CULLEN/FROST BANKERS, INC.
Form 10-Q
April 26, 2018
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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, 2018
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 19, 2018 there were 63,797,196 shares of the registrant's Common Stock, $.01 par value, outstanding.

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Cullen/Frost Bankers, Inc.
Quarterly Report on Form 10-Q
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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, 2018	December 31, 2017
Assets:		
Cash and due from banks	$434,155	$545,542
Interest-bearing deposits	3,907,051	4,347,538
Federal funds sold and resell agreements	339,742	159,967
Total cash and cash equivalents	4,680,948	5,053,047
Securities held to maturity, at amortized cost	1,247,154	1,432,098
Securities available for sale, at estimated fair value	10,536,532	10,489,009
Trading account securities	19,772	21,098
Loans, net of unearned discounts	13,364,029	13,145,665
Less: Allowance for loan losses	(149,885)	(155,364)
Net loans	13,214,144	12,990,301
Premises and equipment, net	521,202	520,958
Goodwill	654,952	654,952
Other intangible assets, net	4,685	5,073
Cash surrender value of life insurance policies	181,297	180,477
Accrued interest receivable and other assets	398,546	400,867
Total assets	$31,459,232	$31,747,880
Liabilities:		
Deposits:		
Non-interest-bearing demand deposits	$10,934,162	$11,197,093
Interest-bearing deposits	15,743,616	15,675,296
Total deposits	26,677,778	26,872,389
Federal funds purchased and repurchase agreements	1,032,221	1,147,824
Junior subordinated deferrable interest debentures, net of unamortized issuance costs	136,198	136,184
Subordinated notes, net of unamortized issuance costs	98,591	98,552
Accrued interest payable and other liabilities	271,014	195,068
Total liabilities	28,215,802	28,450,017
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, 2018 and December 31, 2017	144,486	144,486
Common stock, par value $0.01 per share; 210,000,000 shares authorized; 64,236,306 shares issued at both March 31, 2018 and December 31, 2017	642	642
Additional paid-in capital	956,536	953,361
Retained earnings	2,234,301	2,187,069
Accumulated other comprehensive income, net of tax	(53,354)	79,512
Treasury stock, at cost; 442,610 shares at March 31, 2018 and 760,720 shares at December 31, 2017	(39,181)	(67,207)
Total shareholders’ equity	3,243,430	3,297,863
Total liabilities and shareholders’ equity	$31,459,232	$31,747,880

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Loans, including fees	$151,202	$122,600
Securities:		
Taxable	20,558	25,302
Tax-exempt	56,711	56,947
Interest-bearing deposits	14,094	6,836
Federal funds sold and resell agreements	761	107
Total interest income	243,326	211,792
Interest expense:		
Deposits	10,638	1,868
Federal funds purchased and repurchase agreements	634	139
Junior subordinated deferrable interest debentures	1,142	908
Other long-term borrowings	1,164	368
Total interest expense	13,578	3,283
Net interest income	229,748	208,509
Provision for loan losses	6,945	7,952
Net interest income after provision for loan losses	222,803	200,557
Non-interest income:		
Trust and investment management fees	29,587	26,470
Service charges on deposit accounts	20,843	20,769
Insurance commissions and fees	15,980	13,821
Interchange and debit card transaction fees	3,158	5,574
Other charges, commissions and fees	9,007	9,592
Net gain (loss) on securities transactions	(19)	—
Other	12,889	7,474
Total non-interest income	91,445	83,700
Non-interest expense:		
Salaries and wages	86,683	82,512
Employee benefits	21,995	21,625
Net occupancy	19,740	19,237
Technology, furniture and equipment	19,679	17,990
Deposit insurance	4,879	4,915
Intangible amortization	388	458
Other	43,247	41,178
Total non-interest expense	196,611	187,915
Income before income taxes	117,637	96,342
Income taxes	11,157	11,401
Net income	106,480	84,941
Preferred stock dividends	2,016	2,016
Net income available to common shareholders	$104,464	$82,925

Earnings per common share:

Basic	$1.63	$1.29
Diluted	1.61	1.28

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Net income	$106,480	$84,941
Other comprehensive income (loss), before tax:		
Securities available for sale and transferred securities:		
Change in net unrealized gain/loss during the period	(178,904)	33,811
Change in net unrealized gain on securities transferred to held to maturity	(2,619)	(6,286)
Reclassification adjustment for net (gains) losses included in net income	19	—
Total securities available for sale and transferred securities	(181,504)	27,525
Defined-benefit post-retirement benefit plans:		
Change in the net actuarial gain/loss	—	—
Reclassification adjustment for net amortization of actuarial gain/loss included in net income as a component of net periodic cost (benefit)	1,250	1,357
Total defined-benefit post-retirement benefit plans	1,250	1,357
Other comprehensive income (loss), before tax	(180,254)	28,882
Deferred tax expense (benefit)	(37,853)	10,109
Other comprehensive income (loss), net of tax	(142,401)	18,773
Comprehensive income (loss)	$(35,921)	$103,714

