CULLEN/FROST BANKERS, INC.
Form 10-K
February 04, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 2015
Or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number: 001-13221
CULLEN/FROST BANKERS, INC.
(Exact name of registrant as specified in its charter)

Texas	74-1751768
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 W. Houston Street, San Antonio, Texas	78205
(Address of principal executive offices)	(Zip code)

(210) 220-4011
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 Par Value	The New York Stock Exchange, Inc.
5.375% Non-Cumulative Perpetual Preferred Stock, Series A	The New York Stock Exchange, Inc.
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) Yes ¨ No ý
As of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by non-affiliates, based upon the closing price per share of the registrant's common stock as reported on The New York Stock Exchange, Inc., was approximately $4.7 billion.
As of February 1, 2016, there were 61,982,333 shares of the registrant's common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2016 Annual Meeting of Shareholders of Cullen/Frost Bankers, Inc. to be held on April 28, 2016 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the section captioned "Forward-Looking Statements and Factors that Could Affect Future Results" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

The Corporation

Cullen/Frost Bankers, Inc., a Texas business corporation incorporated in 1977, is a financial holding company and a bank holding company headquartered in San Antonio, Texas that provides, through its subsidiaries, a broad array of products and services throughout numerous Texas markets. The terms "Cullen/Frost," "the Corporation," "we," "us" and "our" mean Cullen/Frost Bankers, Inc. and its subsidiaries, when appropriate. We offer commercial and consumer banking services, as well as trust and investment management, insurance, brokerage, mutual funds, leasing, treasury management, capital markets advisory and item processing services. At December 31, 2015, Cullen/Frost had consolidated total assets of $28.6 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

Our philosophy is to grow and prosper, building long-term relationships based on top quality service, high ethical standards, and safe, sound assets. We operate as a locally oriented, community-based financial services organization, augmented by experienced, centralized support in select critical areas. Our local market orientation is reflected in our regional management and regional advisory boards, which are comprised of local business persons, professionals and other community representatives that assist our regional management in responding to local banking needs. Despite this local market, community-based focus, we offer many of the products available at much larger money-center financial institutions.

We serve a wide variety of industries including, among others, energy, manufacturing, services, construction, retail, telecommunications, healthcare, military and transportation. Our customer base is similarly diverse. While our loan portfolio has a significant concentration of energy-related loans totaling approximately 15.3% of total loans, we are not dependent upon any single industry or customer.

Our operating objectives include expansion, diversification within our markets, growth of our fee-based income, and growth internally and through acquisitions of financial institutions, branches and financial services businesses. We generally seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. We did not make any acquisitions during 2015. During 2014, we acquired WNB Bancshares, Inc., a privately-held bank holding company headquartered in Odessa, Texas ("WNB"). See Note 2 - Mergers and Acquisitions in the accompanying notes to consolidated financial statements included elsewhere in this report. During 2013, we acquired a Houston-based insurance agency that specialized in commercial lines insurance products. During 2012, we acquired a Houston-based human resources consulting firm that specialized in compensation, benefits and outsourcing services. During 2011, we acquired an insurance agency in the San Antonio market area. The aforementioned acquisitions did not have a significant impact on our financial statements during their respective reporting periods.

Our ability to engage in certain merger or acquisition transactions, whether or not any regulatory approval is required, will be dependent upon our bank regulators' views at the time as to the capital levels, quality of management and our overall condition and their assessment of a variety of other factors. Certain merger or acquisition transactions, including those involving the acquisition of a depository institution or the assumption of the deposits of any depository institution, require formal approval from various bank regulatory authorities, which will be subject to a variety of factors and considerations. As part of the approval process in connection with the acquisition of WNB, we agreed with the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) that before bringing it any further expansionary proposals, except for proposed branches serving majority minority areas within our existing markets, we would enhance certain compliance programs, including those related to fair lending. We are currently working on these

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enhancements. See the section captioned “Supervision and Regulation” included elsewhere in this item for further discussion of these matters.

Although Cullen/Frost is a corporate entity, legally separate and distinct from its affiliates, bank holding companies such as Cullen/Frost are required to act as a source of financial strength for their subsidiary banks. The principal source of Cullen/Frost’s income is dividends from its subsidiaries. There are certain regulatory restrictions on the extent to which these subsidiaries can pay dividends or otherwise supply funds to Cullen/Frost. See the section captioned “Supervision and Regulation” included elsewhere in this item for further discussion of these matters.

Cullen/Frost’s executive offices are located at 100 W. Houston Street, San Antonio, Texas 78205, and its telephone number is (210) 220-4011.

Subsidiaries of Cullen/Frost

Frost Bank

Frost Bank, the principal operating subsidiary and sole banking subsidiary of Cullen/Frost, is a Texas-chartered bank primarily engaged in the business of commercial and consumer banking through approximately 126 financial centers across Texas in the Austin, Corpus Christi, Dallas, Fort Worth, Houston, Permian Basin, Rio Grande Valley and San Antonio regions. Frost Bank also operates over 1,200 automated-teller machines (“ATMs”) throughout the State of Texas, approximately half of which are operated in connection with a branding arrangement to be the exclusive cash-machine provider for CST Brands, Inc. Corner Stores in Texas. Frost Bank was originally chartered as a national banking association in 1899, but its origin can be traced to a mercantile partnership organized in 1868. At December 31, 2015, Frost Bank had consolidated total assets of $28.6 billion and total deposits of $24.4 billion and was one of the largest commercial banks headquartered in the State of Texas.

Significant services offered by Frost Bank include:

- Commercial Banking. Frost Bank provides commercial banking services to corporations and other business clients. Loans are made for a wide variety of general corporate purposes, including financing for industrial and commercial properties and to a lesser extent, financing for interim construction related to industrial and commercial properties, financing for equipment, inventories and accounts receivable, and acquisition financing. We also originate commercial leases and offer treasury management services.
- Consumer Services. Frost Bank provides a full range of consumer banking services, including checking accounts, savings programs, ATMs, overdraft facilities, installment and real estate loans, home equity loans and lines of credit, drive-in and night deposit services, safe deposit facilities and brokerage services.
- International Banking. Frost Bank provides international banking services to customers residing in or dealing with businesses located in Mexico. These services consist of accepting deposits (generally only in U.S. dollars), making loans (generally only in U.S. dollars), issuing letters of credit, handling foreign collections, transmitting funds, and to a limited extent, dealing in foreign exchange.
- Correspondent Banking. Frost Bank acts as correspondent for approximately 247 financial institutions, which are primarily banks in Texas. These banks maintain deposits with Frost Bank, which offers them a full range of services including check clearing, transfer of funds, fixed income security services, and securities custody and clearance services.
- Trust Services. Frost Bank provides a wide range of trust, investment, agency and custodial services for individual and corporate clients. These services include the administration of estates and personal trusts, as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. At December 31, 2015, the estimated fair value of trust assets was $30.7 billion, including managed assets of $13.2 billion and custody assets of $17.5 billion.
- Capital Markets - Fixed-Income Services. Frost Bank’s Capital Markets Division supports the transaction needs of fixed-income institutional investors. Services include sales and trading, new issue underwriting, money market trading, advisory services and securities safekeeping and clearance.
- Global Trade Services. Frost Bank's Global Trade Services Division supports international business activities including foreign exchange, international letters of credit and export-import financing, among other things.

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Frost Insurance Agency, Inc.
Frost Insurance Agency, Inc. is a wholly-owned subsidiary of Frost Bank that provides insurance brokerage services to individuals and businesses covering corporate and personal property and casualty insurance products, as well as group health and life insurance products and consulting services.
Frost Brokerage Services, Inc.
Frost Brokerage Services, Inc. (“FBS”) is a wholly-owned subsidiary of Frost Bank that provides brokerage services and performs other transactions or operations related to the sale and purchase of securities of all types. FBS is registered as a fully disclosed introducing broker-dealer under the Securities Exchange Act of 1934 and, as such, does not hold any customer accounts.
Frost Investment Advisors, LLC
Frost Investment Advisors is a registered investment advisor and a wholly-owned subsidiary of Frost Bank that provides investment management services to Frost-managed mutual funds, institutions and individuals.
Tri–Frost Corporation
Tri-Frost Corporation is a wholly-owned subsidiary of Frost Bank that primarily holds securities for investment purposes and the receipt of cash flows related to principal and interest on the securities until such time that the securities mature.
Main Plaza Corporation
Main Plaza Corporation is a wholly-owned subsidiary of Cullen/Frost that occasionally makes loans to qualified borrowers. Loans are funded with current cash or borrowings against internal credit lines. Main Plaza also holds severed mineral interests on certain oil producing properties. We receive royalties on these interests based upon production.
Cullen/Frost Capital Trust II and WNB Capital Trust I
Cullen/Frost Capital Trust II (“Trust II”) is a Delaware statutory business trust formed in 2004 for the purpose of issuing $120.0 million in trust preferred securities and lending the proceeds to Cullen/Frost. Cullen/Frost guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities.
WNB Capital Trust I (“WNB Trust”) is a Delaware statutory business trust formed in 2004 for the purpose of issuing $13.0 million in trust preferred securities and lending the proceeds to WNB. Cullen/Frost, as WNB's successor, guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities.
Trust II and WNB Trust are variable interest entities for which we are not the primary beneficiary. As such, the accounts of Trust II and WNB Trust are not included in our consolidated financial statements. See our accounting policy related to consolidation in Note 1 - Summary of Significant Accounting Policies in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which is located elsewhere in this report.
Although the accounts of Trust II and WNB Trust are not included in our consolidated financial statements, the $120.0 million in trust preferred securities issued by Trust II and the $13.0 million in trust preferred securities issued by WNB Trust were included in the regulatory capital of Cullen/Frost during the reported periods. See the section captioned “Supervision and Regulation - Capital Requirements” for a discussion of the regulatory capital treatment of our trust preferred securities.
Other Subsidiaries
Cullen/Frost has various other subsidiaries that are not significant to the consolidated entity.

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Operating Segments

Our operations are managed along two reportable operating segments consisting of Banking and Frost Wealth Advisors. See the sections captioned “Results of Segment Operations” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 19 - Operating Segments in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

Competition

There is significant competition among commercial banks in our market areas. In addition, we also compete with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, insurance agencies, commercial finance and leasing companies, full service brokerage firms and discount brokerage firms. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that are not provided by us. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, the rates of interest charged on loans, the rates of interest paid for funds, and the availability and pricing of trust, brokerage and insurance services.

Supervision and Regulation

Cullen/Frost, Frost Bank and most of its non-banking subsidiaries are subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders and creditors.

Significant elements of the laws and regulations applicable to Cullen/Frost and its subsidiaries are described below. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Cullen/Frost and its subsidiaries could have a material effect on our business, financial condition or our results of operations.

Regulatory Agencies

Cullen/Frost is a legal entity separate and distinct from Frost Bank and its other subsidiaries. As a financial holding company and a bank holding company, Cullen/Frost is regulated under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and it and its subsidiaries are subject to inspection, examination and supervision by the Federal Reserve Board. The BHC Act provides generally for “umbrella” regulation of financial holding companies such as Cullen/Frost by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators. Cullen/Frost is also under the jurisdiction of the Securities and Exchange Commission (“SEC”) and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Cullen/Frost’s common stock is listed on the New York Stock Exchange (“NYSE”) under the trading symbol “CFR,” and is subject to the rules of the NYSE for listed companies.

Prior to June 2012, Frost Bank was organized as a national banking association under the National Bank Act and was subject to regulation and examination by the Office of the Comptroller of the Currency (“OCC”). In June 2012, Frost Bank became a Texas state chartered bank and a member of the Federal Reserve System. Accordingly, the Texas Department of Banking and the Federal Reserve Board are now the primary regulators of Frost Bank, and Frost Bank is no longer regulated by the OCC. Deposits at Frost Bank continue to be insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits.

