CULLEN/FROST BANKERS, INC.
Form 10-Q
April 26, 2017
Table of Contents

United States
Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2017
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)
N/A
(Former name, former address and former fiscal year, if changed since last report)
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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” 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 ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
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 April 21, 2017 there were 63,950,427 shares of the registrant’s Common Stock, $.01 par value, outstanding.

Table of Contents

Cullen/Frost Bankers, Inc.
Quarterly Report on Form 10-Q
March 31, 2017
Table of Contents

Table of Contents

Part I. Financial Information
Item 1. Financial Statements (Unaudited)
Cullen/Frost Bankers, Inc.
Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

	March 31, 2017	December 31, 2016
Assets:		
Cash and due from banks	$509,506	$561,838
Interest-bearing deposits	3,989,375	3,560,865
Federal funds sold and resell agreements	30,292	18,742
Total cash and cash equivalents	4,529,173	4,141,445
Securities held to maturity, at amortized cost	1,640,255	2,250,460
Securities available for sale, at estimated fair value	10,612,493	10,203,277
Trading account securities	17,094	16,703
Loans, net of unearned discounts	12,185,645	11,975,392
Less: Allowance for loan losses	(153,056)	(153,045)
Net loans	12,032,589	11,822,347
Premises and equipment, net	521,092	525,821
Goodwill	654,952	654,952
Other intangible assets, net	6,318	6,776
Cash surrender value of life insurance policies	178,206	177,884
Accrued interest receivable and other assets	332,533	396,654
Total assets	$30,524,705	$30,196,319
Liabilities:		
Deposits:		
Non-interest-bearing demand deposits	$10,909,415	$10,513,369
Interest-bearing deposits	15,232,749	15,298,206
Total deposits	26,142,164	25,811,575
Federal funds purchased and repurchase agreements	895,200	976,992
Junior subordinated deferrable interest debentures, net of unamortized issuance costs	136,141	136,127
Subordinated notes, net of unamortized issuance costs	98,446	99,990
Accrued interest payable and other liabilities	155,376	169,107
Total liabilities	27,427,327	27,193,791
Shareholders’ Equity:		
Preferred stock, par value $0.01 per share; 10,000,000 shares authorized; 6,000,000 Series A shares ($25 liquidation preference) issued at March 31, 2017 and December 31, 2016	144,486	144,486
Common stock, par value $0.01 per share; 210,000,000 shares authorized; 63,915,806 shares issued at March 31, 2017 and 63,632,464 shares issued at December 31, 2016	640	637
Additional paid-in capital	926,005	906,732
Retained earnings	2,032,097	1,985,569
Accumulated other comprehensive income, net of tax	(5,850)	(24,623)
Treasury stock, at cost; none at March 31, 2017 and 158,243 shares at December 31, 2016	—	(10,273)
Total shareholders’ equity	3,097,378	3,002,528
Total liabilities and shareholders’ equity	$30,524,705	$30,196,319

See Notes to Consolidated Financial Statements.

Table of Contents

Cullen/Frost Bankers, Inc.
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2017	2016
Interest income:		
Loans, including fees	$122,600	$112,586
Securities:		
Taxable	25,302	25,974
Tax-exempt	56,947	50,333
Interest-bearing deposits	6,836	3,653
Federal funds sold and resell agreements	107	58
Total interest income	211,792	192,604
Interest expense:		
Deposits	1,868	1,787
Federal funds purchased and repurchase agreements	139	56
Junior subordinated deferrable interest debentures	908	750
Other long-term borrowings	368	287
Total interest expense	3,283	2,880
Net interest income	208,509	189,724
Provision for loan losses	7,952	28,500
Net interest income after provision for loan losses	200,557	161,224
Non-interest income:		
Trust and investment management fees	26,470	25,334
Service charges on deposit accounts	20,769	20,364
Insurance commissions and fees	13,821	15,423
Interchange and debit card transaction fees	5,574	5,022
Other charges, commissions and fees	9,592	9,053
Net gain (loss) on securities transactions	—	14,903
Other	7,474	6,044
Total non-interest income	83,700	96,143
Non-interest expense:		
Salaries and wages	82,512	79,297
Employee benefits	21,625	20,305
Net occupancy	19,237	17,187
Furniture and equipment	17,990	17,517
Deposit insurance	4,915	3,657
Intangible amortization	458	664
Other	41,178	40,532
Total non-interest expense	187,915	179,159
Income before income taxes	96,342	78,208
Income taxes	11,401	9,392
Net income	84,941	68,816
Preferred stock dividends	2,016	2,016
Net income available to common shareholders	$82,925	$66,800

Earnings per common share:

Basic	$1.29	$1.07
Diluted	1.28	1.07

See Notes to Consolidated Financial Statements.