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Total shareholders’ equity at beginning of period	$3,297,863	$3,002,528
Cumulative effect of accounting change	(2,285)	—
Total shareholders' equity at beginning of period, as adjusted	3,295,578	3,002,528
Net income	106,480	84,941
Other comprehensive income (loss)	(142,401)	18,773
Stock option exercises/stock unit conversions (318,110 shares in 2018 and 442,054 shares in 2017)	19,165	24,747
Stock compensation expense recognized in earnings	3,175	3,103
Purchase of treasury stock (469 shares in 2017)	—	(42)
Cash dividends – preferred stock (approximately $0.34 per share in both 2018 and in 2017)	(2,016)	(2,016)
Cash dividends – common stock ($0.57 per share in 2018 and $0.54 per share in 2017)	(36,551)	(34,656)
Total shareholders’ equity at end of period	$3,243,430	$3,097,378

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Operating Activities:		
Net income	$106,480	$84,941
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	6,945	7,952
Deferred tax expense (benefit)	10,411	(4,301)
Accretion of loan discounts	(3,378)	(3,913)
Securities premium amortization (discount accretion), net	24,260	21,638
Net (gain) loss on securities transactions	19	—
Depreciation and amortization	12,130	12,121
Net (gain) loss on sale/write-down of assets/foreclosed assets	(3,982)	(533)
Stock-based compensation	3,175	3,103
Net tax benefit from stock-based compensation	2,211	3,515
Earnings on life insurance policies	(820)	(783)
Net change in:		
Trading account securities	1,326	(1,088)
Accrued interest receivable and other assets	23,555	55,705
Accrued interest payable and other liabilities	28,376	(48,702)
Net cash from operating activities	210,708	129,655
Investing Activities:		
Securities held to maturity:		
Purchases	(1,500)	—
Sales	—	—
Maturities, calls and principal repayments	179,149	599,457
Securities available for sale:		
Purchases	(3,245,923)	(466,004)
Sales	2,984,867	—
Maturities, calls and principal repayments	62,768	107,586
Proceeds from sale of loans	—	—
Net change in loans	(227,417)	(214,281)
Benefits received on life insurance policies	—	461
Proceeds from sales of premises and equipment	11,317	1,544
Purchases of premises and equipment	(16,759)	(6,311)
Proceeds from sales of repossessed properties	307	345
Net cash from investing activities	(253,191)	22,797
Financing Activities:		
Net change in deposits	(194,611)	330,589
Net change in short-term borrowings	(115,603)	(81,792)
Proceeds from issuance of subordinated notes	—	98,446
Principal payments on subordinated notes	—	(100,000)
Proceeds from stock option exercises	19,165	24,747
Purchase of treasury stock	—	(42)

Cash dividends paid on preferred stock	(2,016)	(2,016)
Cash dividends paid on common stock	(36,551)	(34,656)
Net cash from financing activities	(329,616)	235,276
Net change in cash and cash equivalents	(372,099)	387,728
Cash and cash equivalents at beginning of period	5,053,047	4,141,445
Cash and cash equivalents at end of period	$4,680,948	$4,529,173

See Notes to Consolidated Financial Statements.

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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, 2017, included in our Annual Report on Form 10-K filed with the SEC on February 7, 2018 (the “2017 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,	
	2018	2017
Cash paid for interest	$13,740	$3,257
Cash paid for income taxes	—	—
Significant non-cash transactions:		
Unsettled purchases/sales of securities	47,723	33,466
Loans foreclosed and transferred to other real estate owned and foreclosed assets	7	—

Accounting Changes, Reclassifications and Restatements. Certain items in prior financial statements have been reclassified to conform to the current presentation. In addition, we adopted ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" as of January 1, 2018. In accordance with ASU 2018-02, we elected to reclassify certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, from accumulated other comprehensive income to retained earnings. Such amounts, which totaled $9.5 million, related to a net actuarial loss on defined benefit post-retirement plans and unrealized gains on securities available for sale and securities transferred to held to maturity. See Note 14 - Other Comprehensive Income. The effects of the Tax Cuts and Jobs Act on deferred taxes related to amounts initially recorded in accumulated other comprehensive income are provisional. As we finalize the accounting for the tax effects of the Tax Cuts and Jobs Act, additional reclassification adjustments may be recorded in future periods. See Note 13 - Income Taxes. Notwithstanding this election made in accordance with ASU 2018-02, our policy is to release such income tax effects only when the entire portfolio to which the underlying transactions relate is liquidated, sold or extinguished.