All member banks of the Federal Reserve System, including Frost Bank, are required to hold stock in the Federal Reserve System's Reserve Banks in an amount equal to six percent of their capital stock and surplus (half paid to acquire the stock with the remainder held as a cash reserve). Member banks do not have any control over the Federal Reserve System as a result of owning the stock and the stock cannot be sold or traded. Prior to the enactment of the Fixing America's Surface Transportation Act (“FAST Act”) in December 2015, member banks received a fixed, six percent dividend annually on their stock. Under the FAST Act, the annual dividend rate for member banks with total assets in excess of $10 billion, including Frost Bank, changed from a fixed, six percent dividend rate to a floating dividend rate tied to 10-year U.S. Treasuries with the maximum dividend rate capped at six percent. The total amount of stock dividends that Frost Bank received from the Federal Reserve in 2015 totaled $2.1 million. While we expect the annual

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dividend rate applicable to Frost Bank to decrease as a result of the FAST Act, the ultimate impact of the decrease on Cullen/Frost and Frost Bank cannot be determined at this time.

Most of our non-bank subsidiaries also are subject to regulation by the Federal Reserve Board and other federal and state agencies. Frost Brokerage Services, Inc. is regulated by the SEC, the Financial Industry Regulatory Authority ("FINRA") and state securities regulators. Frost Investment Advisors, LLC is subject to the disclosure and regulatory requirements of the Investment Advisors Act of 1940, as administered by the SEC. Our insurance subsidiary is subject to regulation by applicable state insurance regulatory agencies. Other non-bank subsidiaries are subject to both federal and state laws and regulations. Frost Bank and its affiliates are also subject to supervision, regulation, examination and enforcement by the Consumer Financial Protection Bureau ("CFPB") with respect to consumer protection laws and regulations.

Bank Holding Company Activities

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board), without prior approval of the Federal Reserve Board. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed." A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the section captioned "Capital Adequacy and Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. A financial holding company's status will also depend upon it maintaining its status as "well capitalized" and "well managed' under applicable Federal Reserve Board regulations. If a financial holding company ceases to meet these capital and management requirements, the Federal Reserve Board's regulations provide that the financial holding company must enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the Federal Reserve Board may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the Federal Reserve Board. If the company does not return to compliance within 180 days, the Federal Reserve Board may require divestiture of the holding company's depository institutions. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act. See the section captioned "Community Reinvestment Act" included elsewhere in this item.

The Federal Reserve Board has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The BHC Act, the Bank Merger Act, the Texas Banking Code and other federal and state statutes regulate acquisitions of commercial banks and their parent holding companies. The BHC Act requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the Federal

Reserve Board or other appropriate bank regulatory authority is required for a member bank to merge with another bank or purchase substantially all of the assets or assume any deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act (see the section captioned "Community Reinvestment Act" included elsewhere in this item) and its compliance with fair housing and other consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities. As part of the approval process in connection with the acquisition of WNB, we agreed with the Federal Reserve Board that before bringing them any further expansionary proposals, except for proposed branches serving majority minority areas within our existing markets, we would enhance certain compliance programs, including those related to fair lending. We are currently working on these enhancements.

Dividends

The principal source of Cullen/Frost's liquidity is dividends from Frost Bank. The prior approval of the Federal Reserve Board is required if the total of all dividends declared by a state-chartered member bank in any calendar year would exceed the sum of the bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus or to fund the retirement of preferred stock. Federal law also prohibits a state-chartered, member bank from paying dividends that would be greater than the bank's undivided profits. Frost Bank is also subject to limitations under Texas state law regarding the level of dividends that may be paid. Under the foregoing dividend restrictions, and while maintaining its "well capitalized" status, Frost Bank could pay aggregate dividends of approximately $419.7 million to Cullen/Frost, without obtaining affirmative governmental approvals, at December 31, 2015. This amount is not necessarily indicative of amounts that may be paid or available to be paid in future periods.

In addition, Cullen/Frost and Frost Bank are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have stated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

In October 2012, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Dodd-Frank"), the Federal Reserve Board published final rules regarding company-run stress testing. The rules require institutions, such as Cullen/Frost and Frost Bank, with average total consolidated assets greater than $10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Implementation of the rules for covered institutions with total consolidated assets between $10 billion and $50 billion began in 2013. Beginning with the 2016 stress test, the company-run stress tests are conducted using data as of December 31st of the preceding calendar year and scenarios released by the agencies. Stress test results must be reported to the agencies by July 31st with public disclosure of summary stress test results under the severely adverse scenario between October 15th and October 31st. Our capital ratios reflected in the stress test calculations are an important factor considered by the Federal Reserve Board in evaluating the capital adequacy of Cullen/Frost and Frost Bank and whether the appropriateness of any proposed payments of dividends or stock repurchases may be an unsafe or unsound practice.

Transactions with Affiliates

Transactions between Frost Bank and its subsidiaries, on the one hand, and Cullen/Frost or any other subsidiary, on the other hand, are regulated under federal banking law. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on covered transactions by Frost Bank with, or for the benefit of, its affiliates, and generally requires those transactions to be on terms at least as favorable to Frost Bank as if the transaction were conducted with an unaffiliated third party. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, any such transaction by Frost Bank or its subsidiaries must be

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limited to certain thresholds on an individual and aggregate basis and, for credit transactions with any affiliate, must be secured by designated amounts of specified collateral.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate.

Source of Strength Doctrine

Federal Reserve Board policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, Cullen/Frost is expected to commit resources to support Frost Bank, including at times when Cullen/Frost may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Capital Requirements

Cullen/Frost and Frost Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board. The current risk-based capital standards applicable to Cullen/Frost and Frost Bank, parts of which are currently in the process of being phased-in, are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision (the "Basel Committee").

Prior to January 1, 2015, the risk-based capital standards applicable to Cullen/Frost and Frost Bank (the "general risk-based capital rules") were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July 2013, the federal bank regulators approved final rules (the "Basel III Capital Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Cullen/Frost and Frost Bank, as compared to the general risk-based capital rules. The Basel III Capital Rules became effective for Cullen/Frost and Frost Bank on January 1, 2015 (subject to a phase-in period for certain provisions).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the Basel III Capital Rules, the minimum capital ratios effective as of January 1, 2015 are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The Basel III Capital Rules also introduced a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is only applicable to certain covered institutions and does not have any current applicability to Cullen/Frost or Frost Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

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When fully phased in on January 1, 2019, the Basel III Capital Rules will require Cullen/Frost and Frost Bank to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of Total capital to risk-weighted assets of at least 10.5%; and (iv) a minimum leverage ratio of 4%.

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

In addition, under the general risk-based capital rules, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive income items are not excluded; however, non-advanced approaches banking organizations, including Cullen/Frost and Frost Bank, are able to make a one-time permanent election to continue to exclude these items. Both Cullen/Frost and Frost Bank have made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their available-for-sale securities portfolio. Under the Basel III Capital Rules, trust preferred securities no longer included in our Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out.

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to Frost Bank, the Basel III Capital Rules also revise the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under “Prompt Corrective Action.”

Management believes that, as of December 31, 2015, Cullen/Frost and Frost Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements had been in effect.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. Liquidity risk management has become increasingly important since the financial crisis. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio (“LCR”), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio (“NSFR”), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2014, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to Cullen/Frost or Frost Bank. The federal bank regulators have not yet proposed rules to implement the NSFR or addressed the scope of bank organizations to which it will apply. The Basel Committee's final NSFR document states that the NSFR applies to internationally active banks, as did its final LCR document as to that ratio.

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Prompt Corrective Action

The Federal Deposit Insurance Act, as amended ("FDIA"), requires among other things, the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures, which reflect changes under the Basel III Capital Rules that became effective on January 1, 2015, are the total capital ratio, the CET1 capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized"; (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%; (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized."

"Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

Cullen/Frost believes that, as of December 31, 2015, its bank subsidiary, Frost Bank, was “well capitalized” based on the aforementioned ratios. For further information regarding the capital ratios and leverage ratio of Cullen/Frost and Frost Bank see the discussion under the section captioned “Capital and Liquidity” included in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 10 - Capital and Regulatory Matters

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in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, elsewhere in this report.

Safety and Soundness Standards

The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of the FDIA. See “Prompt Corrective Action” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Deposit Insurance

Substantially all of the deposits of Frost Bank are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. Deposit insurance assessments are based on average total assets minus average tangible equity. For larger institutions, such as Frost Bank, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank’s capital level and supervisory ratings (its “CAMELS ratings”) and certain financial measures to assess an institution’s ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

The initial base assessment rate ranges from 5 to 35 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis. As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, an institution must pay an additional premium equal to 50 basis points on every dollar (above 3% of an institution’s Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In October 2015, the FDIC proposed to impose a surcharge on the quarterly assessments of insured depository institutions with total consolidated assets of $10 billion or more. This would result in increased costs for Frost Bank. Because of the uncertainty as to the outcome of the FDIC's proposals, we cannot provide any assurance as to the ultimate impact of any surcharges on the amount of deposit insurance expense reported in future periods.

FDIC deposit insurance expense totaled $14.5 million, $13.2 million and $11.7 million in 2015, 2014 and 2013, respectively. FDIC deposit insurance expense includes deposit insurance assessments and Financing Corporation (“FICO”) assessments related to outstanding FICO bonds. The FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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Enhanced Prudential Standards

The Dodd-Frank Act directed the Federal Reserve Board to monitor emerging risks to financial stability and enact enhanced supervision and prudential standards applicable to bank holding companies with total consolidated assets of $50 billion or more and non-bank covered companies designated as systemically important by the Financial Stability Oversight Council (often referred to as systemically important financial institutions). The Dodd-Frank Act mandates that certain regulatory requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial institutions.

In February 2014, the Federal Reserve adopted rules to implement certain of these enhanced prudential standards. Beginning in 2015, the rules require publicly traded bank holding companies with $10 billion or more in total consolidated assets to establish risk committees and require bank holding companies with $50 billion or more in total consolidated assets to comply with enhanced liquidity and overall risk management standards. Cullen/Frost has established a risk committee and is in compliance with this requirement.

We are monitoring developments with respect to the enhanced prudential standards because of their application to us if our total consolidated assets reach $50 billion or more.

The Volcker Rule

The so-called Volcker Rule under the Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The Volcker Rule, which became effective in July 2015, does not significantly impact the operations of Cullen/Frost and its subsidiaries, as we do not have any significant engagement in the businesses prohibited by the Volcker Rule.

Depositor Preference

The FDIA provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Federal Reserve Board rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. An upward adjustment of no more than 1 cent to an issuer's debit card interchange fee is allowed if the card issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards. The Federal Reserve Board also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Consumer Financial Protection

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws’ respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy

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protections, prohibit unfair, deceptive and abusive practices, restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Consumer Financial Protection Bureau ("CFPB") is a federal agency responsible for implementing, examining and enforcing compliance with federal consumer protection laws. The CFPB focuses on:

- Risks to consumers and compliance with the federal consumer financial laws, when it evaluates the policies and practices of a financial institution.
- The markets in which firms operate and risks to consumers posed by activities in those markets.
- Depository institutions that offer a wide variety of consumer financial products and services.
- Depository institutions with a more specialized focus.
- Non-depository companies that offer one or more consumer financial products or services.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer's (i) lack of financial savvy, (ii) inability to protect himself in the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to act in the consumer's interests. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or injunction. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, as well as their affiliates. Banking regulators take into account compliance with consumer protection laws when considering approval of a proposed transaction.

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering a request for an approval of a proposed transaction. Frost Bank received a rating of "satisfactory" in its most recent CRA examination in 2013.

Financial Privacy

The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

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Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Incentive Compensation

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Cullen/Frost, that are not "large, complex banking organizations." These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of this supervisory initiative will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

In April 2011, the Federal Reserve Board, other federal banking agencies and the SEC jointly published proposed rulemaking designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as Cullen/Frost and Frost Bank. The proposed rule (i) prohibits incentive-based compensation arrangements that encourage executive officers, employees, directors or principal shareholders to expose the institution to inappropriate risks by providing excessive compensation (based on the standards for excessive compensation adopted pursuant to the FDIA) and (ii) prohibits incentive-based compensation arrangements for executive officers, employees, directors or principal shareholders that could lead to a material financial loss for the institution. The proposed rule requires covered institutions to establish policies and procedures for monitoring and

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evaluating their compensation practices. The comment period ended in May 2011. Although final rules have not been adopted as of February 2016, officials from the Federal Reserve have recently indicated that the U.S. banking regulators are in the process of preparing for public comment a new rule on incentive compensation. If these or other regulations are adopted in a form similar to that initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

The scope and content of the U.S. banking regulators' policies on incentive compensation are continuing to develop. It cannot be determined at this time whether or when a final rule will be adopted and whether compliance with such a final rule will adversely affect the ability of Cullen/Frost and its subsidiaries to hire, retain and motivate their key employees.