Table of Contents

Cullen/Frost Bankers, Inc.
Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	Three Months Ended March 31,	
	2017	2016
Net income	$84,941	$68,816
Other comprehensive income (loss), before tax:		
Securities available for sale and transferred securities:		
Change in net unrealized gain/loss during the period	33,811	122,218
Change in net unrealized gain on securities transferred to held to maturity	(6,286)	(8,166)
Reclassification adjustment for net (gains) losses included in net income	—	(14,903)
Total securities available for sale and transferred securities	27,525	99,149
Defined-benefit post-retirement benefit plans:		
Reclassification adjustment for net amortization of actuarial gain/loss included in net income as a component of net periodic cost (benefit)	1,357	1,553
Total defined-benefit post-retirement benefit plans	1,357	1,553
Other comprehensive income (loss), before tax	28,882	100,702
Deferred tax expense (benefit) related to other comprehensive income	10,109	35,246
Other comprehensive income (loss), net of tax	18,773	65,456
Comprehensive income (loss)	$103,714	$134,272

See Notes to Consolidated Financial Statements.

Table of Contents

Cullen/Frost Bankers, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2017	2016
Total shareholders' equity at beginning of period	$3,002,528	$2,890,343
Net income	84,941	68,816
Other comprehensive income (loss)	18,773	65,456
Stock option exercises/stock unit conversions (442,054 shares in 2017 and 1,875 shares in 2016)	24,747	97
Stock compensation expense recognized in earnings	3,103	2,482
Purchase of treasury stock (469 shares in 2017)	(42)	—
Cash dividends – preferred stock (approximately $0.34 per share in both 2017 and in 2016)	(2,016)	(2,016)
Cash dividends – common stock ($0.54 per share in 2017 and $0.53 per share in 2016)	(34,656)	(32,938)
Total shareholders' equity at end of period	$3,097,378	$2,992,240

See Notes to Consolidated Financial Statements.

Table of Contents

Cullen/Frost Bankers, Inc.
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Three Months Ended March 31,	
	2017	2016
Operating Activities:		
Net income	$84,941	$68,816
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	7,952	28,500
Deferred tax expense (benefit)	(4,301)	(4,395)
Accretion of loan discounts	(3,913)	(3,727)
Securities premium amortization (discount accretion), net	21,638	19,725
Net (gain) loss on securities transactions	—	(14,903)
Depreciation and amortization	12,121	11,912
Net (gain) loss on sale/write-down of assets/foreclosed assets	(533)	(632)
Stock-based compensation	3,103	2,482
Net tax benefit from stock-based compensation	3,515	37
Earnings on life insurance policies	(783)	(867)
Net change in:		
Trading account securities	(1,088)	(444)
Accrued interest receivable and other assets	55,705	29,418
Accrued interest payable and other liabilities	(48,702)	(5,792)
Net cash from operating activities	129,655	130,130
Investing Activities:		
Securities held to maturity:		
Purchases	—	—
Sales	—	135,610
Maturities, calls and principal repayments	599,457	149,507
Securities available for sale:		
Purchases	(466,004)	(813,955)
Sales	—	1,060,196
Maturities, calls and principal repayments	107,586	91,993
Proceeds from sale of loans	—	—
Net change in loans	(214,281)	(54,632)
Benefits received on life insurance policies	461	—
Proceeds from sales of premises and equipment	1,544	1,513
Purchases of premises and equipment	(6,311)	(7,366)
Proceeds from sales of repossessed properties	345	57
Net cash from investing activities	22,797	562,923
Financing Activities:		
Net change in deposits	330,589	(186,620)
Net change in short-term borrowings	(81,792)	(199,636)
Proceeds from issuance of subordinated notes	98,446	—
Principal payments on subordinated notes	(100,000)	—
Proceeds from stock option exercises	24,747	97
Purchase of treasury stock	(42)	—

Cash dividends paid on preferred stock	(2,016)	(2,016)
Cash dividends paid on common stock	(34,656)	(32,938)
Net cash from financing activities	235,276	(421,113)
Net change in cash and cash equivalents	387,728	271,940
Cash and equivalents at beginning of period	4,141,445	3,591,523
Cash and equivalents at end of period	$4,529,173	$3,863,463

See Notes to Consolidated Financial Statements.