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We also adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" as of January 1, 2018. Using a modified retrospective transition approach for contracts that were not complete as of our adoption, we recognized a cumulative effect reduction to beginning retained earnings totaling $2.3 million. The amount was related to certain revenue streams within trust and investment management fees. Additionally, based on our underlying contracts, ASU 2014-09 requires us to report network costs associated with debit card and ATM transactions netted against the related fees from such transactions. Previously, such network costs were reported as a component of other non-interest expense. For the three months ended March 31, 2018, gross interchange and debit card transaction fees totaled $6.1 million while related network costs totaled $2.9 million. On a net basis, we reported $3.2 million as interchange and debit card transaction fees in the accompanying Consolidated Statement of Income for the three months ended March 31, 2018. For the three months ended March 31, 2017, we reported interchange and debit card transaction fees totaling $5.6 million on a gross basis in the accompanying Consolidated Statement of Income while related network costs totaling $3.2 million were reported as a component of other non-interest expense. ASU 2014-09 also required us to change the way we recognize certain recurring revenue streams reported as components of trust and investment management fees, insurance commissions and fees and other categories of non-interest income, however, such changes were not significant to our financial statements for the three months ended March 31, 2018.

Under ASU 2014-09, we adopted new policies related to revenue recognition. In general, for revenue not associated with financial instruments, guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, we primarily use the output method, directly measuring the value of the products/services transferred to the customer, to determine when performance obligations have been satisfied. We typically receive payment from customers and recognize revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time the performance obligations have been satisfied. In cases where we have not received payment despite satisfaction of our performance obligations, we accrue an estimate of the amount due in the period our performance obligations have been satisfied. For contracts with variable components, only amounts for which collection is probable are accrued. We generally act in a principal capacity, on our own behalf, in most of our contracts with customers. In such transactions, we recognize revenue and the related costs to provide our services on a gross basis in our financial statements. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognized revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to insurance and brokerage commissions and fees derived from our customers' use of various interchange and ATM/debit card networks.

Note 2 - Securities

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

	March 31, 2018				December 31, 2017			
	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								
Residential mortgage-backed securities	$3,503	$12	$57	$3,458	$3,610	$15	$38	$3,587
States and political subdivisions	1,242,151	13,910	3,126	1,252,935	1,428,488	26,462	2,746	1,452,204

Other	1,500	—	7	1,493	—	—	—	—
Total	$1,247,154	$13,922	$3,190	$1,257,886	$1,432,098	$26,477	$2,784	$1,455,791
Available for Sale								
U.S. Treasury	$3,453,887	$373	$36,113	$3,418,147	$3,453,391	$7,494	$15,732	$3,445,153
Residential mortgage-backed securities	636,498	16,012	6,815	645,695	648,288	19,048	2,250	665,086
States and political subdivisions	6,423,389	71,360	64,644	6,430,105	6,185,711	167,293	16,795	6,336,209
Other	42,585	—	—	42,585	42,561	—	—	42,561
Total	$10,556,359	$87,745	$107,572	$10,536,532	$10,329,951	$193,835	$34,777	$10,489,009

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All mortgage-backed securities included in the above table were issued by U.S. government agencies and corporations. At March 31, 2018, approximately 98.2% of the securities in our municipal bond portfolio were issued by political subdivisions or agencies within the State of Texas, of which approximately 67.7% 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 and that do not have readily determinable fair values are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar securities of the same issuer. These securities include stock in the Federal Reserve Bank and the Federal Home Loan Bank 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 $3.5 billion at March 31, 2018 and $3.8 billion at December 31, 2017.

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, 2018 totaled $8.9 million ($7.1 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, 2018, 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						
Residential mortgage-backed securities	$1,120	$ 23	$1,516	$ 34	$2,636	$ 57
States and political subdivisions	231,906	900	44,869	2,226	276,775	3,126
Other	1,493	7	—	—	1,493	7
Total	$234,519	$ 930	$46,385	$ 2,260	$280,904	$ 3,190
Available for Sale						
U.S. Treasury	$2,616,630	$ 27,797	$514,691	$ 8,316	$3,131,321	$ 36,113
Residential mortgage-backed securities	219,091	4,508	45,424	2,307	264,515	6,815
States and political subdivisions	2,004,045	26,466	815,756	38,178	2,819,801	64,644
Total	$4,839,766	$ 58,771	$1,375,871	$ 48,801	$6,215,637	$ 107,572

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 expect to receive full value for the securities. Furthermore, as of March 31, 2018, 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 securities 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, 2018, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in our consolidated income statement.