Cybersecurity

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date, we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity.

Future Legislation and Regulation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to our business strategy, and limit our ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to Cullen/Frost or any of its subsidiaries could have a material, adverse effect on our business, financial condition and results of operations.

Employees

At December 31, 2015, we employed 4,211 full-time equivalent employees. None of our employees are represented by collective bargaining agreements. We believe our employee relations to be good.

Executive Officers of the Registrant

The names, ages as of December 31, 2015, recent business experience and positions or offices held by each of the executive officers of Cullen/Frost are as follows:

Name and Position Held	Age	Recent Business Experience
Richard W. Evans, Jr. Chairman of the Board, Chief Executive Officer and Director of Cullen/Frost	69	Officer of Frost Bank since 1973. Chairman of the Board and Chief Executive Officer of Cullen/Frost from October 1997 to present.
Patrick B. Frost President of Frost Bank and Director	55	Officer of Frost Bank since 1985. President of Frost Bank from August 1993 to present. Director of Cullen/Frost from May 1997 to present.
Phillip D. Green President of Cullen/Frost	61	Officer of Frost Bank since July 1980. Group Executive Vice President, Chief Financial Officer of Cullen/Frost from October 1995 to January 2015. President of Cullen/Frost from January 2015 to present.
Jerry Salinas Group Executive Vice President, Chief Financial Officer of Cullen/Frost	57	Officer of Frost Bank since January 1986. Senior Executive Vice President, Treasurer of Cullen/Frost from 1997 to January 2015. Group Executive Vice President, Chief Financial Officer of Cullen/Frost from January 2015 to present.
Annette Alonzo Group Executive Vice President, Human Resources of Frost Bank	47	Officer of Frost Bank since 1993. Executive Vice President, Human Resources of Frost Bank from July 2006 to January 2015. Senior Executive Vice President, Human Resources of Frost Bank from January 2015 to July 2015. Group Executive Vice President, Human Resources of Frost Bank from July 2015 to present.
Robert A. Berman Group Executive Vice President, Research and Strategy of Frost Bank	53	Officer of Frost Bank since January 1989. Group Executive Vice President, Research and Strategy of Frost Bank from May 2001 to present.
Paul H. Bracher Group Executive Vice President, Chief Banking Officer of Frost Bank	59	Officer of Frost Bank since January 1982. President, State Regions of Frost Bank from February 2001 to January 2015. Group Executive Vice President, Chief Banking Officer of Frost Bank from January 2015 to present.
Richard Kardys Group Executive Vice President, Executive Trust Officer of Frost Bank	69	Officer of Frost Bank since January 1977. Group Executive Vice President, Executive Trust Officer of Frost Bank from May 2001 to present.
Gary McKnight Group Executive Vice President, Technology and Operations of Frost Bank	62	Officer of Frost Bank since 1981. Senior Executive Vice President, Technology and Operations of Frost Bank from January 2005 to July 2015. Group Executive Vice President, Technology and Operations of Frost Bank from July 2015 to present.
Paul J. Olivier Group Executive Vice President, Chief Consumer Banking Officer of Frost Bank	63	Officer of Frost Bank since August 1976. Group Executive Vice President, Chief Consumer Banking Officer of Frost Bank from May 2001 to present.
William L. Perotti Group Executive Vice President, Chief Risk Officer of Frost Bank	58	Officer of Frost Bank since December 1982. Group Executive Vice President, Chief Credit Officer of Frost Bank from May 2001 to January 2015. Group Executive Vice President, Chief Risk Officer of Frost Bank from April 2005 to present.
Emily A. Skillman Group Executive Vice President, Chief	71	Officer of Frost Bank since January 1998. Group Executive Vice President, Chief Human Resources Officer of Frost Bank from

Human Resources Officer of Frost Bank		October 2003 to present.
Candace Wolfshohl Group Executive Vice President, Culture and People Development of Frost Bank	55	Officer of Frost Bank since 1989. Executive Vice President, Staff Development of Frost Bank from January 2008 to January 2015. Senior Executive Vice President, Staff Development of Frost Bank from January 2015 to July 2015. Group Executive Vice President, Culture and People Development of Frost Bank from July 2015 to present.

There are no arrangements or understandings between any executive officer of Cullen/Frost and any other person pursuant to which such executive officer was or is to be selected as an officer.

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Available Information

Under the Securities Exchange Act of 1934, we are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). You may read and copy any document we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We file electronically with the SEC.

We make available, free of charge through our website, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Additionally, we have adopted and posted on our website a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our website also includes our corporate governance guidelines and the charters for our audit committee, our compensation and benefits committee, our risk committee, and our corporate governance and nominating committee. The address for our website is http://www.frostbank.com. We will provide a printed copy of any of the aforementioned documents to any requesting shareholder.

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of our common stock could decline significantly, and you could lose all or part of your investment.

Risks Related To Our Business

Our Business May Be Adversely Affected By Conditions In The Financial Markets and Economic Conditions Generally

In recent years, economic growth and business activity across a wide range of industries and regions in the U.S. has been slow and uneven. Furthermore, there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. In addition, oil price volatility, the level of U.S. debt and global economic conditions have had a destabilizing effect on financial markets.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate, in the State of Texas and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the State of Texas, the United States and worldwide have shown signs of improvement, there can be no assurance that this improvement will continue. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits. Such conditions, combined with continued oil price volatility, could have a material adverse effect on the credit quality of our loans and our business, financial condition and results of operations.

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We Are Subject To Lending Risk

There are inherent risks associated with our lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well as those across the State of Texas and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. We are also subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment of significant civil money penalties against us.

As of December 31, 2015, approximately 88.6% of our loan portfolio consisted of commercial and industrial, energy, construction and commercial real estate mortgage loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial and industrial, energy, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on our business, financial condition and results of operations.

See the section captioned “Loans” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to commercial and industrial, energy, construction and commercial real estate loans.

We Are Subject To Interest Rate Risk

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of our mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition and results of operations.

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations under the section captioned “Net Interest Income” and Item 7A. Quantitative and Qualitative Disclosures About Market Risk located elsewhere in this report for further discussion related to interest rate sensitivity and our management of interest rate risk.

Our Allowance For Loan Losses May Be Insufficient

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents management’s best estimate of inherent losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management’s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs,

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based on judgments different than those of management. Furthermore, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition and results of operations.

See the section captioned "Allowance for Loan Losses" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to our process for determining the appropriate level of the allowance for loan losses.

Our Profitability Depends Significantly On Economic Conditions In The State Of Texas

Our success depends primarily on the general economic conditions of the State of Texas and the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers across Texas through financial centers in the Austin, Corpus Christi, Dallas, Fort Worth, Houston, Permian Basin, Rio Grande Valley and San Antonio regions. The local economic conditions in these areas have a significant impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. Moreover, approximately 97.8% of the securities in our municipal bond portfolio were issued by political subdivisions or agencies within the State of Texas. A significant decline in general economic conditions in Texas, whether caused by recession, inflation, unemployment, changes in oil prices, changes in securities markets, acts of terrorism, outbreak of hostilities or other international or domestic occurrences or other factors could impact these local economic conditions and, in turn, have a material adverse effect on our business, financial condition and results of operations.

We May Be Adversely Affected By Declining Crude Oil Prices

The decisions by certain members of the Organization of Petroleum Exporting Countries ("OPEC") to maintain higher crude oil production levels have led to increased global oil supplies which has resulted in significant declines in market oil prices. Decreased market oil prices have compressed margins for many U.S. and Texas-based oil producers, particularly those that utilize higher-cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. As of December 31, 2015, energy loans comprised approximately 15.3% of our loan portfolio. Furthermore, energy production and related industries represent a large part of the economies in some of our primary markets. The price per barrel of crude oil was approximately $53 at December 31, 2014 decreasing to approximately $37 at December 31, 2015 and further declining to approximately $30 as of January 21, 2016. If oil prices remain at these low levels for an extended period, we could experience weaker energy loan demand and increased losses within our energy portfolio. Furthermore, a prolonged period of low oil prices could also have a negative impact on the U.S. economy and, in particular, the economies of energy-dominant states such as Texas. Accordingly, a prolonged period of low oil prices could have a material adverse effect on our business, financial condition and results of operations.

We May Be Adversely Affected By The Soundness Of Other Financial Institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our business, financial condition and results of operations.

We Operate In A Highly Competitive Industry and Market Area

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets where we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Also, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been

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held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Further, many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand our market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which we introduce new products and services relative to our competitors.
- Customer satisfaction with our level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

We Are Subject To Extensive Government Regulation and Supervision and Possible Enforcement and Other Legal Actions

We, primarily through Cullen/Frost, Frost Bank and certain non-bank subsidiaries, are subject to extensive federal and state regulation and supervision, which vests a significant amount of discretion in the various regulatory authorities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations and supervisory guidance affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputational damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

See the sections captioned "Supervision and Regulation" included in Item 1. Business and Note 10 - Capital and Regulatory Matters in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

Our Accounting Estimates and Risk Management Processes Rely On Analytical and Forecasting Models

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for loan losses may not be

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sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

The Repeal Of Federal Prohibitions On Payment Of Interest On Demand Deposits Could Increase Our Interest Expense

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, some financial institutions have commenced offering interest on demand deposits to compete for customers. We do not yet know what interest rates other institutions may offer as market interest rates begin to increase. Our interest expense will increase and our net interest margin will decrease if we begin offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

We May Need To Raise Additional Capital In The Future, and Such Capital May Not Be Available When Needed Or At All

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve.

We cannot assure that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of Frost Bank or counterparties participating in the capital markets, or a downgrade of Cullen/Frost's or Frost Bank's debt ratings, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition and results of operations.

The Value Of Our Goodwill and Other Intangible Assets May Decline In The Future

As of December 31, 2015, we had $663.5 million of goodwill and other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of Cullen/Frost's common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our business, financial condition and results of operations.

Our Controls and Procedures May Fail or Be Circumvented

Our internal controls, disclosure controls and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, financial condition and results of operations.

New Lines Of Business Or New Products and Services May Subject Us To Additional Risks

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new

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line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

Cullen/Frost Relies On Dividends From Its Subsidiaries For Most Of Its Revenue

Cullen/Frost is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on Cullen/Frost's common stock and interest and principal on Cullen/Frost's debt. Various federal and state laws and regulations limit the amount of dividends that Frost Bank and certain non-bank subsidiaries may pay to Cullen/Frost. Also, Cullen/Frost's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event Frost Bank is unable to pay dividends to Cullen/Frost, Cullen/Frost may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from Frost Bank could have a material adverse effect on our business, financial condition and results of operations.

See the section captioned "Supervision and Regulation" in Item 1. Business and Note 10 - Capital and Regulatory Matters in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

Potential Acquisitions May Disrupt Our Business and Dilute Stockholder Value

We generally seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Potential disruption to our business.
- Potential diversion of our management's time and attention.
- The possible loss of key employees and customers of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

As part of the approval process in connection with the acquisition of WNB, we agreed with the Federal Reserve Board that before bringing it any further expansionary proposals, except for proposed branches serving majority minority areas within our existing markets, we would enhance certain compliance programs, including those related to fair lending. We are currently working on these enhancements.

We Are Subject To Liquidity Risk

We require liquidity to meet our deposit and debt obligations as they come due. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could reduce our access to liquidity sources include a downturn in the Texas economy, difficult credit markets or adverse regulatory actions against us. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a substantial majority of our liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of our assets are loans, which cannot be called or sold in the same time frame. We may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of our depositors sought to withdraw their accounts, regardless of the reason. A

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failure to maintain adequate liquidity could have a material adverse effect on our business, financial condition and results of operations.

We May Not Be Able To Attract and Retain Skilled People

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities engaged in by us can be intense and we may not be able to hire people or to retain them. We do not currently have employment agreements or non-competition agreements with any of our senior officers. The unexpected loss of services of key personnel could have a material adverse impact on our business, financial condition and results of operations because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Our Information Systems May Experience Failure, Interruption Or Breach In Security

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. Any failure, interruption or breach in security of these systems could result in significant disruption to our operations. Information security breaches and cybersecurity-related incidents may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties, or may result from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. Our technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. Our collection of such customer and company data is subject to extensive regulation and oversight.

Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, bank account information or other personal information or to introduce viruses or other malware through "Trojan horse" programs to our information systems and/or our customers' computers. Though we endeavor to mitigate these threats through product improvements, use of encryption and authentication technology and customer and employee education, such cyber attacks against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cybersecurity incidents in general and the risks of cyber crime are complex and continue to evolve. More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. While we maintain specific “cyber” insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our cyber insurance coverage. A security breach or other significant disruption of our information systems or those related to our customers, merchants and our third party vendors, including as a result of cyber attacks, could (i) disrupt the proper functioning of our networks and systems and therefore our

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operations and/or those of certain of our customers; (ii) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers; (iii) result in a violation of applicable privacy, data breach and other laws, subjecting us to additional regulatory scrutiny and expose the us to civil litigation, governmental fines and possible financial liability; (iv) require significant management attention and resources to remedy the damages that result; or (v) harm our reputation or cause a decrease in the number of customers that choose to do business with us. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

We Continually Encounter Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business, financial condition and results of operations.

We Are Subject To Claims and Litigation Pertaining To Fiduciary Responsibility

From time to time, customers make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal action related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for those products and services. Any financial liability or reputational damage could have a material adverse effect on our business, financial condition and results of operations.

Our Operations Rely On Certain External Vendors

We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor’s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

We Are Subject to Claims and Litigation Pertaining to Intellectual Property

Banking and other financial services companies, including us, rely on technology companies to provide information technology products and services necessary to support day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of our vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to us by our vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages. Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to our operations and distracting to management. If we are found to infringe upon one or more patents or other intellectual property rights, we may be required to pay substantial damages or royalties to a third-party. In certain cases, we may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase our operating expenses. If legal matters related to intellectual property claims were resolved against us or settled, we could be required to make payments in amounts that could have a material adverse effect on our business, financial condition and results of operations.

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We Are Subject To Environmental Liability Risk Associated With Lending Activities

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition and results of operations.

Severe Weather, Natural Disasters, Acts Of War Or Terrorism and Other External Events Could Significantly Impact Our Business

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Financial Services Companies Depend On The Accuracy and Completeness Of Information About Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

Risks Associated With Our Common Stock

Our Stock Price Can Be Volatile

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to us.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding us and/or our competitors.
- New technology used, or services offered, by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulations.
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, including real or anticipated changes in the strength of the Texas economy; industry factors and general economic and political conditions and events, such as economic slowdowns or recessions; interest rate changes, oil price volatility or credit loss trends could also cause our stock price to decrease regardless of operating results.

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The Trading Volume In Our Common Stock Is Less Than That Of Other Larger Financial Services Companies

Although our common stock is listed for trading on the New York Stock Exchange (NYSE), the trading volume in our common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

Cullen/Frost May Not Continue To Pay Dividends On Its Common Stock In The Future

Holders of Cullen/Frost common stock are only entitled to receive such dividends as its board of directors may declare out of funds legally available for such payments. Although Cullen/Frost has historically declared cash dividends on its common stock, it is not required to do so and may reduce or eliminate its common stock dividend in the future. This could adversely affect the market price of Cullen/Frost’s common stock. Also, Cullen/Frost is a bank holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends.

As more fully discussed in Note 10 - Capital and Regulatory Matters in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report, our ability to declare or pay dividends on our common stock may also be subject to certain restrictions in the event that we elect to defer the payment of interest on our junior subordinated deferrable interest debentures or do not declare and pay dividends on our Series A Preferred Stock.

An Investment In Our Common Stock Is Not An Insured Deposit

Our common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation (FDIC), any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Certain Banking Laws May Have An Anti-Takeover Effect

Provisions of federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. These provisions effectively inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our headquarters is located in downtown San Antonio, Texas. These facilities, which are owned by us, house our executive and primary administrative offices, as well as the principal banking headquarters of Frost Bank. We also own or lease other facilities within our primary market areas in the regions of Austin, Corpus Christi, Dallas, Fort Worth, Houston, Permian Basin, Rio Grande Valley and San Antonio. We consider our properties to be suitable and adequate for our present needs.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and legal actions that have arisen in the course of conducting business. Management does not expect the ultimate disposition of these matters to have a material adverse effect on our business, financial condition and results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

None

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Prices and Dividends

Our common stock is traded on the New York Stock Exchange, Inc. ("NYSE") under the symbol "CFR". The tables below set forth for each quarter of 2015 and 2014 the high and low intra-day sales prices per share of Cullen/Frost's common stock and the cash dividends declared per share.

	2015		2014	
Sales Price Per Share	High	Low	High	Low
First quarter	$71.33	$60.87	$78.96	$69.87
Second quarter	80.23	67.50	80.38	72.37
Third quarter	79.50	59.35	81.73	75.32
Fourth quarter	73.99	59.27	82.00	67.46

Cash Dividends Per Share	2015	2014
First quarter	$0.51	$0.50
Second quarter	0.53	0.51
Third quarter	0.53	0.51
Fourth quarter	0.53	0.51
Total	$2.10	$2.03

As of December 31, 2015, there were 61,982,333 shares of our common stock outstanding held by 1,277 holders of record. The closing price per share of common stock on December 31, 2015, the last trading day of our fiscal year, was $60.00.

Our management is currently committed to continuing to pay regular cash dividends; however, there can be no assurance as to future dividends because they are dependent on our future earnings, capital requirements and financial condition. See the section captioned "Supervision and Regulation" included in Item 1. Business, the section captioned "Capital and Liquidity" included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 10 - Capital and Regulatory Matters in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, all of which are included elsewhere in this report.

Stock-Based Compensation Plans

Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2015, segregated between stock-based compensation plans approved by shareholders and stock-based compensation plans not approved by shareholders, is presented in the table below. Additional information regarding stock-based compensation plans is presented in Note 12 - Employee Benefit Plans in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data located elsewhere in this report.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Awards	Weighted-Average Exercise Price of Outstanding Awards	Number of Shares Available for Future Grants
Plans approved by shareholders	5,612,240	60.30	1,589,727
Plans not approved by shareholders	—	—	—
Total	5,612,240	60.30	1,589,727

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Stock Repurchase Plans

From time to time, our board of directors has authorized stock repurchase plans. In general, stock repurchase plans allow us to proactively manage our capital position and return excess capital to shareholders. Shares purchased under such plans also provide us with shares of common stock necessary to satisfy obligations related to stock compensation awards. On April 30, 2015, our board of directors authorized a $100.0 million stock repurchase program, allowing us to repurchase shares of our common stock over a two-year period from time to time at various prices in the open market or through private transactions. Under the plan, we repurchased 1,485,493 shares at a total cost of $100.0 million during 2015. During 2013, we implemented an accelerated share repurchase as a part of stock repurchase program authorized by our board of directors in December 2012 to buy up to $150.0 million of our common stock. We repurchased 2,236,748 shares at a total cost of $144.0 million under the accelerated share repurchase. No shares were repurchased under stock repurchase plans during 2014.

The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the fourth quarter of 2015.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans at the End of the Period
October 1, 2015 to October 31, 2015	18,653 (1)	$ 66.22	—	$ 25,053
November 1, 2015 to November 30, 2015	—	—	—	25,053
December 1, 2015 to December 31, 2015	390,185	64.21	—	—
Total	408,838	$ 64.30	—	

(1) All of these repurchases were made in connection with the vesting of certain share awards.

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Performance Graph

The performance graph below compares the cumulative total shareholder return on Cullen/Frost Common Stock with the cumulative total return on the equity securities of companies included in the Standard & Poor’s 500 Stock Index and the Standard and Poor’s 500 Bank Index, measured at the last trading day of each year shown. The graph assumes an investment of $100 on December 31, 2010 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered to be an indication of future performance.

	2010	2011	2012	2013	2014	2015
Cullen/Frost	$100.00	$89.59	$95.06	$134.28	$130.87	$114.59
S&P 500	100.00	102.11	118.45	156.82	178.28	180.75
S&P 500 Banks	100.00	89.28	110.92	150.54	173.89	175.37

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ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from our audited financial statements as of and for the five years ended December 31, 2015. The following consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this report. The operating results of companies acquired during the periods presented are included with our results of operations since their respective dates of acquisition. Dollar amounts, except per share data, and common shares outstanding are in thousands.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Consolidated Statements of Income					
Interest income:					
Loans, including fees	$433,872	$440,958	$415,230	$401,364	$397,855
Securities	307,394	249,705	219,904	225,844	218,744
Interest-bearing deposits	8,123	10,725	7,284	4,300	6,357
Federal funds sold and resell agreements	107	83	82	104	61
Total interest income	749,496	701,471	642,500	631,612	623,017
Interest expense:					
Deposits	9,024	11,022	14,459	18,099	22,179
Federal funds purchased and repurchase agreements	167	134	121	140	312
Junior subordinated deferrable interest debentures	2,725	2,488	6,426	6,806	6,783
Subordinated notes payable and other borrowings	948	893	939	1,706	11,967
Total interest expense	12,864	14,537	21,945	26,751	41,241
Net interest income	736,632	686,934	620,555	604,861	581,776
Provision for loan losses	51,845	16,314	20,582	10,080	27,445
Net interest income after provision for loan losses	684,787	670,620	599,973	594,781	554,331
Non-interest income:					
Trust and investment management fees	105,512	106,237	91,375	83,317	78,297
Service charges on deposit accounts	81,350	81,946	81,432	83,392	86,125
Insurance commissions and fees	48,926	45,115	43,140	39,948	35,421
Interchange and debit card transaction fees	19,666	18,372	16,979	16,933	29,625
Other charges, commissions and fees	37,551	36,180	34,185	30,180	27,750
Net gain (loss) on securities transactions	69	38	1,176	4,314	6,414
Other	35,656	32,256	34,531	30,703	26,370
Total non-interest income	328,730	320,144	302,818	288,787	290,002
Non-interest expense:					
Salaries and wages	310,504	292,349	273,692	258,752	252,028
Employee benefits	69,746	60,151	62,407	57,635	52,939
Net occupancy	65,690	55,745	50,468	48,975	46,968
Furniture and equipment	64,373	62,087	58,443	55,279	51,469
Deposit insurance	14,519	13,232	11,682	11,087	12,714
Intangible amortization	3,325	3,520	3,141	3,896	4,387
Other	165,561	167,656	152,077	139,469	137,593
Total non-interest expense	693,718	654,740	611,910	575,093	558,098
Income before income taxes	319,799	336,024	290,881	308,475	286,235

Income taxes	40,471	58,047	53,015	70,523	68,700
Net income	279,328	277,977	237,866	237,952	217,535
Preferred stock dividends	8,063	8,063	6,719	—	—
Net income available to common shareholders	$271,265	$269,914	$231,147	$237,952	$217,535