Table of Contents

Notes to Consolidated Financial Statements
(Table amounts in thousands, except for share and per share amounts)
Note 1 - Significant Accounting Policies
Nature of Operations. Cullen/Frost Bankers, Inc. ("Cullen/Frost") 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. In addition to general commercial and consumer banking, other products and services offered include trust and investment management, insurance, brokerage, mutual funds, leasing, treasury management, capital markets advisory and item processing.
Basis of Presentation. The consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of Cullen/Frost and all other entities in which Cullen/Frost has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies we follow conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry.
The consolidated financial statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of our financial position and results of operations. All such adjustments were of a normal and recurring nature. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2016, included in our Annual Report on Form 10-K filed with the SEC on February 3, 2017 (the "2016 Form 10-K"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.
Use of Estimates. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses and the fair values of financial instruments and the status of contingencies are particularly subject to change.
Cash Flow Reporting. Additional cash flow information was as follows:

	Three Months Ended March 31,	
	2017	2016
Cash paid for interest	$3,257	$2,794
Cash paid for income taxes	—	—
Significant non-cash transactions:		
Unsettled purchases of securities	33,466	94,905
Loans foreclosed and transferred to other real estate owned and foreclosed assets	—	376

Accounting Changes, Reclassifications and Restatements. Certain items in prior financial statements have been reclassified to conform to the current presentation. As more fully described in our 2016 Form 10-K, during the third quarter of 2016, we elected to adopt the provisions of ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," in advance of the required application date of January 1, 2017. Our financial statements for the three months ended March 31, 2016 have been restated to reflect the adoption of ASU 2016-09 as of January 1, 2016. As a result, compared to previously reported amounts, our consolidated income statement as of March 31, 2016 reflects a $37 thousand decrease in income tax expense and a $37 thousand increase in net income which did not impact previously reported earnings per share.

8

Table of Contents

Note 2 - Securities

Securities. A summary of the amortized cost and estimated fair value of securities, excluding trading securities, is presented below.

	March 31, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to Maturity								
U.S. Treasury	$—	$—	$—	$—	$249,889	$1,762	$—	$251,651
Residential mortgage-backed securities	4,313	30	—	4,343	4,511	39	—	4,550
States and political subdivisions	1,634,592	27,531	3,039	1,659,084	1,994,710	16,821	6,335	2,005,196
Other	1,350	—	4	1,346	1,350	—	—	1,350
Total	$1,640,255	$27,561	$3,043	$1,664,773	$2,250,460	$18,622	$6,335	$2,262,747
Available for Sale								
U.S. Treasury	$4,203,543	$25,386	$7,698	$4,221,231	$4,003,692	$24,984	$8,945	$4,019,731
Residential mortgage-backed securities	711,040	27,305	1,426	736,919	756,072	30,388	1,293	785,167
States and political subdivisions	5,624,493	70,205	82,860	5,611,838	5,403,918	50,101	98,134	5,355,885
Other	42,505	—	—	42,505	42,494	—	—	42,494
Total	$10,581,581	$122,896	$91,984	$10,612,493	$10,206,176	$105,473	$108,372	$10,203,277

All mortgage-backed securities included in the above table were issued by U.S. government agencies and corporations. At March 31, 2017, approximately 98.1% of the securities in our municipal bond portfolio were issued by political subdivisions or agencies within the State of Texas, of which approximately 67.2% are either guaranteed by the Texas Permanent School Fund, which has a “triple A” insurer financial strength rating, or are secured by U.S. Treasury securities via defeasance of the debt by the issuers. Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost and are reported as other available for sale securities in the table above. The carrying value of securities pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law was $3.4 billion at March 31, 2017 and $3.9 billion and December 31, 2016.