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Contractual Maturities. The amortized cost and estimated fair value of securities, excluding trading securities, at March 31, 2018 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	$105,054	$106,904	$118,442	$119,061
Due after one year through five years	165,355	168,916	4,010,195	3,980,391
Due after five years through ten years	432,654	433,756	486,543	491,153
Due after ten years	540,588	544,852	5,262,096	5,257,647
Residential mortgage-backed securities	3,503	3,458	636,498	645,695
Equity securities	—	—	42,585	42,585
Total	$1,247,154	$1,257,886	$10,556,359	$10,536,532

Sales of Securities. Sales of securities available for sale were as follows:

	Three Months Ended March 31,	
	2018	2017
Proceeds from sales	$2,984,867	$ —
Gross realized gains	—	—
Gross realized losses	(19)	—
Tax (expense) benefit of securities gains/losses	4	—

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

	Three Months Ended March 31,	
	2018	2017
Premium amortization	$(26,036)	$(24,028)
Discount accretion	1,776	2,390
Net (premium amortization) discount accretion	$(24,260)	$(21,638)

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

	March 31, 2018	December 31, 2017
U.S. Treasury	$ 19,772	$ 19,210
States and political subdivisions	—	1,888
Total	$ 19,772	$ 21,098

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

	Three Months Ended March 31,	
	2018	2017
Net gain on sales transactions	$505	$311
Net mark-to-market gains (losses)	(36)	13
Net gain (loss) on trading account securities	$469	$324

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Note 3 - Loans

Loans were as follows:

	March 31, 2018	Percentage of Total	December 31, 2017	Percentage of Total
Commercial and industrial	$4,876,523	36.5 %	$4,792,388	36.4 %
Energy:				
Production	1,125,321	8.4	1,182,326	9.0
Service	192,115	1.4	171,795	1.3
Other	129,552	0.9	144,972	1.1
Total energy	1,446,988	10.7	1,499,093	11.4
Commercial real estate:				
Commercial mortgages	4,060,946	30.4	3,887,742	29.6
Construction	1,076,785	8.1	1,066,696	8.1
Land	317,189	2.4	331,986	2.5
Total commercial real estate	5,454,920	40.9	5,286,424	40.2
Consumer real estate:				
Home equity loans	355,715	2.7	355,342	2.7
Home equity lines of credit	295,677	2.2	291,950	2.2
Other	388,271	2.9	376,002	2.9
Total consumer real estate	1,039,663	7.8	1,023,294	7.8
Total real estate	6,494,583	48.7	6,309,718	48.0
Consumer and other	545,935	4.1	544,466	4.2
Total loans	$13,364,029	100.0 %	$13,145,665	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, 2018, there were no concentrations of loans related to any single industry in excess of 10% of total loans other than energy loans, which totaled 10.7% 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 $44.8 million, respectively, as of March 31, 2018.

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, 2018 or December 31, 2017.

Related Party Loans. In the ordinary course of business, we have granted loans to certain directors, executive officers and their affiliates (collectively referred to as “related parties”). Such loans totaled $180.7 million at March 31, 2018 and $166.4 million at December 31, 2017

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

	March 31, 2018	December 31, 2017
Commercial and industrial	$17,314	$ 46,186
Energy	93,097	94,302
Commercial real estate:		
Buildings, land and other	10,858	7,589
Construction	—	—
Consumer real estate	1,878	2,109
Consumer and other	5	128
Total	$123,152	$ 150,314

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As of March 31, 2018, non-accrual loans reported in the table above included $2.2 million related to loans that were restructured as "troubled debt restructurings" during 2018. 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 $1.5 million for the three months ended March 31, 2018, compared to $851 thousand for three months ended March 31, 2017.

An age analysis of past due loans (including both accruing and non-accruing loans), segregated by class of loans, as of March 31, 2018 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	$ 25,701	$ 23,946	$49,647	$4,826,876	$4,876,523	$ 10,357
Energy	24,404	4,207	28,611	1,418,377	1,446,988	3,137
Commercial real estate:						
Buildings, land and other	36,130	5,470	41,600	4,336,535	4,378,135	3,889
Construction	9,497	—	9,497	1,067,288	1,076,785	—
Consumer real estate	8,225	3,164	11,389	1,028,274	1,039,663	1,680
Consumer and other	7,486	218	7,704	538,231	545,935	213
Total	$ 111,443	$ 37,005	$148,448	$13,215,581	$13,364,029	$ 19,276

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, 2018					
Commercial and industrial	$ 38,136	$ 1,802	$ 13,430	$ 15,232	$ 7,930
Energy	123,351	41,569	63,502	105,071	14,772
Commercial real estate:					
Buildings, land and other	13,078	7,577	2,047	9,624	708
Construction	—	—	—	—	—
Consumer real estate	1,427	1,427	—	1,427	—
Consumer and other	—	—	—	—	—
Total	$ 175,992	$ 52,375	$ 78,979	$ 131,354	$ 23,410
December 31, 2017					
Commercial and industrial	$ 60,781	$ 28,038	$ 15,722	$ 43,760	$ 7,553
Energy	99,606	33,080	61,162	94,242	13,267
Commercial real estate:					
Buildings, land and other	10,795	6,394	—	6,394	—
Construction	—	—	—	—	—
Consumer real estate	1,214	1,214	—	1,214	—
Consumer and other	—	—	—	—	—
Total	$ 172,396	$ 68,726	$ 76,884	$ 145,610	$ 20,820

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The average recorded investment in impaired loans was as follows:

	Three Months Ended March 31, 2018	2017
Commercial and industrial	$29,496	$26,393
Energy	99,657	68,101
Commercial real estate:		
Buildings, land and other	8,009	6,660
Construction	—	—
Consumer real estate	1,321	1,102
Consumer and other	—	27
Total	$138,483	$102,283

Troubled Debt Restructurings. Troubled debt restructurings during the three months ended March 31, 2018 and March 31, 2017 are set forth in the following table.

