

CULLEN/FROST BANKERS, INC.

Form DEF 14A

March 23, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Cullen/Frost Bankers, Inc.

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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(3) Filing Party:

(4) Date Filed:

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A Texas Financial Services Family

100 West Houston Street

San Antonio, Texas 78205

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 30, 2015

To the Shareholders of

CULLEN/FROST BANKERS, INC.:

The Annual Meeting of Shareholders of Cullen/Frost Bankers, Inc. (Cullen/Frost) will be held in the Commanders Room at Frost Bank, 100 West Houston Street, San Antonio, Texas 78205, on Thursday, April 30, 2015, at 11:00 a.m., San Antonio time, for the following purposes:

1. To elect fourteen nominees to serve as Directors for a one-year term that will expire at the 2016 Annual Meeting of Shareholders;
2. To approve the 2015 Omnibus Incentive Plan;
3. To ratify the selection of Ernst & Young LLP to act as independent auditors of Cullen/Frost for the fiscal year that began January 1, 2015;
4. To provide nonbinding approval of executive compensation; and
5. To transact any other business that may properly come before the meeting.

The record date for the determination of the shareholders entitled to vote at the Annual Meeting, or any adjournments or postponements thereof, was the close of business on March 6, 2015. A list of all shareholders entitled to vote is available for inspection by a shareholder during regular business hours for ten days prior to the Annual Meeting at our principal offices at 100 West Houston Street, Suite 1270, San Antonio, Texas 78205. This list will be available at the meeting.

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

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Shareholders of record may vote:

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

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

All shareholders are cordially invited to attend the Annual Meeting.

By Order of the Board of Directors,

STANLEY E. McCORMICK, JR.

Executive Vice President

Corporate Counsel and Secretary

Dated: March 23, 2015

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A Texas Financial Services Family

100 West Houston Street

San Antonio, Texas 78205

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 30, 2015

INTRODUCTION

The Board of Directors of Cullen/Frost Bankers, Inc. (Cullen/Frost or the Company) is soliciting proxies to be used at the Annual Meeting of Shareholders and any adjournment or postponement thereof. The meeting will be held in the Commanders Room at Frost Bank, 100 West Houston Street, San Antonio, Texas 78205, on Thursday, April 30, 2015 at 11:00 a.m., San Antonio time. This Proxy Statement and the accompanying proxy card will be mailed to shareholders beginning on or about March 23, 2015.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2015 ANNUAL MEETING OF SHAREHOLDERS:

This Proxy Statement for the 2015 Annual Meeting of Shareholders and our 2014 Annual Report to Shareholders are available at cfrvoteproxy.com.

We are pleased to provide access to our proxy materials on the Internet. We have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This Proxy Statement for the 2015 Annual Meeting of Shareholders and our 2014 Annual Report to Shareholders are available at our proxy materials website at cfrvoteproxy.com. This website does not use any functions that identify you as a visitor to the website, and thus protects your privacy.

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

Record Date and Voting Rights

The close of business on March 6, 2015 has been fixed as the record date for the determination of shareholders entitled to vote at the Annual Meeting. The only class of securities of Cullen/Frost outstanding and entitled to vote at the Annual Meeting is our Common Stock, par value \$0.01 per share. On March 6, 2015, there were 63,158,298 shares of Common Stock outstanding, with each share entitled to one vote.

Proxies

All shares of Cullen/Frost Common Stock represented by properly executed proxies, if timely returned and not subsequently revoked, will be voted at the Annual Meeting in the manner directed in the proxy. If a properly executed proxy does not specify a choice on a matter, the shares will be voted for the fourteen nominees to serve

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as Directors for a one-year term that will expire at the 2016 Annual Meeting of Shareholders, for the approval of the 2015 Omnibus Incentive Plan, for the ratification of Ernst & Young LLP to act as our independent auditors for the 2015 fiscal year, for the non-binding approval of executive compensation, and in the discretion of the persons named as proxies with respect to any other business that may properly come before the meeting.

