Reinforces key customer relationships through regular market visits and customer contacts.</i>
Board Relations	<i>Works closely with the Board of Directors to keep them fully informed on all important aspects of the status and development of Cullen/Frost. Facilitates the Board's composition and committee structure, as well as its governance and any regulatory</i>

agency relations.

Table of Contents

The Board must ratify the bonus payment amount determined by the Committee for Mr. Evans.

Cullen/Frost's budget for a given year typically represents a meaningful increase in earnings per share over the previous year. In finalizing a budget, the current economic, regulatory and interest rate environments are considered as well as market expectations. The budget must be ratified by the Board of Directors. For 2012, the Company's budgeted expectations were \$220 million. Actual performance for 2012 exceeded these expectations, as the company realized actual net income of \$238 million.

For 2012, Cullen/Frost's financial performance was strong and exceeded budgeted expectations as referenced above. In light of this, and taking into account the qualitative measures shown above, the Committee exercised downward discretion from the initial cap of 0.8% of net income. The Committee elected to pay a bonus to Mr. Evans of \$812,700, or 5% over his target of 90% of base salary earnings. This was ratified by the Board of Directors on January 31, 2012, and can be seen in the Summary Compensation Table.

For 2013, the Committee has again approved a cap for Mr. Evans of 0.8% of fiscal year net income.

At the October 2012 meeting, the Committee reviewed the competitiveness of the Chief Executive Officer's bonus target and payment. The Committee focused its review on the competitiveness of the established bonus target of 90% of base pay. The target level appeared to be slightly less than prevailing target levels in the external market, consistent with prior studies. As a result, the Committee chose to increase the bonus target for the Chief Executive Officer to 100% of base salary earnings effective 2013 to align more closely with the peer group.

Bonus Plan for the Other Named Executives

The remaining Named Executive Officers participate in the Executive Management Bonus Plan. Annually, a bonus pool is generated based on the financial performance of Cullen/Frost versus the budgeted expectations for the year. The bonus pool is funded at target if Cullen/Frost's financial performance meets budget. The bonus pool is funded at a level below target if Cullen/Frost's financial performance falls below budget. A minimum percentage of budget must be achieved before the bonus pool is funded, and no bonus payments are made unless Cullen/Frost attains this minimum threshold. Additional bonus dollars may be generated if Cullen/Frost achieves financial performance above budget. The Committee approves the corporate and individual objectives as well as the payment targets, which are expressed as a percentage of the executives' base salary earnings for the year. There is not a stated cap on this plan. However, over the past decade, the most paid to any Named Executive Officer was 20% above target.

For 2012, Cullen/Frost established the following individual targets as a percentage of 2012 base salary earnings for the Named Executive Officers in the Executive Management Bonus Plan:

Phillip D. Green	60%
David W. Beck, Jr.	50%
Richard Kardys	50%
Paul Bracher	50%

The individual targets are not formula driven. For all of the Named Executive Officers in the Management Bonus Plan, the targets are set at the discretion of the Chief Executive Officer and must be approved by the Committee. The bonus targets are based on external market data provided by Aon Hewitt, internal equity considerations, and strategic objectives for corporate performance. The targets are reviewed annually at the Fall meeting of the Committee and altered as deemed appropriate.

Payment amounts for the Named Executive Officers, with the exception of the Chief Executive Officer, are made based on recommendations of the Chief Executive Officer and approval of the Committee. Bonus amounts in excess of, or below target may be paid at the discretion of the Chief Executive Officer with the approval of the Committee. Before the Chief Executive Officer makes recommendations to the Committee regarding annual

Table of Contents

bonus payments for the other Named Executives, the Chief Executive Officer discusses these issues with Aon Hewitt and Meridian Compensation Partners. The Committee has the discretion to approve, disapprove or alter the Chief Executive Officer's recommendations.

The primary criterion for bonus payments for the Named Executive Officers is the measurement of financial performance vs. budgeted net income for Cullen/Frost.

As previously stated, Cullen/Frost's actual performance exceeded budgeted expectations for 2012. Based on this fact, the Chief Executive Officer recommended to the Committee that bonus payments be made to Mr. Green, Mr. Beck, Mr. Kardys and Mr. Bracher at 5% over target for 2012. The Committee approved this recommendation. The 2012 bonuses were paid in February of 2013 and can be seen in the Summary Compensation Table.