During the fourth quarter of 2012, we reclassified certain securities from available for sale to held to maturity. The securities had an aggregate fair value of $2.3 billion with an aggregate net unrealized gain of $165.7 million ($107.7 million, net of tax) on the date of the transfer. The net unamortized, unrealized gain on the remaining transferred securities included in accumulated other comprehensive income in the accompanying balance sheet as of March 31, 2017 totaled $21.5 million ($14.0 million, net of tax). This amount will be amortized out of accumulated other comprehensive income over the remaining life of the underlying securities as an adjustment of the yield on those securities.

Unrealized Losses. As of March 31, 2017, securities with unrealized losses, segregated by length of impairment, were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Held to Maturity						
States and political subdivisions	$27,969	$ 249	$120,214	$ 2,790	$148,183	$ 3,039
Other	1,346	4	—	—	1,346	4

Total	$29,315	$ 253	$120,214	$ 2,790	$149,529	$ 3,043
Available for Sale						
U.S. Treasury	$1,621,498	$ 7,698	$—	$ —	$1,621,498	$ 7,698
Residential mortgage-backed securities	61,669	1,166	$6,200	260	67,869	1,426
States and political subdivisions	2,182,114	82,860	—	—	2,182,114	82,860
Total	$3,865,281	$ 91,724	$6,200	$ 260	$3,871,481	$ 91,984

Table of Contents

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost.

Management has the ability and intent to hold the securities classified as held to maturity in the table above until they mature, at which time we will receive full value for the securities. Furthermore, as of March 31, 2017, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. Any unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2017, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in our consolidated income statement.

Contractual Maturities. The amortized cost and estimated fair value of securities, excluding trading securities, at March 31, 2017 are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Residential mortgage-backed securities and equity securities are shown separately since they are not due at a single maturity date.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$327,143	$335,353	$50,830	$51,606
Due after one year through five years	166,880	174,676	4,793,171	4,819,082
Due after five years through ten years	349,195	353,119	366,528	376,888
Due after ten years	792,724	797,282	4,617,507	4,585,493
Residential mortgage-backed securities	4,313	4,343	711,040	736,919
Equity securities	—	—	42,505	42,505
Total	$1,640,255	$1,664,773	$10,581,581	$10,612,493

Sales of Securities. As more fully discussed in our 2016 Form 10-K, during 2016, we sold certain securities issued by municipalities that, based upon our internal credit analysis, had experienced significant deterioration in creditworthiness. Some of the securities we sold were classified as held to maturity prior to their sale. Despite their classification as held to maturity, we believe the sale of these securities was merited and permissible under the applicable accounting guidelines because of the significant deterioration in the creditworthiness of the issuers.

Sales of securities held to maturity were as follows:

	Three Months Ended March 31,	
	2017	2016
Proceeds from sales	$—	$135,610
Amortized cost	—	131,840
Gross realized gains	—	3,770
Gross realized losses	—	—
Tax (expense) benefit of securities gains/losses	—	(1,319)

Sales of securities available for sale were as follows:

Three Months Ended

	March 31,	
	2017	2016
Proceeds from sales	$—	$1,060,196
Gross realized gains	—	11,133
Gross realized losses	—	—
Tax (expense) benefit of securities gains/losses	—	(3,897)

Table of Contents

Premiums and Discounts. Premium amortization and discount accretion included in interest income on securities was as follows:

	Three Months Ended March 31,	
	2017	2016
Premium amortization	$(24,028)	$(22,340)
Discount accretion	2,390	2,615
Net (premium amortization) discount accretion	$(21,638)	$(19,725)

Trading Account Securities. Trading account securities, at estimated fair value, were as follows:

	March 31, 2017	December 31, 2016
U.S. Treasury	$ 17,094	$ 16,594
States and political subdivisions	—	109
Total	$ 17,094	$ 16,703

Net gains and losses on trading account securities were as follows:

	Three Months Ended March 31,	
	2017	2016
Net gain on sales transactions	$311	$302
Net mark-to-market gains (losses)	13	1
Net gain (loss) on trading account securities	$324	$303

Note 3 - Loans

Loans were as follows:

	March 31, 2017	Percentage of Total	December 31, 2016	Percentage of Total
Commercial and industrial	$4,402,276	36.2 %	$4,344,000	36.3 %
Energy:				
Production	982,266	8.0	971,767	8.1
Service	204,797	1.7	221,213	1.8
Other	175,493	1.5	193,081	1.7
Total energy	1,362,556	11.2	1,386,061	11.6
Commercial real estate:				
Commercial mortgages	3,602,100	29.6	3,481,157	29.1
Construction	1,063,894	8.7	1,043,261	8.7
Land	322,790	2.6	311,030	2.6
Total commercial real estate	4,988,784	40.9	4,835,448	40.4
Consumer real estate:				
Home equity loans	346,632	2.8	345,130	2.9
Home equity lines of credit	269,813	2.2	264,862	2.2
Other	332,531	2.7	326,793	2.7
Total consumer real estate	948,976	7.7	936,785	7.8
Total real estate	5,937,760	48.6	5,772,233	48.2
Consumer and other	483,053	4.0	473,098	3.9
Total loans	$12,185,645	100.0 %	$11,975,392	100.0 %

Concentrations of Credit. Most of our lending activity occurs within the State of Texas, including the four largest metropolitan areas of Austin, Dallas/Ft. Worth, Houston and San Antonio, as well as other markets. The majority of our loan portfolio consists of commercial and industrial and commercial real estate loans. As of March 31, 2017, there were no concentrations of loans related to any single industry in excess of 10% of total loans other than energy loans, which totaled 11.2% of total loans. Unfunded commitments to extend credit and standby letters of credit issued to customers in the energy industry totaled $1.2 billion and $38.4 million, respectively, as of March 31, 2017.

Table of Contents

Foreign Loans. We have U.S. dollar denominated loans and commitments to borrowers in Mexico. The outstanding balance of these loans and the unfunded amounts available under these commitments were not significant at March 31, 2017 or December 31, 2016.

Non-Accrual and Past Due Loans. Non-accrual loans, segregated by class of loans, were as follows:

	March 31, 2017	December 31, 2016
Commercial and industrial	$ 26,531	$ 31,475
Energy	78,747	57,571
Commercial real estate:		
Buildings, land and other	7,608	8,550
Construction	—	—
Consumer real estate	2,987	2,130
Consumer and other	303	425
Total	$ 116,176	$ 100,151

As of March 31, 2017, non-accrual loans reported in the table above included $11.2 million related to loans that were restructured as “troubled debt restructurings” during 2017. See the section captioned “Troubled Debt Restructurings” elsewhere in this note. Had non-accrual loans performed in accordance with their original contract terms, we would have recognized additional interest income, net of tax, of approximately $851 thousand for the three months ended March 31, 2017, compared to $844 thousand for three months ended March 31, 2016.

An age analysis of past due loans (including both accruing and non-accruing loans), segregated by class of loans, as of March 31, 2017 was as follows:

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and industrial	$ 20,566	$ 23,787	$ 44,353	$ 4,357,923	$ 4,402,276	$ 3,014
Energy	2,941	29,467	32,408	1,330,148	1,362,556	628
Commercial real estate:						
Buildings, land and other	6,243	5,214	11,457	3,913,433	3,924,890	1,834
Construction	2,115	113	2,228	1,061,666	1,063,894	113
Consumer real estate	5,145	2,230	7,375	941,601	948,976	695
Consumer and other	4,598	668	5,266	477,787	483,053	530
Total	$ 41,608	$ 61,479	$ 103,087	$ 12,082,558	$ 12,185,645	$ 6,814

Table of Contents

Impaired Loans. Impaired loans are set forth in the following table. No interest income was recognized on impaired loans subsequent to their classification as impaired.

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
March 31, 2017					
Commercial and industrial	$ 35,005	$ 18,113	$ 5,763	$ 23,876	$ 2,751
Energy	84,912	53,313	25,326	78,639	850
Commercial real estate:					
Buildings, land and other	11,635	6,453	—	6,453	—
Construction	—	—	—	—	—
Consumer real estate	1,881	1,548	—	1,548	—
Consumer and other	75	23	—	23	—
Total	$ 133,508	$ 79,450	$ 31,089	$ 110,539	$ 3,601
December 31, 2016					
Commercial and industrial	$ 40,288	$ 19,862	$ 9,047	$ 28,909	$ 5,436
Energy	60,522	27,759	29,804	57,563	3,750
Commercial real estate:					
Buildings, land and other	11,369	6,866	—	6,866	—
Construction	—	—	—	—	—
Consumer real estate	977	655	—	655	—
Consumer and other	32	30	—	30	—
Total	$ 113,188	$ 55,172	$ 38,851	$ 94,023	$ 9,186