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

Quorum and Voting Requirements

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

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

With respect to the approval of the 2015 Omnibus Incentive Plan, the affirmative vote of the holders of a majority of the shares of Cullen/Frost's Common Stock entitled to vote on, and who vote for, against or expressly abstain with respect to this proposal, will be the act of the shareholders. In voting for this matter, shares may be voted for, against or abstain. An abstention will have the effect of a vote against this matter. Broker non-votes (as further discussed below) will have no effect on the outcome of this vote.

With respect to the ratification of Ernst & Young LLP to act as our independent auditors for the 2015 fiscal year, the affirmative vote of the holders of a majority of the shares of Cullen/Frost's Common Stock entitled to vote on, and who vote for, against or expressly abstain with respect to this proposal, will be the act of the shareholders. In voting for this matter, shares may be voted for, against or abstain. An abstention will have the effect of a vote against this matter.

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

Under the rules of the Financial Industry Regulatory Authority, Inc., member brokers generally may not vote shares held by them in street name for customers who do not provide voting instructions, and instead must submit a so-called broker non-vote unless they are permitted to vote the shares in their discretion under the rules of any national securities exchange of which they are members. Under the rules of the New York Stock Exchange, Inc. (NYSE), a member broker that holds shares in street name for customers has authority to vote on certain routine items if it has transmitted proxy-soliciting materials to the beneficial owner but has not received instructions from that owner. The proposal to ratify the selection of Ernst & Young LLP to act as Cullen/Frost's independent auditors is a routine item, and the NYSE rules permit member brokers that do not receive instructions to vote on this item. However, the NYSE rules do not permit member brokers that do not receive instructions to vote on the election of Directors, on the approval of the 2015 Omnibus Incentive Plan, or on the shareholder advisory vote relating to executive compensation. Thus, it is very important that you cast your vote regarding all items of business proposed in the proxy.

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Expenses of Solicitation

Cullen/Frost will pay the expenses of the solicitation of proxies for the Annual Meeting. In addition to the solicitation of proxies by mail, Directors, officers, and employees of Cullen/Frost may solicit proxies by telephone, facsimile, in person or by other means of communication. Cullen/Frost also has retained Okapi Partners LLC (Okapi) to assist with the solicitation of proxies. Directors, officers, and employees of Cullen/Frost will receive no additional compensation for the solicitation of proxies, and Okapi will receive a fee not to exceed \$8,000.00, plus reimbursement for out-of-pocket expenses. Cullen/Frost has requested that brokers, nominees, fiduciaries and other custodians forward proxy-soliciting material to the beneficial owners of Cullen/Frost Common Stock. Cullen/Frost will reimburse these persons for out-of-pocket expenses they incur in connection with its request.

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

The tables below provide information on each nominee.

Nominees for One-Year Term Expiring in 2016:

Name	Age	Principal Occupation During Past Five Years	Director Since	Shares Owned ⁽¹⁾	
				Amount and Nature of Beneficial Ownership	Percent
R. Denny Alexander	69	Investments; former Chairman, Overton Bank & Trust and former Director, Overton Bancshares, Inc. (merged with Cullen/Frost)	1998	49,788 ⁽²⁾	0.08%
Carlos Alvarez	64	Chairman and Chief Executive Officer, The Gambinus Company	2001	333,738	0.52%
Royce S. Caldwell	76	Former Vice Chairman, AT&T Inc.	1994	6,538	0.01%
Crawford H. Edwards	56	General Manager of Edwards Geren Limited; President, Cassco Land Company	2005	263,309 ⁽³⁾	0.41%
Ruben M. Escobedo	77	Former Senior Partner at Ruben Escobedo & Co., CPAs	1996	33,888 ⁽⁴⁾	0.05%
Richard W. Evans, Jr.	68	Chairman of the Board, Chief Executive Officer and President of Cullen/Frost; Chairman of the Board and Chief Executive Officer of Frost Bank, a Cullen/Frost subsidiary	1993	1,048,117 ^(5,6)	1.65%