In October 2012, the Committee reviewed the competitiveness of each Named Executive's incentive target level. The Committee determined that while the target level for Mr. Green remained competitive, the target levels for Mr. Beck, Mr. Kardys and Mr. Bracher were below the 50th percentile of the external market. The Committee elected to increase target levels of those Named Executive Officers for 2013 as shown below. As previously stated, the target represents a percentage of base earnings.

Executive	2012 Target	2013 Target
Phillip D. Green	60%	60%
David W. Beck, Jr.	50%	60%
Richard Kardys	50%	60%
Paul Bracher	50%	60%

No specific weighting is targeted for annual incentive pay as a percentage of total compensation.

Long-Term Incentive Pay

Long-term incentives are awarded to the Named Executive Officers in an effort to align management and shareholder interests, ensure future performance of Cullen/Frost, enhance ownership opportunities, and increase shareholder value. Cullen/Frost maintains the 2005 Omnibus Incentive Plan (Plan) which was approved by shareholders and authorizes the granting of the following types of awards for executives:

Stock Options;

Stock Appreciation Rights;

Restricted Stock and Restricted Stock Units;

Performance Unit and Performance Share Awards;

Cash-Based Awards; and

Other Stock-Based Awards.

As shown in the Summary Compensation Table, long-term incentives are awarded to the Named Executive Officers in the form of stock options, restricted stock, and when appropriate, restricted stock units. The size of the grant is determined by the Committee, taking into account a variety of factors including the value of prior year grants when made, external market data, internal equity considerations, performance, overall share usage, shareholder dilution and cost. It has generally been the Committee's practice to award long-term incentives in a combined package of approximately half stock options and half restricted stock or restricted stock units, based on the estimated economic value of awards on the date of grant. The weighting between stock options and restricted stock/restricted stock units allows Cullen/Frost to strike a balance between performance and retention and minimizes the impact to shareholder dilution.

Table of Contents

Stock Options

Stock options are utilized to align management and shareholder interests and to reward executives with shareholder value creation. Stock options were granted at \$54.56, the closing price on the date of grant, October 23, 2012. The options granted in 2012 vest 25% per year beginning on the first anniversary from the date of grant and have a life of ten years. Should the Named Executive Officer retire from the company the options would continue to become exercisable on the original vesting schedule, but the expiration date of the grant would become the earlier of the original expiration or five years from the date of retirement. The vesting schedule and life were strategically chosen to be competitive, enhance our retention efforts and help to manage shareholder dilution.

Restricted Stock/Restricted Stock Units

Historically, the Committee has granted shares of restricted stock to the Named Executive Officers. In 2010, the Committee made the decision to begin granting restricted stock units in place of restricted stock to those Named Executive Officers who are 60 years of age or older at the time of grant, because these awards vest on retirement on or after age 65. This decision was made to prevent premature taxation of restricted shares at age 65 and to better align executive management and shareholder interests. Shares of restricted stock continue to be granted to the Named Executive Officers under the age of 60.

Restricted Stock/Restricted Stock Units are granted to create an immediate link to shareholder interests, enhance ownership opportunities and maintain a stable executive team. The awards granted in 2012 vest 100% four years from the date of the grant. This vesting schedule is both competitive and consistent with our traditional practice.

Stock Ownership Guidelines

While the Committee believes a significant portion of Named Executive Officers' total compensation should be linked to Cullen/Frost's stock price, no specific weighting is targeted for long-term incentive pay as a percentage of total compensation.

In its October 2012 meeting, the Committee reviewed the competitiveness of the long-term incentive program for the Named Executive Officers. External market data was once again heavily influenced by the unique economic environment. In reviewing peer data, the Committee observed:

An overall increase in grant date fair value of long-term incentive awards within the financial services industry made in 2011 versus the prior awards, largely due to stock prices continuing to recover; and

Continued variability in the delivery of long-term incentives due to TARP related influences. These influences include both restrictions associated with current TARP participants, and those awards made by organizations upon exiting TARP that could be considered non-routine.

These combined factors resulted in continued variability in the delivery of long-term incentive awards and the associated values delivered as reflected in peer group data. The Committee strongly considered these external factors, along with internal factors such as equity, performance, share usage, dilution and cost to determine the 2012 long-term incentive grants.