The average recorded investment in impaired loans was as follows:

	Three Months Ended March 31,	
	2017	2016
Commercial and industrial	$26,393	$23,809
Energy	68,101	67,615
Commercial real estate:		
Buildings, land and other	6,660	31,985
Construction	—	770
Consumer real estate	1,102	471
Consumer and other	27	—
Total	$102,283	$124,650

Troubled Debt Restructurings. Troubled debt restructurings during the three months ended March 31, 2017 and March 31, 2016 are set forth in the following table.

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Balance at Restructure	Balance at Period-End	Balance at Restructure	Balance at Period-End
Commercial and industrial	$—	$ —	$19	$ 17
Energy	11,262	11,212	62,546	61,095
Commercial real estate:				
Construction	—	—	243	235

$11,262	$ 11,212	$62,808	$ 61,347

Loan modifications are typically related to extending amortization periods, converting loans to interest only for a limited period of time, deferral of interest payments, waiver of certain covenants, consolidating notes and/or reducing collateral or interest rates. The modifications during the reported periods did not significantly impact our determination of the allowance for loan losses. As of March 31, 2017, there was one loan restructured during the last year totaling $747 thousand that was in excess of 90 days past due. During the first quarter of 2017, we recognized a charge-off of $2.0 million related to a loan restructured during the third quarter of 2016.

Table of Contents

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of our loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) the delinquency status of consumer loans (see details above), (iv) net charge-offs, (v) non-performing loans (see details above) and (vi) the general economic conditions in the State of Texas.

We utilize a risk grading matrix to assign a risk grade to each of our commercial loans. Loans are graded on a scale of 1 to 14. A description of the general characteristics of the 14 risk grades is set forth in our 2016 Form 10-K. In monitoring credit quality trends in the context of assessing the appropriate level of the allowance for loan losses, we monitor portfolio credit quality by the weighted-average risk grade of each class of commercial loan. Individual relationship managers review updated financial information for all pass grade loans to reassess the risk grade on at least an annual basis. When a loan has a risk grade of 9, it is still considered a pass grade loan; however, it is considered to be on management's "watch list," where a significant risk-modifying action is anticipated in the near term. When a loan has a risk grade of 10 or higher, a special assets officer monitors the loan on an on-going basis. The following tables present weighted-average risk grades for all commercial loans by class.

	March 31, 2017		December 31, 2016	
	Weighted Average Risk Grade	Loans	Weighted Average Risk Grade	Loans
Commercial and industrial:				
Risk grades 1-8	6.00	$3,981,338	6.01	$3,989,722
Risk grade 9	9.00	194,639	9.00	106,988
Risk grade 10	10.00	87,107	10.00	115,420
Risk grade 11	11.00	112,511	11.00	100,245
Risk grade 12	12.00	23,681	12.00	25,939
Risk grade 13	13.00	3,000	13.00	5,686
Total	6.38	$4,402,276	6.35	$4,344,000
Energy				
Risk grades 1-8	6.33	$876,206	6.34	$854,688
Risk grade 9	9.00	55,136	9.00	78,524
Risk grade 10	10.00	152,360	10.00	150,872
Risk grade 11	11.00	199,479	11.00	244,406
Risk grade 12	12.00	78,525	12.00	53,821
Risk grade 13	13.00	850	13.00	3,750
Total	7.86	$1,362,556	7.95	$1,386,061
Commercial real estate:				
Buildings, land and other				
Risk grades 1-8	6.69	$3,605,460	6.67	$3,463,064
Risk grade 9	9.00	107,441	9.00	109,110
Risk grade 10	10.00	132,850	10.00	145,067
Risk grade 11	11.00	71,531	11.00	66,396
Risk grade 12	12.00	7,608	12.00	8,550
Risk grade 13	13.00	—	13.00	—
Total	6.96	$3,924,890	6.95	$3,792,187
Construction				
Risk grades 1-8	7.06	$1,037,166	6.97	$1,023,194
Risk grade 9	9.00	21,193	9.00	15,829
Risk grade 10	10.00	446	10.00	2,889
Risk grade 11	11.00	5,089	11.00	1,349