Table of Contents**Nominees for One-Year Term Expiring in 2016 (continued):**

Patrick B. Frost.	55	President, Frost Bank, a Cullen/ Frost subsidiary	1997	971,912 ^(5,7)	1.53%
David J. Haemisegger	61	President, NorthPark Management Company	2008	3,212	0.01%
Karen E. Jennings	64	Former Senior Executive Vice President, Advertising and Corporate Communications, AT&T Inc.	2001	5,838	0.01%
Richard M. Kleberg, III.	72	Investments	1992	40,163 ⁽⁸⁾	0.06%
Charles W. Matthews	70	Former Vice President, General Counsel of Exxon Mobil Corporation	2010	4,032	0.01%
Ida Clement Steen	62	Investments	1996	6,000 ⁽⁹⁾	0.01%
Horace Wilkins, Jr.	64	Former President, Special Markets, AT&T Inc.; former Regional President, AT&T Inc.	1997	4,138	0.01%
Jack Wood.	59	Investments; former President, Chief Executive Officer and Director of Western National Bank (acquired by Cullen/Frost in May 2014 and merged with Frost Bank in June 2014); Partner, Permian Enterprises, Ltd.	2014	1,000,000	1.57%

- (1) Beneficial ownership is stated as of January 29, 2015. The owners have sole voting and sole investment power for the shares of Cullen/Frost Common Stock reported unless otherwise indicated. The amount beneficially owned also includes deferred stock units granted to each non-employee Director, with delivery of the underlying Cullen/Frost Common Stock deferred until that Director ceases to be a member of the Board of Directors. The number of shares of Cullen/Frost Common Stock beneficially owned by all Directors, nominees and executive officers as a group is disclosed on page 38.
- (2) Includes 29,050 shares held by a limited partnership of which Mr. Alexander is the general partner and 17,000 shares held by a charitable foundation for which Mr. Alexander disclaims beneficial ownership.
- (3) Includes (a) 74,118 shares held by three trusts of which Mr. Edwards is a trustee (b) 53,617 shares held by a trust of which Mr. Edwards is the trustee and for which voting and investment power rests with the majority of three trustees of the trust.
- (4) Includes 2,150 shares for which Mr. Escobedo shares voting and investment power with his wife.
- (5) Includes the following shares allocated under the 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc., for which each beneficial owner has both sole voting and sole investment power: Mr. Richard W. Evans, Jr. 58,541 and Mr. Patrick B. Frost 29,828.
- (6) Includes 120,003 shares held by a family limited partnership of which the general partner is a limited liability company of which Mr. Evans is the sole manager.

- (7) Includes (a) 707,493 shares held by a limited partnership of which the general partner is a limited liability company of which Mr. Frost is the sole manager (b) 3,855 shares held by Mr. Frost's children for which Mr. Frost is the custodian and (c) 630 shares held by Mr. Frost's wife for which Mr. Frost disclaims beneficial ownership. With respect to the 707,493 shares held by a limited partnership, Mr. Frost has sole voting rights over all shares, sole investment power over 70,749 shares and shared investment power over 636,744 shares.
- (8) Includes 8,400 shares held by a family partnership for which Mr. Kleberg has sole voting and sole investment power.
- (9) Includes 200 shares in a trust for which Ms. Steen shares voting and investment power with her husband.

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The Board of Directors had seven meetings in 2014. Each of Cullen/Frost's current Directors attended 92% or more of the meetings of the Board and the Committees of the Board on which he or she served during 2014.

The Board of Directors has a policy which encourages all Directors to attend the Annual Meeting of Shareholders, and in 2014 each of Cullen/Frost's current Directors attended the Annual Meeting of Shareholders.