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	As of or for the Year Ended December 31,				
	2015	2014	2013	2012	2011
Per Common Share Data					
Net income - basic	$4.31	$4.32	$3.82	$3.87	$3.55
Net income - diluted	4.28	4.29	3.80	3.86	3.54
Cash dividends declared and paid	2.10	2.03	1.98	1.90	1.83
Book value	44.30	42.87	39.13	39.32	37.27
Common Shares Outstanding					
Period-end	61,982	63,149	60,566	61,479	61,264
Weighted-average shares - basic	62,758	62,072	60,350	61,298	61,101
Dilutive effect of stock compensation	715	902	766	345	177
Weighted - average shares - diluted	63,473	62,974	61,116	61,643	61,278
Performance Ratios					
Return on average assets	0.97 %	1.05 %	1.02 %	1.14 %	1.17 %
Return on average common equity	9.86	10.51	9.93	10.03	10.01
Net interest income to average earning assets	3.45	3.41	3.41	3.59	3.88
Dividend pay-out ratio	48.72	47.12	51.75	49.11	51.58
Balance Sheet Data					
Period-end:					
Loans	$11,486,531	$10,987,535	$9,515,700	$9,223,848	$7,995,129
Earning assets	26,431,176	26,052,339	22,238,286	21,148,475	18,497,987
Total assets	28,567,118	28,277,775	24,312,939	23,124,069	20,317,245
Non-interest-bearing demand deposits	10,270,233	10,149,061	8,311,149	8,096,937	6,672,555
Interest-bearing deposits	14,073,362	13,986,869	12,377,637	11,400,429	10,084,193
Total deposits	24,343,595	24,135,930	20,688,786	19,497,366	16,756,748
Long-term debt and other borrowings	237,115	237,115	223,712	223,719	223,738
Shareholders’ equity	2,890,343	2,851,403	2,514,161	2,417,482	2,283,537
Average:					
Loans	$11,267,402	$10,299,025	$9,229,574	$8,456,818	$8,042,968
Earning assets	25,954,510	23,877,476	20,991,221	19,015,707	16,769,028
Total assets	28,061,885	25,767,738	22,752,037	20,826,885	18,568,967
Non-interest-bearing demand deposits	10,179,810	9,125,030	7,657,774	7,021,927	5,738,982
Interest-bearing deposits	13,860,948	12,927,729	11,610,320	10,270,173	9,483,633
Total deposits	24,040,758	22,052,759	19,268,094	17,292,100	15,222,615
Long-term debt and other borrowings	237,115	231,607	223,713	223,728	310,870
Shareholders’ equity	2,895,192	2,712,226	2,455,041	2,372,745	2,172,096
Asset Quality					
Allowance for loan losses	$135,859	$99,542	$92,438	$104,453	$110,147
Allowance for losses to year-end loans	1.18 %	0.91 %	0.97 %	1.13 %	1.38 %
Net loan charge-offs	$15,528	$9,210	$32,597	$15,774	$43,614
Net loan charge-offs to average loans	0.14 %	0.09 %	0.35 %	0.19 %	0.54 %
Non-performing assets	$85,722	$65,176	$69,773	$105,246	$120,946

Non-performing assets to:										
Total loans plus foreclosed assets	0.75	%	0.59	%	0.73	%	1.14	%	1.51	%
Total assets	0.30		0.23		0.29		0.46		0.60	
Consolidated Capital Ratios										
Common equity tier 1 risk-based ratio	11.37	%	N/A		N/A		N/A		N/A	
Tier 1 risk-based ratio	12.38		13.68	%	14.39	%	13.68	%	14.38	%
Total risk-based ratio	13.85		14.55		15.52		15.11		16.24	
Leverage ratio	7.79		8.16		8.49		8.28		8.66	
Average shareholders' equity to average total assets	10.32		10.53		10.79		11.39		11.70	

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The following tables set forth unaudited consolidated selected quarterly statement of operations data for the years ended December 31, 2015 and 2014. Dollar amounts are in thousands, except per share data.

	Year Ended December 31, 2015			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$189,102	$190,088	$185,932	$184,374
Interest expense	2,963	3,107	3,123	3,671
Net interest income	186,139	186,981	182,809	180,703
Provision for loan losses	34,000	6,810	2,873	8,162
Non-interest income(1)	83,155	83,378	78,982	83,215
Non-interest expense	173,399	175,569	173,239	171,511
Income before income taxes	61,895	87,980	85,679	84,245
Income taxes	3,657	12,130	12,602	12,082
Net income	58,238	75,850	73,077	72,163
Preferred stock dividends	2,016	2,016	2,015	2,016
Net income available to common shareholders	$56,222	$73,834	$71,062	$70,147
Net income per common share:				
Basic	$0.90	$1.18	$1.12	$1.11
Diluted	0.90	1.17	1.11	1.10

	Year Ended December 31, 2014			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$182,825	$181,548	$173,392	$163,706
Interest expense	3,833	3,907	3,426	3,371
Net interest income	178,992	177,641	169,966	160,335
Provision for loan losses	4,400	390	4,924	6,600
Non-interest income(2)	82,642	80,862	79,150	77,490
Non-interest expense	169,001	163,851	163,947	157,941
Income before income taxes	88,233	94,262	80,245	73,284
Income taxes	15,529	16,881	13,541	12,096
Net income	72,704	77,381	66,704	61,188
Preferred stock dividends	2,016	2,016	2,015	2,016
Net income available to common shareholders	$70,688	$75,365	$64,689	$59,172
Net income per common share:				
Basic	$1.12	$1.19	$1.04	$0.97
Diluted	1.11	1.18	1.03	0.96

(1) Includes a net gain on securities transactions of $228 thousand during the first quarter of 2015 and net losses on securities transactions of $107 thousand and $52 thousand during the fourth and third quarters of 2015, respectively.

(2) Includes net gains on securities transactions of $3 thousand, $33 thousand and $2 thousand during the fourth, third and second quarters of 2014, respectively.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this Annual Report on Form 10-K that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in our future filings with the SEC, in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of Cullen/Frost or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "targeted", "continue", "remain", "will", "should", "may" and other similar expressions are intended to identify forward-lookin statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on us and our customers and our assessment of that impact.
- Volatility and disruption in national and international financial and commodity markets.
- Government intervention in the U.S. financial system.
- Changes in the mix of loan geographies, sectors and types or the level of non-performing assets and charge-offs.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board.
- Inflation, interest rate, securities market and monetary fluctuations.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply.
- The soundness of other financial institutions.
- Political instability.
- Impairment of our goodwill or other intangible assets.
- Acts of God or of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowings and savings habits.
- Changes in the financial performance and/or condition of our borrowers.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The ability to increase market share and control expenses.
- Our ability to attract and retain qualified employees.
- Changes in the competitive environment in our markets and among banking organizations and other financial service providers.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the reliability of our vendors, internal control systems or information systems.

- Changes in our liquidity position.
- Changes in our organization, compensation and benefit plans.
- The costs and effects of legal and regulatory developments, the resolution of legal proceedings or regulatory or other governmental inquiries, the results of regulatory examinations or reviews and the ability to obtain required regulatory approvals.

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- Greater than expected costs or difficulties related to the integration of new products and lines of business.
- Our success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. We do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

Application of Critical Accounting Policies and Accounting Estimates

We follow accounting and reporting policies that conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial statements.

Accounting policies related to the allowance for loan losses are considered to be critical, as these policies involve considerable subjective judgment and estimation by management. The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. Our allowance for loan loss methodology includes allowance allocations calculated in accordance with Accounting Standards Codification (ASC) Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion and Note 4 - Loans in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data elsewhere in this report for further details of the risk factors considered by management in estimating the necessary level of the allowance for loan losses.

Overview

The following discussion and analysis presents the more significant factors that affected our financial condition as of December 31, 2015 and 2014 and results of operations for each of the years in the three-year period ended December 31, 2015. This discussion and analysis should be read in conjunction with our consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report. We acquired WNB Bancshares, Inc., a privately-held bank holding company located in Odessa, Texas ("WNB") during 2014 and a Houston-based insurance agency specializing in commercial lines insurance products during 2013. All of our acquisitions during the reported periods were accounted for using the acquisition method, and as such, their related results of operations are included from the date of acquisition, though none of these acquisitions had a significant impact on our financial statements during their respective reporting periods.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 35% federal tax rate, thus making tax-exempt yields comparable to taxable asset yields.

Dollar amounts in tables are stated in thousands, except for per share amounts.

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Results of Operations

Net income available to common shareholders totaled $271.3 million, or $4.28 diluted per common share, in 2015 compared to $269.9 million, or $4.29 diluted per common share, in 2014 and $231.1 million, or $3.80 diluted per common share, in 2013. During the second quarter of 2014, we acquired WNB Bancshares, Inc. ("WNB"). Accordingly, the operating results of WNB are included with our results of operations since May 30, 2014. See Note 2 - Mergers and Acquisitions in the accompanying consolidated financial statements.

Selected income statement data, returns on average assets and average equity and dividends per share for the comparable periods were as follows:

	2015	2014	2013
Taxable-equivalent net interest income	$888,035	$807,937	$710,850
Taxable-equivalent adjustment	151,403	121,003	90,295
Net interest income	736,632	686,934	620,555
Provision for loan losses	51,845	16,314	20,582
Non-interest income	328,730	320,144	302,818
Non-interest expense	693,718	654,740	611,910
Income before income taxes	319,799	336,024	290,881
Income taxes	40,471	58,047	53,015
Net income	279,328	277,977	237,866
Preferred stock dividends	8,063	8,063	6,719
Net income available to common shareholders	$271,265	$269,914	$231,147
Earnings per common share - basic	$4.31	$4.32	$3.82
Earnings per common share - diluted	4.28	4.29	3.80
Dividends per common share	2.10	2.03	1.98
Return on average assets	0.97 %	1.05 %	1.02 %
Return on average common equity	9.86	10.51	9.93
Average shareholders' equity to average assets	10.32	10.53	10.79

Net income available to common shareholders increased $1.4 million for 2015 compared to 2014. The increase was primarily the result of a $49.7 million increase in net interest income, an $8.6 million increase in non-interest income and a $17.6 million decrease in income tax expense partly offset by a $39.0 million increase in non-interest expense and a $35.5 million increase in the provision for loan losses. Net income available to common shareholders increased $38.8 million for 2014 compared to 2013. The increase was primarily the result of a $66.4 million increase in net interest income, a $17.3 million increase in non-interest income and a $4.3 million decrease in the provision for loan losses partly offset by a $42.8 million increase in non-interest expense, a $5.0 million increase in income tax expense and a $1.3 million increase in preferred stock dividends.

We issued our preferred stock on February 15, 2013. The initial quarterly dividend payment during the second quarter of 2013 occurred on June 15, 2013. This dividend payment included an additional amount applicable to the period from the issuance date through March 15, 2013, the start date of the normal quarterly dividend cycle. Future dividends payments on preferred stock are expected to continue at a rate of $8.1 million per year, paid over four equal, quarterly installments.

Details of the changes in the various components of net income are further discussed below.

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Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is our largest source of revenue, representing 69.1% of total revenue during 2015. Net interest margin is the ratio of taxable-equivalent net interest income to average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin.

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, remained at 3.25% during most of 2015 and for all of 2014 and 2013. In December 2015, the prime rate increased 25 basis points to 3.50%. Our loan portfolio is also impacted, to a lesser extent, by changes in the London Interbank Offered Rate (LIBOR). At December 31, 2015, the one-month and three-month U.S. dollar LIBOR rates were 0.43% and 0.61%, respectively, while at December 31, 2014, the one-month and three-month U.S. dollar LIBOR rates were 0.15% and 0.23%, respectively. The intended federal funds rate, which is the cost of immediately available overnight funds, remained at zero to 0.25% during most of 2015 and for all of 2014 and 2013. In December 2015, the intended federal funds rate increased to 0.25% to 0.50%.

Our balance sheet has historically been asset sensitive, meaning that earning assets generally reprice more quickly than interest-bearing liabilities. Therefore, our net interest margin was likely to increase in sustained periods of rising interest rates and decrease in sustained periods of declining interest rates. During the fourth quarter of 2007, in an effort to make our balance sheet less sensitive to changes in interest rates, we entered into various interest rate swaps which effectively converted certain variable-rate loans into fixed-rate instruments for a period of seven years. As a result of this action, our balance sheet was more interest-rate neutral and changes in interest rates had a less significant impact on our net interest margin than would have otherwise been the case. During the fourth quarter of 2009, a portion of the interest rate swaps on variable-rate loans was terminated, while the remaining interest rate swaps on variable-rate loans were terminated during the fourth quarter of 2010. These actions increased the asset sensitivity of our balance sheet. The accumulated gain on the interest rate swaps upon settlement was deferred and amortized over the original lives of the underlying swap contracts. The amortization of the deferred accumulated gain ended in October 2014. See Note 16 - Derivative Financial Instruments in the accompanying notes to consolidated financial statements included elsewhere in this report for additional information related to these interest rate swaps.

We are primarily funded by core deposits, with non-interest-bearing demand deposits historically being a significant source of funds. This lower-cost funding base is expected to have a positive impact on our net interest income and net interest margin in a rising interest rate environment. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts beginning July 21, 2011. To date, we have not experienced any significant additional interest costs as a result of the repeal; however, we may begin to incur interest costs associated with certain demand deposits in the future as market conditions warrant. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk elsewhere in this report for information about the expected impact of this legislation on our sensitivity to interest rates. Further analysis of the components of our net interest margin is presented below.

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The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each. Our consolidated average balance sheets along with an analysis of taxable-equivalent net interest income are presented in Item 8. Financial Statements and Supplementary Data of this report.