In its review, the Committee observed that long-term incentive awards to all Named Executive Officers were in line with or above the 50th percentile of external market data and all were below the 75th percentile. The Committee determined that it was critical to continue to place a strong emphasis on future financial performance and increasing shareholder value, while offering a competitive total rewards package overall. In 2012, the Committee took into account the change in the market value of Company stock as compared to the prior year, along with the Committee's desire to maintain a similar award value, and in its discretion awarded long-term incentives to the Named Executive Officers of similar economic value to the prior year's grant. The desired mix of half stock options and half restricted stock/units, based on the estimated economic value of the awards at the time of grant was maintained. The actual awards granted in 2012 can be seen in the Summary Compensation Table and the Grants of Plan-Based Awards Table.

Table of Contents

Historically, the Committee has generally approved and granted long-term incentive awards to the Named Executive Officers and any other designated employees at the Fall meeting or at the hire date of new designated employees, as applicable. Cullen/Frost maintains no policy, whether official or unofficial, for timing the granting of stock options or other equity-based awards in advance of the release of material nonpublic information. Our practice has been to grant long-term incentive awards on the date of the Fall Committee meeting.

Benefits

Cullen/Frost provides a benefits package including health and welfare and retirement benefits to remain competitive with the market and to help meet the health and retirement security needs of our employees, including the Named Executives. The following table provides a brief summary of Cullen/Frost's retirement benefit programs:

Retirement Benefit Plan	Purpose	Named Executive Officer Participation	All Employee Participation
401(k) Plan	A qualified plan to provide for the welfare and future financial security of the employee as well as align employee and shareholder interests.	ü	ü
Thrift Plan for the 401(k)	A non-qualified plan to provide benefits comparable to the 401(k) for Named Executive Officers that would otherwise be reduced due to Internal Revenue Code limits.	ü	
Profit Sharing Plan	A qualified plan to provide for the welfare and future financial security of the employee.	ü	ü
Profit Sharing Restoration Plan	A non-qualified plan that provides benefits comparable to the Profit Sharing Plan for Named Executive Officers that would otherwise be reduced due to Internal Revenue Code limits.	ü	
Retirement Plan ¹	A qualified plan to provide for the welfare and future financial security of the employee.	ü	ü
Retirement Restoration Plan ¹	A non-qualified plan to provide benefits comparable to the Retirement Plan for Named Executive Officers that would otherwise be reduced due to Internal Revenue Code limits.	ü	
SERP	A non-qualified plan to provide target retirement benefits for Mr. Evans.	ü	
Deferred Compensation Plan	A non-qualified plan to preserve Cullen/Frost's tax deduction under Section 162(m), and to provide a vehicle for the deferment of nondeductible income.	ü	

Edgar Filing: CULLEN/FROST BANKERS, INC. - Form DEF 14A

For a detailed description of the above-referenced benefit plans, see the narrative following the 2012 Pension Benefits Table.

See the All Other Compensation Table for detail on benefits received by the Named Executive Officers.

¹ Plan was frozen on December 31, 2001.

Table of Contents

Perquisites

Cullen/Frost uses perquisites for Named Executive Officers to provide a competitive offering and conveniences. Below is a brief summary of the perquisites provided and the rationale for their use:

Physical Examinations

In order to ensure the continued health of our executive team, the Named Executive Officers were given the opportunity to undergo a thorough physical examination with the physician of their choice with the cost to be underwritten by Cullen/Frost.

Personal Financial Planning Services

To ensure the continued financial stability of our executive team, and to help maximize the amount executives realize from our compensation programs, the Named Executive Officers were given the opportunity to engage a financial advisor of their choice to provide personal financial planning services with the cost to be underwritten by Cullen/Frost subject to a cap.

Home Security Services

To ensure the safety of our executive team, home security services are provided in certain instances.

Club Memberships

Club memberships are provided to all the Named Executive Officers to be used at their discretion for both personal and business purposes. This provides the Named Executive Officers with the ongoing opportunity to network with other community leaders.

Use of Jet Aircraft

Through a provider in the fractional aircraft industry, Cullen/Frost has acquired use of a jet aircraft. Use of this aircraft is provided to Mr. Evans and, at Mr. Evans' direction, to Mr. Green, in connection with his extensive business travel requirements. This service is afforded to Mr. Evans to reduce travel time and related disruptions and to provide additional security, thereby increasing his availability, efficiency, and productivity. Mr. Evans has been authorized to use a portion of the aircraft hours for non-business purposes, which should generally not exceed ten percent of the available hours annually. While Mr. Evans did use the jet aircraft for non-business purposes during 2012, his usage was well below the stated allowance, amounting to less than 1% of the available hours. Additionally, Mr. Evans, along with Mr. Green, incurred imputed income in connection with family members accompanying them on business related travel. Imputed income rates are determined using the Standard Industry Fare Level (SIFL).