Committees of the Board

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

Committee	Members	Primary Responsibilities	Meetings in 2014
Audit	Ruben M. Escobedo	Assists Board oversight of the integrity of Cullen/Frost's financial statements, Cullen/Frost's compliance with legal and regulatory requirements, the independent auditors qualifications and independence, and the performance of the independent auditors and Cullen/Frost's internal audit function.	6
	(Chair)		
	Royce S. Caldwell		
	David J. Haemisegger		
Compensation and Benefits	Richard M. Kleberg, III	Appoints, compensates, retains and oversees the independent auditors, and pre-approves all audit and non-audit services.	4
	Royce S. Caldwell	Oversees the development and implementation of Cullen/Frost's compensation and benefits programs.	
	(Chair)		
	Ruben M. Escobedo	Reviews and approves the corporate goals and objectives relevant to the compensation of the CEO, evaluates the CEO's performance based on those goals and objectives, and sets the CEO's compensation based on the evaluation.	
	Karen E. Jennings		
Corporate Governance and Nominating	Charles W. Matthews	Oversees the administration of Cullen/Frost's compensation and benefits plans.	2
	Royce S. Caldwell	Maintains and reviews Cullen/Frost's corporate governance principles.	
	(Chair)		
	Ruben M. Escobedo	Oversees and establishes procedures for the evaluation of the Board.	
	Karen E. Jennings	Identifies and recommends candidates for election to the Board.	
Executive	Charles W. Matthews	Acts for the Board of Directors between meetings, except as limited by resolutions of the Board, Cullen/Frost's Articles of Incorporation or By-Laws, and	3
	Richard W. Evans, Jr.		
	(Chair)		

Royce S. Caldwell

applicable law.

Patrick B. Frost

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Committee	Members	Primary Responsibilities	Meetings in 2014
Risk ⁽¹⁾	Horace Wilkins, Jr. (Chair) Crawford H. Edwards Richard W. Evans, Jr. Patrick B. Frost Karen E. Jennings Jack Wood	Oversees Cullen/Frost's enterprise risk management framework, including policies, procedures, strategies and systems established to measure, mitigate, monitor and report major risks. Assist Board oversight across the organization for the types of risks to which Cullen/Frost is exposed, including: credit, operational, compliance/regulatory, liquidity and reputation.	12 ¹
Strategic Planning	Richard W. Evans, Jr. (Chair) R. Denny Alexander Carlos Alvarez Royce S. Caldwell Charles W. Matthews	Analyzes the strategic direction for Cullen/Frost, including reviewing short-term and long-term goals. Monitors Cullen/Frost's corporate mission statement and capital planning.	6

The Board has adopted written charters of the Audit Committee, the Compensation and Benefits Committee and the Corporate Governance and Nominating Committee. All of these charters are available at frostbank.com or in print to any shareholder making a request by contacting the Corporate Secretary, Stan McCormick at 100 West Houston Street, San Antonio, Texas 78205. The Board intends to adopt a written charter for the Risk Committee and it will be made available online and in print as specified in the immediately preceding sentence once available. As described in more detail below under "Certain Corporate Governance Matters Director Independence," the Board has determined that each member of the Audit Committee, the Compensation and Benefits Committee and the Corporate Governance and Nominating Committee is independent within the meaning of the rules of the NYSE. The Board has also determined that a majority of the members of the Risk Committee are independent within the meaning of the rules of the NYSE. The Board has also determined that each member of the Audit Committee is independent within the meaning of the rules of the SEC. In addition, the Board has determined that each member of the Audit Committee is financially literate and that at least one member of the Audit Committee has accounting or related financial management expertise, in each case within the meaning of the NYSE's rules. The Board has also determined that Mr. Ruben M. Escobedo is an audit committee financial expert within the meaning of the SEC's rules.

Leadership Structure

As provided in our Corporate Governance Guidelines, our Board selects its Chairman, Lead Director and CEO in a way that it considers to be in the best interests of Cullen/Frost. The Board does not have a policy on whether the role of Chairman and CEO should be separate or combined, but believes that the most effective leadership structure for Cullen/Frost is to combine these responsibilities. This structure avoids the potential confusion and conflict over who is leading the Company, both within the Company and when dealing with investors, customers and counterparties, and the duplication of efforts that can