	2015 vs. 2014 Increase (Decrease) Due to Change in			2014 vs. 2013 Increase (Decrease) Due to Change in		
	Rate	Volume	Total	Rate	Volume	Total
Interest-bearing deposits	$412	$(3,014)	$(2,602)	$—	$3,441	$3,441
Federal funds sold and resell agreements	2	22	24	(10)	11	1
Securities:						
Taxable	(1,319)	20,833	19,514	11,531	(16,317)	(4,786)
Tax-exempt	485	68,389	68,874	(6,249)	71,350	65,101
Loans, net of unearned discounts	(47,442)	40,057	(7,385)	(21,052)	46,974	25,922
Total earning assets	(47,862)	126,287	78,425	(15,780)	105,459	89,679
Savings and interest checking	—	72	72	(659)	262	(397)
Money market deposit accounts	(1,900)	466	(1,434)	(3,144)	905	(2,239)
Time accounts	(387)	(193)	(580)	(404)	(11)	(415)
Public funds	(73)	17	(56)	(351)	(35)	(386)
Federal funds purchased and repurchase agreements	25	8	33	—	13	13
Junior subordinated deferrable interest debentures	133	104	237	(4,324)	386	(3,938)
Subordinated notes payable and other notes	55	—	55	(46)	—	(46)
Total interest-bearing liabilities	(2,147)	474	(1,673)	(8,928)	1,520	(7,408)
Net change	$(45,715)	$125,813	$80,098	$(6,852)	$103,939	$97,087

Taxable-equivalent net interest income for 2015 increased $80.1 million, or 9.9%, compared to 2014. The increase primarily related to an increase in the average volume of interest-earning assets, with a higher proportion of those assets invested in higher-yielding securities and loans rather than lower-yielding interest-bearing deposits, partly offset by the effect of a decrease in the average yield on loans. The average volume of interest-earning assets for 2015 increased $2.1 billion or 8.7% compared to 2014. The increase in earning assets reflected a $2.2 billion increase in average securities and a $968.4 million increase in average loans partly offset by a $1.1 billion decrease in average interest-bearing deposits. The increase in the average volume of interest-earning assets during 2015 was partly impacted by the acquisition of WNB during the second quarter of 2014, discussed below, as the assets acquired impacted our average balances for a full year in 2015 compared to only part of the year in 2014.

Taxable-equivalent net interest income for 2014 increased $97.1 million, or 13.7%, compared to 2013. The increase primarily related to an increase in the average volume of interest-earning assets. The average volume of interest-earning assets for 2014 increased $2.9 billion or 13.7% compared to 2013. The increase in earning assets was primarily due to a $1.3 billion increase in average interest-bearing deposits, a $1.1 billion increase in average loans and a $474.7 million increase in average securities. The increase in the average volume of interest-earning assets during 2014 was partly related to the acquisition of WNB during the second quarter of 2014. We acquired cash and cash equivalents totaling $879.7 million, loans totaling $670.6 million and securities totaling $154.2 million in connection with this acquisition.

The net interest margin increased 4 basis points from 3.41% during 2014 to 3.45% during 2015. As noted above, the net interest margin during 2015 was positively impacted by a decrease in the relative proportion of average interest-earning assets invested in lower-yielding interest-bearing deposits and an increase in the relative proportion of average interest-earning assets invested in higher-yielding securities and loans, while the net interest margin was negatively impacted by a decrease in the average yields on loans. These items are more fully discussed below. The average yield on interest-earning assets increased 3 basis points to 3.50% during 2015 from 3.47% during 2014 while the average rate paid on interest-bearing liabilities decreased 2 basis points from 0.11% during 2014 to 0.09% during 2015. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities are primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of the underlying assets and liabilities.

The net interest margin remained flat at 3.41% during 2014 compared to 2013. The net interest margin during 2014 was positively impacted by an increase in the average yield on securities, which resulted from an increase in the relative proportion of higher-yielding tax-exempt municipal securities relative to lower-yielding taxable securities, combined with a decrease in the average rate paid on interest-bearing liabilities. The net interest margin was negatively impacted by an increase in the relative proportion of average interest-earning assets invested in lower-yielding, interest-bearing deposits during 2014 compared to 2013 while the relative proportion of interest-earning assets invested in higher-yielding securities and loans decreased. The net interest margin was also negatively impacted by a decrease in the average yield on loans. These items are more fully discussed below. The average yield on interest-earning assets decreased 5 basis points to 3.47% during 2014 from 3.52% during 2013 while the average rate paid on interest-bearing liabilities decreased 7 basis points from 0.18% during 2013 to 0.11% during 2014. As stated above, market interest rates have remained at historically low levels during the reported periods. The effect of lower average market interest rates during the reported periods on the average yield on average interest-earning assets was partly limited through October 2014 because of the aforementioned interest rate swaps on variable-rate loans.

The average volume of loans increased $968.4 million, or 9.4%, in 2015 compared to 2014 and increased $1.1 billion, or 11.6%, in 2014 compared to 2013. As discussed above, we acquired $670.6 million in loans in connection with the acquisition of WNB during the second quarter of 2014. Loans made up approximately 43.4% of average interest-earning assets during 2015 compared to 43.1% during 2014 and 44.0% in 2013. The average yield on loans was 3.90% during 2015 compared to 4.34% during 2014 and 4.56% during 2013. The average yield on loans decreased 44 basis points during 2015 compared to 2014. The average yield on loans during 2015 and 2014 was negatively impacted by lower average spreads due to increased competition in loan pricing during the comparable periods. Furthermore, the decrease in the average yield on loans was also partly related to the aforementioned completion of the amortization of the deferred accumulated gain applicable to the settled interest rate swap contracts in October 2014. The amortization of the deferred accumulated gain positively impacted our average yield on loans by 30 basis points during 2014 and 40 basis points during 2013. In an effort to offset the loss of the amortization and its positive effect on our net interest income, we utilized $840 million in excess liquidity to purchase municipal securities during the third and fourth quarters of 2014. The higher yields associated with these securities relative to the yield that would have been received had these funds continued to be held as interest-bearing deposits and federal funds sold replaced the revenue stream from the amortization of the deferred accumulated gain applicable to the settled interest rate swaps so that our net interest income was not significantly impacted.

The average volume of securities increased $2.2 billion, or 24.0%, during 2015 compared to 2014 and increased $474.7 million, or 5.3% during 2014 compared to 2013. These increases were primarily related to the investment of excess liquidity from deposit growth, which included the aforementioned $840 million investment in municipal securities. Securities made up approximately 44.8% of average interest-earning assets in 2015 compared to 39.3% in 2014 and 42.4% in 2013. The average yield on securities was 3.97% in 2015 compared to 3.96% in 2014 and 3.48% in 2013. The average yield on taxable securities was 2.11% in 2015 compared to 2.14% in 2014 and 1.90% in 2013, while the average taxable-equivalent yield on tax-exempt securities was 5.59% in 2015 compared to 5.58% in 2014 and 5.75%% in 2013.

Average federal funds sold, resell agreements and interest-bearing deposits during 2015 decreased $1.1 billion, or 27.0%, compared to 2014 and increased $1.3 billion, or 46.8%, in 2014 compared to 2013. Federal funds sold, resell agreements and interest-bearing deposits made up approximately 11.8% of average interest-earning assets during 2015 compared to approximately 17.6% in 2014 and 13.7% in 2013. The combined average yield on federal funds sold, resell agreements and interest-bearing deposits was 0.27% during 2015, and 0.26% during 2014 and 2013. The decrease in average federal funds sold, resell agreements and interest-bearing deposits during 2015 was primarily related to the reinvestment of such funds into higher-yielding loans and securities. The increases in average federal

funds sold, resell agreements and interest-bearing deposits during 2014 was primarily related to excess liquidity from deposit growth.
Average deposits increased $2.0 billion, or 9.0%, in 2015 compared to 2014 and $2.8 billion, or 14.5%, in 2014 compared to 2013. Average deposits during the comparable periods were impacted by the acquisition of $1.6 billion in deposits in connection with the acquisition of WNB during the second quarter of 2014. Average interest-bearing deposits increased $933.2 million in 2015 compared to 2014 and $1.3 billion in 2014 compared to 2013, while average

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non-interest-bearing deposits increased $1.1 billion in 2015 compared to 2014 and $1.5 billion in 2014 compared to 2013. The ratio of average interest-bearing deposits to total average deposits was 57.7% in 2015 compared to 58.6% in 2014 and 60.3% in 2013. The average cost of deposits is primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of interest-bearing deposits. The average rate paid on interest-bearing deposits and total deposits was 0.07% and 0.04% in 2015 compared to 0.09% and 0.05% in 2014 and 0.12% and 0.08% in 2013. The decrease in the average raid paid on interest-bearing deposits during the comparable periods was primarily the result of decreases in interest rates offered on certain deposit products due to decreases in average market interest rates and decreases in renewal interest rates on maturing certificates of deposit given the current low interest rate environment. Additionally, the relative proportion of higher-cost certificates of deposit to total average interest-bearing deposits decreased to 6.3% in 2015 from 7.5% in 2014 and 8.4% in 2013.

Our net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.41% in 2015 compared to 3.36% in 2014 and 3.34% in 2013. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Our hedging policies permit the use of various derivative financial instruments, including interest rate swaps, swaptions, caps and floors, to manage exposure to changes in interest rates. Details of our derivatives and hedging activities are set forth in Note 16 - Derivative Financial Instruments in the accompanying notes to consolidated financial statements included elsewhere in this report. Information regarding the impact of fluctuations in interest rates on our derivative financial instruments is set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb inherent losses within the existing loan portfolio. The provision for loan losses totaled $51.8 million in 2015 compared to $16.3 million in 2014 and $20.6 million in 2013. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Non-Interest Income

The components of non-interest income were as follows:

	2015	2014	2013
Trust and investment management fees	$105,512	$106,237	$91,375
Service charges on deposit accounts	81,350	81,946	81,432
Insurance commissions and fees	48,926	45,115	43,140
Interchange and debit card transaction fees	19,666	18,372	16,979
Other charges, commissions and fees	37,551	36,180	34,185
Net gain (loss) on securities transactions	69	38	1,176
Other	35,656	32,256	34,531
Total	$328,730	$320,144	$302,818

Total non-interest income for 2015 increased $8.6 million, or 2.7%, compared to 2014 while total non-interest income for 2014 increased $17.3 million, or 5.7%, compared to 2013. Changes in the various components of non-interest income are discussed in more detail below.

Trust and Investment Management Fees. Trust and investment management fee income for 2015 decreased $725 thousand, or 0.7%, compared to 2014 while trust and investment management fee income for 2014 increased $14.9 million, or 16.3%, compared to 2013. Investment fees are the most significant component of trust and investment management fees, making up approximately 79%, 75% and 76% of total trust and investment management fees in 2015, 2014 and 2013, respectively. Investment and other custodial account fees are generally based on the market value of assets within a trust account. Volatility in the equity and bond markets impacts the market value of trust assets and the related investment fees.

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The decrease in trust and investment management fees during 2015 compared to 2014 was primarily the result of decreases in securities lending income (down $2.6 million) and oil and gas fees (down $2.5 million) mostly offset by an increase in trust investment fees (up $4.6 million). Securities lending fees decreased during 2015 as we discontinued our securities lending operations during the first quarter of 2015 in part due to the negative impact securities lending transactions would have had on our regulatory capital ratios under the newly effective Basel III capital rules. See Note 10 - Capital and Regulatory Matters in the accompanying notes to consolidated financial statements included elsewhere in this report. The decrease in oil and gas fees during 2015 was primarily due to lower prices for these commodities and decreased production. The increase in trust investment fees during 2015 was partly due to higher average equity valuations and an increase in the number of accounts.

The increase in trust and investment management fee income during 2014 compared to 2013 was primarily the result of an increase in investment fees (up $9.8 million), oil and gas fees (up $2.7 million), estate fees (up $1.4 million) and real estate fees (up $743 thousand). The increase in investment fees during 2014 was partly due to higher average equity valuations during 2014 relative to 2013, business development efforts and a change in the fee schedule beginning in the fourth quarter of 2013. The increase in oil and gas fees during 2014 was partly related to increased mineral production. Estate fees and real estate fees are transactional in nature and can vary from period to period.