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Balance at Restructure	Balance at Period-End	Balance at Restructure	Balance at Period-End
Commercial and industrial	$2,203	$ 2,171	$—	$ —
Energy	13,708	12,058	11,262	11,212
	$15,911	$ 14,229	$11,262	$ 11,212

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. Additional information related to restructured loans was as follows:

	March 31, 2018	March 31, 2017
Restructured loans past due in excess of 90 days at period-end:		
Number of loans	—	1
Dollar amount of loans	$ —	$ 747
Restructured loans on non-accrual status at period end	2,171	11,212
Charge-offs of restructured loans:		
Recognized in connection with restructuring	—	—
Recognized on previously restructured loans	1,650	2,000

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 2017 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.

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The following tables present weighted-average risk grades for all commercial loans by class.

	March 31, 2018		December 31, 2017	
	Weighted Average Risk Grade	Loans	Weighted Average Risk Grade	Loans
Commercial and industrial:				
Risk grades 1-8	6.05	$4,505,491	6.06	$4,378,839
Risk grade 9	9.00	151,084	9.00	170,285
Risk grade 10	10.00	121,457	10.00	99,260
Risk grade 11	11.00	81,148	11.00	97,818
Risk grade 12	12.00	9,412	12.00	38,633
Risk grade 13	13.00	7,931	13.00	7,553
Total	6.35	$4,876,523	6.41	$4,792,388
Energy				
Risk grades 1-8	6.12	$1,173,702	6.01	$1,199,207
Risk grade 9	9.00	50,364	9.00	50,427
Risk grade 10	10.00	37,670	10.00	64,282
Risk grade 11	11.00	92,155	11.00	90,875
Risk grade 12	12.00	78,325	12.00	81,035
Risk grade 13	13.00	14,772	13.00	13,267
Total	7.02	$1,446,988	6.97	$1,499,093
Commercial real estate:				
Buildings, land and other				
Risk grades 1-8	6.77	$4,051,952	6.75	$3,868,659
Risk grade 9	9.00	124,048	9.00	151,487
Risk grade 10	10.00	120,399	10.00	129,391
Risk grade 11	11.00	70,878	11.00	62,602
Risk grade 12	12.00	10,150	12.00	7,589
Risk grade 13	13.00	708	13.00	—
Total	7.00	$4,378,135	7.00	$4,219,728
Construction				
Risk grades 1-8	7.16	$1,040,071	7.11	$1,019,635
Risk grade 9	9.00	15,541	9.00	18,042
Risk grade 10	10.00	17,361	10.00	23,393
Risk grade 11	11.00	3,812	11.00	5,626
Risk grade 12	12.00	—	12.00	—
Risk grade 13	13.00	—	13.00	—
Total	7.25	$1,076,785	7.23	$1,066,696

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

	Three Months Ended March 31,	
	2018	2017
Commercial and industrial	$(7,675)	$(2,729)
Energy	(2,849)	(4,225)
Commercial real estate:		
Buildings, land and other	81	42
Construction	2	3

Consumer real estate	(526)	96
Consumer and other	(1,457)	(1,128)
Total	$(12,424)	$(7,941)

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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 2017 Form 10-K, totaled 131.5 at February 28, 2018 (most recent date available) and 129.6 at December 31, 2017. 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 2017 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, 2018 and December 31, 2017 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, 2018						
Historical valuation allowances	$ 26,658	$12,266	$ 19,870	$ 2,470	$ 6,729	$67,993
Specific valuation allowances	7,930	14,772	708	—	—	23,410
General valuation allowances	8,053	8,015	4,025	1,601	(95)	21,599
Macroeconomic valuation allowances	15,092	3,986	13,871	2,278	1,656	36,883
Total	$ 57,733	$39,039	$ 38,474	$ 6,349	$ 8,290	$149,885
Allocated to loans:						
Individually evaluated	$ 7,930	$14,772	$ 708	$ —	$ —	$23,410
Collectively evaluated	49,803	24,267	37,766	6,349	8,290	126,475
Total	$ 57,733	$39,039	$ 38,474	$ 6,349	$ 8,290	$149,885
December 31, 2017						
Historical valuation allowances	$ 26,401	$22,073	$ 18,931	$ 2,473	$ 5,603	$75,481
Specific valuation allowances	7,553	13,267	—	—	—	20,820
General valuation allowances	9,112	7,964	4,165	2,133	(91)	23,283
Macroeconomic valuation allowances	16,548	8,224	7,852	1,051	2,105	35,780
Total	$ 59,614	$51,528	$ 30,948	$ 5,657	$ 7,617	$155,364
Allocated to loans:						
Individually evaluated	$ 7,553	$13,267	$ —	$ —	$ —	$20,820
Collectively evaluated	52,061	38,261	30,948	5,657	7,617	134,544
Total	$ 59,614	$51,528	$ 30,948	$ 5,657	$ 7,617	$155,364