Life Insurance

Group life insurance is provided to the Named Executive Officers with a death benefit equal to three times base salary earnings for the most recent year, not to exceed \$2,000,000. In addition, an Executive Life Insurance Policy is maintained for Mr. Evans with a death benefit of \$1,000,000. See the All Other Compensation Table for more detail.

We do not pay tax reimbursements on perquisites.

The aggregate perquisite value received by each Named Executive Officer can be seen in the All Other Compensation Table.

Table of Contents

Post-Termination Pay

Cullen/Frost has change-in-control agreements with all the Named Executive Officers as well as other key employees of the Company. The primary intent of these agreements is to:

help executives evaluate objectively whether a potential change in control is in the best interests of shareholders;

help protect against the departure of executives, thus assuring continuity of management, in the event of an actual or threatened merger or change in control; and

provide compensation and benefit protection following a change in control that is comparable to the protections available from competing employers.

Under the agreements, Mr. Evans, Mr. Green, Mr. Beck and Mr. Kardys could receive severance payments of three times base salary and target bonus, and Mr. Bracher could receive severance payments of two times base salary and target bonus, if their positions were terminated by Cullen/Frost within two years following a change in control, if the termination is for reasons other than Cause, death, disability or retirement.

Cause is generally defined in the agreements as an executive's (1) willful and continued failure to substantially perform his duties after delivery of a written demand for substantial performance; (2) willful engagement in conduct materially injurious to Cullen/Frost; or (3) conviction of a felony. The Committee established the change-in-control benefits at their current level to be competitive and to provide executives with a level of pay and benefits comparable to what they had immediately prior to a change in control.

Change in control is generally considered in the agreements to be:

an acquisition of beneficial ownership of 20% or more of Cullen/Frost Common Stock by an individual, corporation, partnership, group, association, or other person;

certain changes in the composition of a majority of the Board of Directors; or

certain other events involving a merger or consolidation of Cullen/Frost or a sale of substantially all of its assets.

Further, the change-in-control agreements provide that the Named Executive Officers would receive the severance payments described above if they terminate their employment for Good Reason within two years following a change-in-control. Good Reason is generally considered in the agreements as one or more of the following:

a significant change or reduction in the executive's responsibilities;

an involuntary transfer of the executive to a location that is 50 miles farther than the distance between the executive's current residence and Cullen/Frost's headquarters;

a significant reduction in the executive's current compensation;

the failure of any successor to Cullen/Frost to assume the executive's change-in-control agreement; or

any termination of the executive's employment that is not effected pursuant to a written notice which indicates the reasons for the termination.

The change-in-control agreements also provide for a continuation of the welfare benefits of health care, life and accidental death and dismemberment, and disability insurance coverage for three years for Mr. Evans, Mr. Green, Mr. Beck and Mr. Kardys and for two years for Mr. Bracher following termination of employment without Cause or for Good Reason, as well as a tax gross-up payment in an amount necessary to make the executive whole for any excise taxes paid as a result of the severance payments.

Under the change-in-control agreements, if the executive becomes entitled to the severance benefits described above, all stock options would become immediately exercisable and all the vesting restrictions would lapse on all outstanding restricted shares and restricted stock units.

Table of Contents

Under the change-in-control agreements, a change in control would have no impact on benefits available to Named Executive Officers under the frozen retirement and retirement restoration plans.

The Committee believes that the change-in-control agreements are consistent with our objective to remain competitive, as compared to the external marketplace, with our executive compensation program. The change-in-control agreements do not affect decisions to be made regarding other elements of compensation.

For detailed estimated payments upon a change in control, please see the Change-in-Control Payments Table.

There are no other severance policies or employment contracts in place for the Named Executive Officers. If any of the Named Executive Officers were to have their employment with Cullen/Frost severed, the Committee would make any post-termination pay determinations based on the individual situation(s).

Policy on 162(m)

Section 162(m) of the Internal Revenue Code generally limits the corporate tax deduction to \$1,000,000 in a taxable year for compensation paid to each covered employee of Cullen/Frost, which under Section 162(m), includes all the Named Executive Officers (other than our Chief Financial Officer), unless the compensation is performance based (within the meaning of Section 162(m)).