At December 31, 2015, trust assets, including both managed assets and custody assets, were primarily composed of equity securities (46.0% of trust assets), fixed income securities (40.2% of trust assets) and cash equivalents (8.6% of trust assets). The estimated fair value of trust assets was $30.7 billion (including managed assets of $13.2 billion and custody assets of $17.5 billion) at December 31, 2015 compared to $30.5 billion (including managed assets of $13.0 billion and custody assets of $17.5 billion) at December 31, 2014 and $29.0 billion (including managed assets of $11.9 billion and custody assets of $17.1 billion) at December 31, 2013.

Service Charges on Deposit Accounts. Service charges on deposit accounts for 2015 decreased $596 thousand, or 0.7%, compared to 2014. The decrease was primarily due to decreases in overdraft/insufficient funds charges on consumer accounts (down $241 thousand), service charges on consumer accounts (down $205 thousand) and service charges on commercial accounts (down $163 thousand). Service charges on deposit accounts for 2014 increased $514 thousand, or 0.6%, compared to 2013. The increase was primarily due to an increase in service charges on commercial accounts (up $1.5 million) partly offset by decreases in overdraft/insufficient funds charges on consumer accounts (down $782 thousand) and service charges on consumer accounts (down $226 thousand). Overdraft/insufficient funds charges totaled $32.0 million during 2015 compared to $32.3 million during 2014 and $33.0 million in 2013. Overdraft/insufficient funds charges included $24.8 million, $25.0 million and $25.8 million related to consumer accounts during 2015, 2014 and 2013, respectively, and $7.3 million, $7.3 million and $7.2 million related to commercial accounts during 2015, 2014 and 2013, respectively.

Insurance Commissions and Fees. Insurance commissions and fees for 2015 increased $3.8 million, or 8.4%, compared to 2014 and increased $2.0 million, or 4.6%, in 2014 compared to 2013. The increases were partly related to increases in commission income (up $2.0 million in 2015 compared to 2014 and up $2.1 million in 2014 compared to 2013). The increase in commission income during 2015 was primarily related to increases in employee benefit plan commissions and fees and commercial lines property and casualty commissions. The increase in commission income during 2014 was primarily related to an increase in commercial lines property and casualty commissions resulting from new business, the impact of the acquisition of Kolkhorst Insurance Agency during the fourth quarter of 2013 and, to a lesser extent, higher rates.

During 2015, the increase in insurance commissions and fees was also partly related in an increase in contingent commissions (up $1.8 million). Insurance commissions and fees include contingent commissions which totaled $5.5 million in 2015, $3.6 million in 2014 and $3.8 million 2013. Contingent commissions primarily consist of amounts received from various property and casualty insurance carriers related to the loss performance of insurance policies previously placed. Such commissions are seasonal in nature and are mostly received during the first quarter of each year. These commissions totaled $3.8 million in 2015, $2.0 million in 2014 and $2.2 million in 2013. Contingent commissions also include amounts received from various benefit plan insurance companies related to the volume of business generated and/or the subsequent retention of such business. These commissions totaled $1.7 million in 2015, and $1.6 million in both 2014 and 2013.

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Interchange and Debit Card Transaction Fees. Interchange fees, or "swipe" fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Interchange and debit card transaction fees consist of income from check card usage, point of sale income from PIN-based debit card transactions and ATM service fees. Interchange and debit card transaction fees for 2015 increased $1.3 million, or 7.0% compared to 2014 and increased $1.4 million, or 8.2%, in 2014 compared to 2013. Income from debit card transactions totaled approximately $17.0 million in 2015 compared to $16.0 million in 2014 and $14.7 million in 2013. Income from ATM service fees totaled approximately $2.7 million in 2015 compared to $2.4 million in 2014 and $2.2 million in 2013.

Federal Reserve Board rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. An upward adjustment of no more than 1 cent to an issuer's debit card interchange fee is allowed if the card issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards. The Federal Reserve Board also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Other Charges, Commissions and Fees. Other charges, commissions and fees for 2015 increased $1.4 million, or 3.8%, compared to 2014. The increase in other charges, commissions and fees included increases in income from capital markets fees related to financial advisory services (up $1.5 million) and letters of credit fees (up $826 thousand), among other things. These increases were partly offset by decreases in income from corporate finance advisory services (down $687 thousand) and human resources consulting fee income (down $425 thousand), among other things. Income from capital markets financial advisory services are transactional in nature and, as such, fees for such services can vary significantly from period to period. The increase in letter of credit fees was partly related to an increase in volume. The decrease in income from corporate finance advisory services was partly related to the discontinuation of the operations of Frost Securities in 2015. The decrease in human resources consulting fee income was related to a decline in service volumes.

Other charges, commissions and fees for 2014 increased $2.0 million or 5.8%, compared to 2013. The increase in other charges, commissions and fees during 2014 included increases in wire transfer fees (up $1.6 million), income from corporate finance and capital markets advisory services (up $1.2 million), loan processing fees (up $658 thousand), income from the sale of mutual funds (up $476 thousand) and unused balance fees on loan commitments (up $418 thousand). These increases were partly offset by decreases in income related to the sale of annuities (down $1.3 million), other service charges (down $632 thousand) and human resources consulting fee income (down $514 thousand). The increase in wire transfer fees during the comparable periods was partly related to a new fee schedule. As noted above, corporate finance and capital markets advisory services are transactional in nature and, as such, fees for such services can vary significantly from period to period. The increase in commission income related to the sale of mutual funds during the comparable periods reflected customers' continued investment in equities. The decrease in income related to the sale of annuities was related to a decrease in interest rates and a lower volume of business. The decrease in other service charges during the comparable periods was partly related to a decrease in fees associated with asset based lending services. The decrease in human resources consulting fee income was related to a decline in service volumes.

Net Gain/Loss on Securities Transactions. During 2015, we sold available-for-sale securities with an amortized cost totaling $12.7 billion and realized a net gain of $69 thousand on those sales. During the first quarter of 2015, we sold an available-for-sale U.S. Treasury security with an amortized cost totaling $223.8 million and realized a gain of $228 thousand on the sale. The security sold had a short term and low yield. The proceeds from the sale of this security were reinvested into longer-term, higher-yielding securities. The remaining sales were primarily related to securities purchased during 2015 and subsequently sold in connection with the Corporation's tax planning strategies related to the Texas franchise tax. The gross proceeds from the sales of these securities outside of Texas are included in total revenues/receipts from all sources reported for Texas franchise tax purposes, which results in a reduction in the overall percentage of revenues/receipts apportioned to Texas and subjected to taxation under the Texas franchise tax.

During 2014, we sold available-for-sale securities with an amortized cost totaling $12.2 billion and realized a net gain of $38 thousand on those sales. The majority of these securities were primarily purchased during 2014 and subsequently sold in connection with our aforementioned tax planning strategies related to the Texas franchise tax. We also sold approximately $2.0 million of municipal securities acquired in connection with the acquisition of WNB during the second quarter of 2014.

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During 2013, we realized a net gain of $1.2 million on the sale of available-for-sale securities. During 2013, we sold certain municipal securities with an amortized cost totaling $29.1 million and realized a net gain of $1.2 million on those sales. The sales were made for the purpose of divesting of certain securities issued by municipalities outside of Texas. We also sold U.S. Treasury securities with an amortized cost totaling $10.0 billion and realized a net loss of $2 thousand on those sales. These securities were primarily purchased during 2013 and subsequently sold in connection with our aforementioned tax planning strategies related to the Texas franchise tax.

Other Non-Interest Income. Other non-interest income for 2015 increased $3.4 million, or 10.5%, compared to 2014. The increase was primarily due to increases in income from public finance underwriting fees (up $3.1 million), gains on the sale of foreclosed and other assets (up $2.9 million), income from customer derivative and trading activities (up $1.0 million) and earnings on life insurance policies (up $580 thousand) partly offset by decreases in mineral interest income (down $2.5 million) and sundry and other miscellaneous income (down $1.4 million) and lease rental income (down $315 thousand). The increase in income from public finance underwriting fees during 2015 was primarily related to transaction volumes. During 2015, gains on the sale of foreclosed and other assets included, among other things, $2.0 million related to a gain from the redemption of stock in another financial institution that was acquired in prior bank acquisitions. The increase in income from customer derivative and trading activities was primarily related to an increase in the volume of customer interest rate swap transactions, which impacted the level of fees we recognized. Mineral interest income is primarily related to oil and gas royalties received from severed mineral interests owned by our wholly-owned non-banking subsidiary Main Plaza Corporation. The decrease in mineral interest income was partly related to lower energy prices and a decrease in production. During 2015, sundry and other miscellaneous income included, among other things, $1.2 million related to distributions received on a small business investment company ("SBIC") investment, $1.7 million related to recoveries of prior write-offs, $1.7 million in VISA check card incentives related to business volumes and $324 thousand related to an insurance settlement. During 2014, sundry and other miscellaneous income included, among other things, $2.4 million related to distributions received on a small business investment company (“SBIC”) investment and $2.1 million related to recoveries of prior write-offs and $2.0 million in VISA check card incentives related to business volumes.

Other non-interest income for 2014 decreased $2.3 million, or 6.6%, compared to 2013. Other non-interest income during 2013 included $4.8 million related to the sale of a building and parking garage, as further discussed below. Excluding the impact of the prior-year gain, other non-interest income effectively increased $2.5 million. This effective increase in other non-interest income during 2014 included increases in sundry income from various miscellaneous items (up $2.7 million) and income from securities trading and customer derivatives transactions (up $335 thousand). The increase from these items was partly offset by a decrease in income from public finance underwriting (down $293 thousand). Sundry income from various miscellaneous items during 2014 included the aforementioned$2.4 million related to distributions received on an SBIC investment, $2.1 million related to recoveries of prior write-offs and $2.0 million in VISA check card incentives related to business volumes. The increase in income from securities trading and customer derivative transactions was primarily related to an increase in customer interest rate swap transaction fees.

During the first quarter of 2013, we realized a $5.6 million gain related to the sale of a building and parking garage. We leased back portions of the building through the third quarter of 2013 and the first quarter of 2015. As a result, a portion of the gain was deferred and only $4.8 million of the total $5.6 million gain was recognized during 2013. During 2015 and 2014, other non-interest income included $154 thousand and $614 thousand, respectively, related to the amortization of the deferred gain.

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Non-Interest Expense

The components of non-interest expense were as follows:

	2015	2014	2013
Salaries and wages	$310,504	$292,349	$273,692
Employee benefits	69,746	60,151	62,407
Net occupancy	65,690	55,745	50,468
Furniture and equipment	64,373	62,087	58,443
Deposit insurance	14,519	13,232	11,682
Intangible amortization	3,325	3,520	3,141
Other	165,561	167,656	152,077
Total	$693,718	$654,740	$611,910

Total non-interest expense for 2015 increased $39.0 million, or 6.0%, compared to 2014 while total non-interest expense for 2014 increased $42.8 million, or 7.0%, compared to 2013. Other non-interest expense during 2014 was particularly impacted by the acquisition of WNB during the second quarter of 2014. Changes in the various components of non-interest expense are discussed below.

Salaries and Wages. Salaries and wages increased $18.2 million, or 6.2%, in 2015 compared to 2014 and increased $18.7 million, or 6.8%, in 2014 compared to 2013. The increase during 2015 compared to 2014 was primarily related to an increase in the number of employees (partly related to the acquisition of WNB); normal annual merit and market increases; and an increase in incentive compensation. The increase during 2014 compared to 2013 was primarily related to an increase in the number of employees (partly related to the acquisition of WNB), normal annual merit and market increases, increased overtime and increased stock-based compensation expense.

Employee Benefits. Employee benefits expense for 2015 increased $9.6 million, or 16.0%, compared to 2014. The increase was partly related to increases in expenses related to our defined benefit retirement plans (up $5.1 million). We recognized a combined net periodic pension expense of $3.2 million on our defined benefit retirement plans during 2015 compared to a combined net periodic net pension benefit of $1.8 million during 2014. The increase in employee benefits expense was also partly related to increases in 401(k) and profit sharing plan expense (up $1.5 million), medical insurance expense (up $1.4 million) and payroll taxes (up $853 thousand). Other than expenses related to our defined benefit retirement plans, the aforementioned increases in the various categories of employee benefits expense were related to an increase in the number of employees, which includes those added in connection with the acquisition of WNB.