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Our recorded investment in loans as of March 31, 2018 and December 31, 2017 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, 2018						
Individually evaluated	$ 15,232	$ 105,071	$ 9,624	$ 1,427	$ —	$ 131,354
Collectively evaluated	4,861,291	1,341,917	5,445,296	1,038,236	545,935	13,232,675
Total	$ 4,876,523	$ 1,446,988	$ 5,454,920	$ 1,039,663	$ 545,935	$ 13,364,029
December 31, 2017						
Individually evaluated	$ 43,760	$ 94,242	$ 6,394	$ 1,214	$ —	$ 145,610
Collectively evaluated	4,748,628	1,404,851	5,280,030	1,022,080	544,466	13,000,055
Total	$ 4,792,388	$ 1,499,093	$ 5,286,424	$ 1,023,294	$ 544,466	$ 13,145,665

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2018 and 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial and Industrial	Energy	Commercial Real Estate	Consumer Real Estate	Consumer and Other	Total
Three months ended:						
March 31, 2018						
Beginning balance	$ 59,614	$ 51,528	$ 30,948	$ 5,657	$ 7,617	$ 155,364
Provision for loan losses	5,794	(9,640)	7,443	1,218	2,130	6,945
Charge-offs	(9,252)	(2,850)	(5)	(719)	(3,972)	(16,798)
Recoveries	1,577	1	88	193	2,515	4,374
Net charge-offs	(7,675)	(2,849)	83	(526)	(1,457)	(12,424)
Ending balance	$ 57,733	$ 39,039	$ 38,474	$ 6,349	$ 8,290	$ 149,885
March 31, 2017						
Beginning balance	$ 52,915	$ 60,653	$ 30,213	$ 4,238	$ 5,026	$ 153,045
Provision for loan losses	(4,603)	5,365	3,751	489	2,950	7,952
Charge-offs	(3,527)	(4,278)	—	(11)	(3,548)	(11,364)
Recoveries	798	53	45	107	2,420	3,423
Net charge-offs	(2,729)	(4,225)	45	96	(1,128)	(7,941)
Ending balance	$ 45,583	$ 61,793	$ 34,009	$ 4,823	$ 6,848	$ 153,056

Note 4 - Goodwill and Other Intangible Assets

Goodwill and other intangible assets are presented in the table below.

	March 31, 2018	December 31, 2017
Goodwill	$ 654,952	$ 654,952
Other intangible assets:		
Core deposits	$ 3,748	$ 4,044
Customer relationships	900	986
Non-compete agreements	37	43
	$ 4,685	$ 5,073

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The estimated aggregate future amortization expense for intangible assets remaining as of March 31, 2018 is as follows:

Remainder of 2018	$1,036
2019	1,167
2020	918
2021	697
2022	481
Thereafter	386
	$4,685

Note 5 - Deposits

Deposits were as follows:

	March 31, 2018	Percentage of Total	December 31, 2017	Percentage of Total
Non-interest-bearing demand deposits:				
Commercial and individual	$10,294,977	38.6 %	$10,412,882	38.8 %
Correspondent banks	212,199	0.8	222,648	0.8
Public funds	426,986	1.6	561,563	2.1
Total non-interest-bearing demand deposits	10,934,162	41.0	11,197,093	41.7
Interest-bearing deposits:				
Private accounts:				
Savings and interest checking	6,869,783	25.8	6,788,766	25.2
Money market accounts	7,706,531	28.9	7,624,471	28.4
Time accounts of $100,000 or more	458,103	1.7	453,668	1.7
Time accounts under $100,000	322,105	1.2	324,636	1.2
Total private accounts	15,356,522	57.6	15,191,541	56.5
Public funds:				
Savings and interest checking	308,609	1.1	410,140	1.5
Money market accounts	63,155	0.2	59,008	0.2
Time accounts of $100,000 or more	14,892	0.1	14,301	0.1
Time accounts under $100,000	438	—	306	—
Total public funds	387,094	1.4	483,755	1.8
Total interest-bearing deposits	15,743,616	59.0	15,675,296	58.3
Total deposits	$26,677,778	100.0 %	$26,872,389	100.0 %

The following table presents additional information about our deposits:

	March 31, 2018	December 31, 2017
Deposits from foreign sources (primarily Mexico)	$736,786	$ 716,339
Deposits not covered by deposit insurance	13,104,781	13,281,040

Note 6 - Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk. In the normal course of business, we enter into various transactions, which, in accordance with generally accepted accounting principles are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. As more fully discussed in our 2017 Form 10-K, these transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Financial instruments with off-balance-sheet risk were as follows:

	March 31, 2018	December 31, 2017

Commitments to extend credit	$7,939,929	$ 7,949,400
Standby letters of credit	220,294	236,595
Deferred standby letter of credit fees	1,586	1,843

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Lease Commitments. We lease certain office facilities and office equipment under operating leases. Rent expense for all operating leases totaled $8.2 million and $7.7 million during the three months ended March 31, 2018 and 2017. There has been no significant change in our expected future minimum lease payments since December 31, 2017. See the 2017 Form 10-K for information regarding these commitments.