In order to preserve Cullen/Frost's tax deduction, the Committee approved the Cullen/Frost Bankers, Inc. Deferred Compensation Plan For Covered Employees. In the event that a covered employee's total compensation would exceed the amount deductible under Section 162(m), this plan allows the Committee, in its discretion, to defer cash components of the covered employee's compensation until the plan year after he or she ceases to be a covered employee or upon his or her death or disability. Currently, Mr. Evans is the only covered employee participating in the plan.

For 2012, non-deductible compensation for Mr. Evans totaled approximately \$22,000. As the only cash component of Mr. Evans' compensation subject to 162(m) is his base salary, the Committee did not in its discretion defer any of Mr. Evans' 2012 compensation.

Other Policies

Stock Ownership Guidelines

The Committee maintains a Stock Ownership Policy for Executive Officers and Directors. The guidelines approved by the Committee are:

Participant	Target Ownership Level
Chairman and Chief Executive Officer	Five times Base Salary
All Other Executive Officers	Three times Base Salary
Outside Directors	Five times Annual Cash Retainer

For purposes of determining stock ownership levels, the following forms of equity interests are included in stock ownership calculations:

Stock owned outright or under direct ownership control;

Unvested Restricted Stock and Unvested Restricted Stock Units;

Deferred Stock Units; and

Shares owned through Company retirement plans.

Table of Contents

Participants are given up to five years from the date of initial approval of this policy to reach the guideline. Any new participants are given five years from the date they become an eligible participant to reach the guideline. The policy was approved by the Committee in its Fall 2011 meeting.

Participants' actual ownership levels are compared to the stated guidelines by the Chairman of the Board and reviewed by the Committee annually.

Anti-Hedging Policy

In its October 2012 meeting, the Committee approved an Anti-Hedging Policy for Directors and Executives. The policy states that it is inappropriate for any Executive Officer or Director to enter into any financial transaction that reduces the monetary risk associated with owning Cullen/Frost stock.

Policy on Recovery of Awards

Cullen/Frost currently has no written policy with respect to recovery of awards when financial statements are restated. However, in the event of a restatement Cullen/Frost would recover any awards as required by applicable law.

Conclusion

We believe the 2012 Compensation Program was competitive from an external standpoint and equitable from an internal standpoint. In addition, we are satisfied that our objectives were met by the program. We fully anticipate continuing to administer an executive compensation program that is conservative, remaining consistent with our corporate philosophy.

Table of Contents**2012 Compensation****2012 Summary Compensation Table**

The Table below gives information on compensation for the CEO, the CFO and the other three most highly compensated executive officers of Cullen/Frost (collectively, the Named Executive Officers) for 2012.

2012 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards ⁽¹⁾ (\$)	Option Awards ⁽¹⁾ (\$)	Non	Equity	Change in Pension	Total
						Incentive Plan ⁽²⁾ Compensation ⁽²⁾ (\$)	Value and Nonqualified Deferred Compensation ⁽³⁾ Earnings ⁽³⁾ (\$)	All Other Compensation ⁽⁴⁾ (\$)	
Richard W. Evans, Jr. Chairman of the Board, CEO, and President of Cullen/Frost. Chairman of the Board and CEO of Frost Bank, a Cullen/Frost subsidiary.	2012	860,000		1,062,829	772,969	812,700	765,154	339,208	4,612,860
	2011	830,000		1,071,360	790,640	784,350	1,017,415	226,318	4,720,083
	2010	800,000		1,170,907	814,722	828,000		299,977	3,913,606
Phillip D. Green Group Executive Vice President and Chief Financial Officer of Cullen/Frost. Group Executive Vice President and Chief Financial Officer of Frost Bank, a Cullen/Frost subsidiary.	2012	455,000		260,251	189,051	286,650	203,726	115,506	1,510,184
	2011	440,000		262,080	193,418	277,200	130,636	104,356	1,407,690
	2010	425,000		286,432	199,366	293,250	120,832	106,876	1,431,756
David W. Beck, Jr. President and Chief Business Banking Officer of Frost Bank, a Cullen/Frost subsidiary	2012	402,000		212,784	154,808	211,050	213,080	113,721	1,307,443
	2011	390,000		214,560	158,440	204,750	148,686	90,891	1,207,327
	2010	375,000		234,496	163,309	215,625	146,841	116,016	1,251,287
Richard Kardys Group Executive Vice President and Executive Trust Officer of Frost Bank, a Cullen/Frost subsidiary	2012	400,000		195,325	141,967	210,000	90,918	108,312	1,146,521
	2011	387,000		196,800	145,220	203,175	68,181		