Employee benefits expense for 2014 decreased $2.3 million, or 3.6%, compared to 2013. The decrease was primarily related to a decrease in expenses related to our defined benefit retirement plans (down $4.6 million). We recognized a combined net periodic pension benefit of $1.8 million on our defined benefit retirement plans during 2014 compared to a combined net periodic pension expense of $2.8 million during 2013. This decrease was partly offset by increases in payroll taxes (up $1.1 million), medical insurance expense (up $834 thousand) and 401(k) and profit sharing plan expense (up $247 thousand).

Our defined benefit retirement and restoration plans were frozen effective as of December 31, 2001 and were replaced by the profit sharing plan. Management believes these actions help reduce the volatility in retirement plan expense. However, we still have funding obligations related to the defined benefit and restoration plans and could recognize retirement expense related to these plans in future years, which would be dependent on the return earned on plan assets, the level of interest rates and employee turnover. As stated above, we recognized a net expense related to the defined benefit retirement and restoration plans totaling $3.2 million in 2015 compared to a net benefit of $1.8 million in 2014 and a net expense of $2.8 million in 2013. Future expense/benefits related to these plans is dependent upon a variety of factors, including the actual return on plan assets.

For additional information related to our employee benefit plans, see Note 12 - Employee Benefit Plans in the accompanying notes to consolidated financial statements included elsewhere in this report.

Net Occupancy. Net occupancy expense for 2015 increased $9.9 million, or 17.8%, compared to 2014. The increase was primarily related to increases in property taxes (up $2.9 million), building depreciation (up $2.1 million), lease expense (up $1.8 million), depreciation on leasehold improvements (up $964 thousand), repairs and maintenance

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expense (up $943 thousand) and utilities expense (up $616 thousand). The increases in these items were partly related to the additional facilities added in connection with the acquisition of WNB during the second quarter of 2014, a new operations and support center, a portion of which was placed into service during the second quarter of 2015, and new financial center locations. We expect higher levels of building depreciation expense related to the new operations and support center in future periods as additional components of the center are placed into service.

Net occupancy expense for 2014 increased $5.3 million, or 10.5%, compared to 2013. The increase was primarily related to increases in lease expense (up $3.4 million), repairs and maintenance expense (up $1.5 million) and building depreciation (up $356 thousand). The increases in these items were partly related to new leases, increased rental rates and the additional facilities added in connection with the acquisition of WNB.

Furniture and Equipment. Furniture and equipment expense for 2015 increased $2.3 million, or 3.7%, compared to 2014. The increase was primarily related to increases in expenses related to depreciation on furniture and equipment (up $1.9 million), software maintenance (up $1.7 million) and service contracts expense (up $1.3 million) partly offset by a decrease in software amortization (down $2.5 million).

Furniture and equipment expense for 2014 increased $3.6 million, or 6.2%, compared to 2013. The increase was primarily related to increases in software maintenance (up $2.7 million), furniture and fixtures depreciation (up $768 thousand) and service contracts expense (up $309 thousand).

Deposit Insurance. Deposit insurance expense totaled $14.5 million in 2015 compared to $13.2 million in 2014 and $11.7 million in 2013. The increases in deposit insurance expense during the comparable periods were primarily related to an increase in assets, which was partly related to the acquisition of WNB. We acquired $879.7 million of cash and cash equivalents, $670.6 million of loans, $154.2 million of securities and $1.6 billion of deposits in connection with this acquisition.

Intangible Amortization. Intangible amortization is primarily related to core deposit intangibles and, to a lesser extent, intangibles related to customer relationships and non-compete agreements. Intangible amortization totaled $3.3 million in 2015 compared to $3.5 million in 2014 and $3.1 million in 2013. The decrease in 2015 compared to 2014 was primarily related to the completion of amortization of certain previously recognized intangible assets as well as a reduction in the annual amortization rate of certain previously recognized intangible assets as we use an accelerated amortization approach which results in higher amortization rates during the earlier years of the useful lives of intangible assets. This decrease was partly offset by the additional amortization related to the core deposit intangible recorded in connection with the acquisition of WNB during the second quarter of 2014. The increase in intangible amortization in 2014 compared to 2013 was primarily related to additional amortization related to the aforementioned core deposit intangible recorded in connection with the acquisition of WNB as well as the intangible assets recorded in connection with the acquisition of Kolkhorst Insurance Agency during the fourth quarter of 2013. The impact of this additional amortization was partly limited by the reduction in the annual amortization rate of certain previously recognized intangible assets. See Note 6 - Goodwill and Other Intangible Assets in the accompanying notes to consolidated financial statements included elsewhere in this report.

Other Non-Interest Expense. Other non-interest expense for 2015 decreased $2.1 million, or 1.2%, compared to 2014. Other non-interest expense during 2014 was impacted by expenses related to the acquisition of WNB during the second quarter. See Note 2 - Mergers and Acquisitions in the accompanying notes to consolidated financial statements included elsewhere in this report. Acquisition related expenses included in other non-interest expenses totaled $7.1 million during 2014. Such amounts included $3.5 million in professional services expense, $1.3 million in severance and $2.3 million in various other expenses. Excluding these acquisition related expenses during 2014, other non-interest expense for 2015 effectively increased $5.0 million, or 3.1%, compared to 2014. This effective increase was partly related to increases in professional services expense (up $2.4 million), data communications expense (up $1.8 million), guard service expense (up $1.4 million), check card expense (up $1.1 million) and travel/meals and entertainment expense (up $1.1 million), among other things. The increases in these items were partly offset by decreases in donations expense (down $1.3 million), losses on the sale/write-down of foreclosed and other assets (down $964 thousand) and sundry expense and other miscellaneous items (down $741 thousand).

Other non-interest expense for 2014 increased $15.6 million, or 10.2%, compared to 2013. As mentioned above, 2014 was impacted by expenses related to the acquisition of WNB during the second quarter. Additionally, during 2013 we wrote down certain land and other assets totaling $7.2 million. Approximately $6.2 million of this amount was related to the write-down of certain long-term bank-owned property in downtown San Antonio that was made available for sale. Excluding the aforementioned acquisition related expenses during 2014 and the write downs in 2013, other

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non-interest expense for 2014 effectively increased $17.1 million, or 11.9%. This effective increase was partly related to increases in check card expense (up $4.2 million), sundry and other miscellaneous expenses (up $3.3 million), advertising/promotions expense (up $2.7 million), amortization of net deferred cost related to loan commitments (up $1.9 million), guard services expense (up $842 thousand) and travel, meals and entertainment expense (up $787 thousand), among other things, partly offset by a decrease in professional services expense (down $976 thousand), among other things. During 2014, sundry and other miscellaneous expenses included an accrual of $2.2 million related to a settlement.

Results of Segment Operations

Our operations are managed along two operating segments: Banking and Frost Wealth Advisors. A description of each business and the methodologies used to measure financial performance is described in Note 19 - Operating Segments in the accompanying notes to consolidated financial statements included elsewhere in this report. Net income (loss) by operating segment is presented below:

	2015	2014	2013
Banking	$262,038	$259,457	$226,783
Frost Wealth Advisors	19,968	21,232	15,653
Non-Banks	(2,678)	(2,712)	(4,570)
Consolidated net income	$279,328	$277,977	$237,866

Banking

Net income for 2015 increased $2.6 million, or 1.0%, compared to 2014. The increase was primarily the result of a $49.1 million increase in net interest income, a $16.9 million decrease in income tax expense and an $11.7 million increase in non-interest income partly offset by a $39.6 million increase in non-interest expense and a $35.5 million increase in the provision for loan losses. Net income for 2014 increased $32.7 million, or 14.4%, compared to 2013. The increase was primarily the result of a $62.2 million increase in net interest income, a $4.3 million decrease in the provision for loan losses and a $3.1 million increase in non-interest income partly offset by a $35.9 million increase in non-interest expense and a $1.1 million increase in income tax expense.

Net interest income for 2015 increased $49.1 million, or 7.2%, compared to 2014 while net interest income for 2014 increased $62.2 million, or 10.0%, compared to 2013. The increases were primarily related to increases in the average volume of interest-earning assets. See the analysis of net interest income included in the section captioned “Net Interest Income” included elsewhere in this discussion.

The provision for loan losses for 2015 totaled $51.8 million compared to $16.3 million in 2014 and $20.6 million in 2013. See the analysis of the provision for loan losses included in the section captioned “Allowance for Loan Losses” included elsewhere in this discussion.

Non-interest income for 2015 increased $11.7 million, or 6.0%, compared to 2014. The increase was primarily related to increases in other non-interest income; insurance commissions and fees; other charges, commissions and fees; and interchange and debit card transaction fees partly offset by a decrease in service charges on deposit accounts. The increase in other non-interest income was primarily due to increases in income from public finance underwriting fees, gains on the sale of foreclosed and other assets, income from customer derivative and trading activities and earnings on life insurance policies partly offset by decreases in sundry and other miscellaneous income and lease rental income. The increase in insurance commissions and fees was related to increases in employee benefit plan commissions and fees, commercial lines property and casualty commissions and contingent commissions. The increase in other charges, commissions and fees included increases in income from capital markets fees related to financial advisory services and letters of credit fees, among other things partly offset by decreases in income from corporate finance advisory services (due to the discontinuation of the operations of Frost Securities in 2015) and human resources consulting fee income, among other things. The increase in interchange and debit card transaction fees was primarily related to an increase in income from debit card transactions and ATM service fees. The decrease in services charges on deposit accounts was primarily due to decreases in overdraft/insufficient funds charges on consumer accounts, service charges on consumer accounts and service charges on commercial accounts. See the analysis of these categories of non-interest income included in the section captioned “Non-Interest Income” included elsewhere in this discussion.

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Non-interest income for 2014 increased $3.1 million, or 1.6%, compared to 2013. The increase was primarily related to increases in other charges, commissions and fees, insurance commissions and fees, interchange and debit card transaction fees and service charges on deposit accounts partly offset by decreases in other non-interest income and the net gain on securities transactions. The increase in other charges, commissions and fees was primarily related to increases in wire transfer fees, investment banking and capital markets fees related to advisory services, loan processing fees and unused balance fees on loan commitments partly offset by decreases in other service charges and human resources consulting fee income. The increase in insurance commissions and fees was primarily related to increases in commercial lines property and casualty commissions resulting from new business, the impact of the acquisition of Kolkhorst Insurance Agency during the fourth quarter of 2013 and, to a lesser extent, higher rates, partly offset by decreases in contingent commissions and employee benefit commissions and fees. The increase in interchange and debit card transaction fees was primarily due to an increase in income from check card usage and an increase in income from ATM service fees partly offset by a decrease in point of sale income from PIN-based debit card transactions. The increase in service charges on deposit accounts was primarily due to an increase in service charges on commercial accounts partly offset by decreases in overdraft/insufficient funds charges on consumer accounts and service charges on consumer accounts. The decrease in other non-interest income was primarily related to a non-recurring gain realized on the sale of a building and parking garage during 2013. See the analysis of these categories of non-interest income included in the section captioned “Non-Interest Income” included elsewhere in this discussion.

Non-interest expense for 2015 increased $39.6 million, or 7.2%, compared to 2014. The increase was primarily related to increases in salaries and wages, net occupancy, employee benefits and, to a lesser extent, increases in furniture and equipment expense, other non-interest expense and deposit insurance. The increase in salaries and wages was primarily related to an increase in the number of employees (partly related to the acquisition of WNB); normal annual merit and market increases; and an increase in incentive compensation. The increase in net occupancy expense was primarily related to increases in property taxes, building depreciation, lease expense, depreciation on leasehold improvements, repairs and maintenance expense and utilities expense. The increases in these items were partly related to the additional facilities added in connection with the acquisition of WNB during the second quarter of 2014, a new operations and support center, a portion of which was placed into service during the second quarter of 2015, and new financial center locations. The increase in employee benefits expense was related to increases in expenses related to our defined benefit retirement, 401(k) and profit sharing plans, medical insurance expense and payroll taxes. Other than expenses related to our defined benefit retirement plans, the aforementioned increases in the various categories of employee benefits expense were related to an increase in the number of employees, which includes those added in connection with the acquisition of WNB. The increase in furniture and equipment expense was primarily related to increases in expenses related to depreciation on furniture and equipment, software maintenance and service contracts expense partly offset by a decrease in