Litigation. 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 impact on our financial statements.

Note 7 - Capital and Regulatory Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Cullen/Frost's and Frost Bank's Common Equity Tier 1 capital includes common stock and related paid-in capital, net of treasury stock, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for both Cullen/Frost and Frost Bank is reduced by, goodwill and other intangible assets, net of associated deferred tax liabilities, and subject to transition provisions. Frost Bank's Common Equity Tier 1 is also reduced by its equity investment in its financial subsidiary, Frost Insurance Agency ("FIA").

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital. For Cullen/Frost, additional Tier 1 capital at March 31, 2018 and December 31, 2017 includes $144.5 million of 5.375% non-cumulative perpetual preferred stock. Frost Bank did not have any additional Tier 1 capital beyond Common Equity Tier 1 at March 31, 2018 or December 31, 2017.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for both Cullen/Frost and Frost Bank includes a permissible portion of the allowance for loan losses. Tier 2 capital for Cullen/Frost also includes $100.0 million of qualified subordinated debt and $133.0 million of trust preferred securities at both March 31, 2018 and December 31, 2017.

The following tables present actual and required capital ratios as of March 31, 2018 and December 31, 2017 for Cullen/Frost and Frost Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of March 31, 2018 and December 31, 2017 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. See the 2017 Form 10-K for a more detailed discussion of the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
March 31, 2018								
Common Equity Tier 1 to Risk-Weighted Assets								
Cullen/Frost	$2,504,319	12.69%	$1,258,491	6.375%	$1,381,873	7.00 %	$1,283,167	6.50 %
Frost Bank	2,560,828	13.00	1,255,352	6.375	1,378,426	7.00	1,279,967	6.50
Tier 1 Capital to Risk-Weighted Assets								
Cullen/Frost	2,648,805	13.42	1,554,607	7.875	1,677,988	8.50	1,579,283	8.00
Frost Bank	2,560,828	13.00	1,550,729	7.875	1,673,803	8.50	1,575,344	8.00

Total Capital to Risk-Weighted Assets								
Cullen/Frost	3,032,190	15.36	1,949,427	9.875	2,072,809	10.50	1,974,104	10.00
Frost Bank	2,711,213	13.77	1,944,565	9.875	2,067,639	10.50	1,969,180	10.00
Leverage Ratio								
Cullen/Frost	2,648,805	8.62	1,228,567	4.00	1,228,567	4.00	1,535,709	5.00
Frost Bank	2,560,828	8.34	1,227,539	4.00	1,227,539	4.00	1,534,424	5.00

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	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
December 31, 2017								
Common Equity Tier 1 to Risk-Weighted Assets								
Cullen/Frost	$2,426,048	12.42%	$1,123,430	5.75%	$1,367,583	7.00 %	$1,269,965	6.50 %
Frost Bank	2,518,999	12.92	1,120,663	5.75	1,364,214	7.00	1,266,836	6.50
Tier 1 Capital to Risk-Weighted Assets								
Cullen/Frost	2,570,534	13.16	1,416,499	7.25	1,660,637	8.50	1,563,033	8.00
Frost Bank	2,518,999	12.92	1,413,010	7.25	1,656,546	8.50	1,559,183	8.00
Total Capital to Risk-Weighted Assets								
Cullen/Frost	2,959,326	15.15	1,807,257	9.25	2,051,375	10.50	1,953,792	10.00
Frost Bank	2,674,791	13.72	1,802,805	9.25	2,046,321	10.50	1,948,979	10.00
Leverage Ratio								
Cullen/Frost	2,570,534	8.46	1,215,227	4.00	1,215,186	4.00	1,519,034	5.00
Frost Bank	2,518,999	8.30	1,214,295	4.00	1,214,254	4.00	1,517,869	5.00

As of March 31, 2018, capital levels at Cullen/Frost and Frost Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as of March 31, 2018 at Cullen/Frost and Frost Bank exceed the minimum levels necessary to be considered “well capitalized.”

Cullen/Frost and Frost Bank are subject to the regulatory capital requirements administered by the Federal Reserve Board and, for Frost Bank, the Federal Deposit Insurance Corporation (“FDIC”). Regulatory authorities can initiate certain mandatory actions if Cullen/Frost or Frost Bank fail to meet the minimum capital requirements, which could have a direct material effect on our financial statements. Management believes, as of March 31, 2018, that Cullen/Frost and Frost Bank meet all capital adequacy requirements to which they are subject.