Risk grade 12	12.00	—	12.00	—
Risk grade 13	13.00	—	13.00	—
Total	7.12	$1,063,894	7.01	$1,043,261

Table of Contents

Net (charge-offs)/recoveries, segregated by class of loans, were as follows:

	Three Months Ended March 31,	
	2017	2016
Commercial and industrial	$(2,729)	$(1,132)
Energy	(4,225)	(1,011)
Commercial real estate:		
Buildings, land and other	42	61
Construction	3	7
Consumer real estate	96	99
Consumer and other	(1,128)	(503)
Total	$(7,941)	$(2,479)

In assessing the general economic conditions in the State of Texas, management monitors and tracks the Texas Leading Index ("TLI"), which is produced by the Federal Reserve Bank of Dallas. The TLI, the components of which are more fully described in our 2016 Form 10-K, totaled 123.4 at February 28, 2017 (most recent date available) and 123.1 at December 31, 2016. A higher TLI value implies more favorable economic conditions.

Allowance for Loan Losses. 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 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. Our allowance for loan loss methodology, which is more fully described in our 2016 Form 10-K, follows the accounting guidance set forth in U.S. generally accepted accounting principles and the Interagency Policy Statement on the Allowance for Loan and Lease Losses, which was jointly issued by U.S. bank regulatory agencies. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss and recovery experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. 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.

The following table presents details of the allowance for loan losses allocated to each portfolio segment as of March 31, 2017 and December 31, 2016 and detailed on the basis of the impairment evaluation methodology we used:

	Commercial and Industrial	Energy	Commercial Real Estate	Consumer Real Estate	Consumer and Other	Total
March 31, 2017						
Historical valuation allowances	$ 26,216	$38,666	$ 17,932	$ 2,329	$ 5,297	$90,440
Specific valuation allowances	2,751	850	—	—	—	3,601
General valuation allowances	8,072	5,255	6,333	1,939	19	21,618
Macroeconomic valuation allowances	8,544	17,022	9,744	555	1,532	37,397
Total	$ 45,583	$61,793	$ 34,009	$ 4,823	$ 6,848	$153,056
Allocated to loans:						
Individually evaluated	$ 2,751	$850	$ —	$ —	$ —	$3,601
Collectively evaluated	42,832	60,943	34,009	4,823	6,848	149,455
Total	$ 45,583	$61,793	$ 34,009	$ 4,823	$ 6,848	$153,056
December 31, 2016						
Historical valuation allowances	$ 33,251	$34,626	$ 16,976	$ 2,225	$ 4,585	$91,663
Specific valuation allowances	5,436	3,750	—	—	—	9,186
General valuation allowances	6,708	3,769	5,004	1,506	(144)	16,843
Macroeconomic valuation allowances	7,520	18,508	8,233	507	585	35,353
Total	$ 52,915	$60,653	$ 30,213	$ 4,238	$ 5,026	$153,045

Allocated to loans:						
Individually evaluated	$ 5,436	$3,750	$ —	$ —	$ —	$9,186
Collectively evaluated	47,479	56,903	30,213	4,238	5,026	143,859
Total	$ 52,915	$60,653	$ 30,213	$ 4,238	$ 5,026	$153,045

15

Table of Contents

Our recorded investment in loans as of March 31, 2017 and December 31, 2016 related to each balance in the allowance for loan losses by portfolio segment and detailed on the basis of the impairment methodology we used was as follows:

	Commercial and Industrial	Energy	Commercial Real Estate	Consumer Real Estate	Consumer and Other	Total
March 31, 2017						
Individually evaluated	$ 23,876	$ 78,639	$ 6,453	$ 1,548	$ 23	$ 110,539
Collectively evaluated	4,378,400	1,283,917	4,982,331	947,428	483,030	12,075,106
Total	$ 4,402,276	$ 1,362,556	$ 4,988,784	$ 948,976	$ 483,053	$ 12,185,645
December 31, 2016						
Individually evaluated	$ 28,909	$ 57,563	$ 6,866	$ 655	$ 30	$ 94,023
Collectively evaluated	4,315,091	1,328,498	4,828,582			