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 October 24, 2017, our board of directors authorized a $150.0 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. No shares were repurchased under this plan during 2018 or 2017. Under a prior plan, we repurchased 1,134,966 shares under the plan at a total cost of $100.0 million during the third quarter of 2017.

Dividend Restrictions. In the ordinary course of business, Cullen/Frost is dependent upon dividends from Frost Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Frost Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. Under the foregoing dividend restrictions and while maintaining its “well capitalized” status, at March 31, 2018, Frost Bank could pay aggregate dividends of up to $446.7 million to Cullen/Frost without prior regulatory approval.

Under the terms of the junior subordinated deferrable interest debentures that Cullen/Frost has issued to Cullen/Frost Capital Trust II and WNB Capital Trust I, Cullen/Frost has the right at any time during the term of the debentures to defer the payment of interest at any time or from time to time for an extension period not exceeding 20 consecutive quarterly periods with respect to each extension period. In the event that we have elected to defer interest on the debentures, we may not, with certain exceptions, declare or pay any dividends or distributions on our capital stock or purchase or acquire any of our capital stock.

Under the terms of our Series A Preferred Stock, in the event that we do not declare and pay dividends on our Series A Preferred Stock for the most recent dividend period, we may not, with certain exceptions, declare or pay dividends on, or purchase, redeem or otherwise acquire, shares of our common stock or any of our securities that rank junior to our Series A Preferred Stock.

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Note 8 - Derivative Financial Instruments

The fair value of derivative positions outstanding is included in accrued interest receivable and other assets and accrued interest payable and other liabilities in the accompanying consolidated balance sheets and in the net change in each of these financial statement line items in the accompanying consolidated statements of cash flows.

Interest Rate Derivatives. We utilize interest rate swaps, caps and floors to mitigate exposure to interest rate risk and to facilitate the needs of our customers. Our objectives for utilizing these derivative instruments are described in our 2017 Form 10-K.

The notional amounts and estimated fair values of interest rate derivative contracts are presented in the following table. The fair values of interest rate derivative contracts are estimated utilizing internal valuation models with observable market data inputs, or as determined by the Chicago Mercantile Exchange ("CME") for centrally cleared derivative contracts. CME rules legally characterize variation margin payments for centrally cleared derivatives as settlements of the derivatives' exposure rather than collateral. As a result, the variation margin payment and the related derivative instruments are considered a single unit of account for accounting and financial reporting purposes. Variation margin, as determined by the CME, is settled daily. As a result, derivative contracts that clear through the CME have an estimated fair value of zero as of March 31, 2018 and December 31, 2017.

	March 31, 2018		December 31, 2017	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivatives designated as hedges of fair value:				
Financial institution counterparties:				
Loan/lease interest rate swaps – assets	$11,904	$ 286	$13,679	$ 242
Loan/lease interest rate swaps – liabilities	10,141	(445)	11,147	(593)
Non-hedging interest rate derivatives:				
Financial institution counterparties:				
Loan/lease interest rate swaps – assets	615,433	3,416	430,449	1,418
Loan/lease interest rate swaps – liabilities	520,466	(8,461)	541,496	(12,820)
Loan/lease interest rate caps – assets	121,976	906	114,619	480
Customer counterparties:				
Loan/lease interest rate swaps – assets	491,786	12,204	541,496	17,882
Loan/lease interest rate swaps – liabilities	596,473	(12,846)	430,449	(4,861)
Loan/lease interest rate caps – liabilities	121,976	(906)	114,619	(480)

The weighted-average rates paid and received for interest rate swaps outstanding at March 31, 2018 were as follows:

	Weighted-Average	
	Interest Rate Paid	Interest Rate Received
Interest rate swaps:		
Fair value hedge loan/lease interest rate swaps	3.27 %	1.77 %
Non-hedging interest rate swaps – financial institution counterparties	3.96 %	3.28 %
Non-hedging interest rate swaps – customer counterparties	3.35 %	4.06 %

The weighted-average strike rate for outstanding interest rate caps was 3.47% at March 31, 2018.

Commodity Derivatives. We enter into commodity swaps and option contracts that are not designated as hedging instruments primarily to accommodate the business needs of our customers. Upon the origination of a commodity swap or option contract with a customer, we simultaneously enter into an offsetting contract with a third party financial institution to mitigate the exposure to fluctuations in commodity prices.

The notional amounts and estimated fair values of non-hedging commodity swap and option derivative positions outstanding are presented in the following table. We obtain dealer quotations and use internal valuation models with observable market data inputs to value our commodity derivative positions.

		March 31, 2018		December 31, 2017	
	Notional Units	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Financial institution counterparties:					
Oil – assets	Barrels	462	$ 1,676	253	$ 193
Oil – liabilities	Barrels	2,663	(19,122)	2,731	(13,448)
Natural gas – assets	MMBTUs	6,963	984	5,927	1,399