

INTERNATIONAL BANCSHARES CORP
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-09439

INTERNATIONAL BANCSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Texas

74-2157138

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1200 San Bernardo Avenue, Laredo, Texas 78042-1359

(Address of principal executive offices)

(Zip Code)

(956) 722-7611

(Registrant's telephone number, including area code)

None

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Class

Shares Issued and Outstanding

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

Common Stock, \$1.00 par value

66,374,382 shares outstanding at November 2, 2015

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 241,682	\$ 255,146
Investment securities:		
Held-to-maturity (Market value of \$2,400 on September 30, 2015 and \$2,400 on December 31, 2014)	2,400	2,400
Available-for-sale (Amortized cost of \$4,492,261 on September 30, 2015 and \$4,894,428 on December 31, 2014)	4,532,783	4,911,963
Total investment securities	4,535,183	4,914,363
Loans	5,922,972	5,679,245
Less allowance for probable loan losses	(65,260)	(64,828)
Net loans	5,857,712	5,614,417
Bank premises and equipment, net	521,499	526,423
Accrued interest receivable	29,439	31,461
Other investments	468,986	440,670
Identified intangible assets, net	356	797
Goodwill	282,532	282,532
Other assets	114,828	130,711
Total assets	\$ 12,052,217	\$ 12,196,520

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	September 30, 2015	December 31, 2014
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand non-interest bearing	\$ 3,089,266	\$ 2,930,253
Savings and interest bearing demand	2,981,034	3,025,680
Time	2,396,480	2,482,692
Total deposits	8,466,780	8,438,625
Securities sold under repurchase agreements	831,012	858,350
Other borrowed funds	803,550	1,073,944
Junior subordinated deferrable interest debentures	161,416	175,416
Other liabilities	131,822	69,527
Total liabilities	10,394,580	10,615,862
Shareholders equity:		
Common shares of \$1.00 par value. Authorized 275,000,000 shares; issued 95,856,588 shares on September 30, 2015 and 95,783,977 shares on December 31, 2014	95,857	95,784
Surplus	167,567	165,520
Retained earnings	1,648,630	1,585,389
Accumulated other comprehensive income (including \$(4,332) on September 30, 2015 and \$(4,881) on December 31, 2014 of comprehensive loss related to other-than-temporary impairment for non-credit related issues)	26,161	11,397
	1,938,215	1,858,090
Less cost of shares in treasury, 29,455,316 shares on September 30, 2015 and 29,324,567 December 31, 2014	(280,578)	(277,432)
Total shareholders equity	1,657,637	1,580,658
Total liabilities and shareholders equity	\$ 12,052,217	\$ 12,196,520

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	\$ 77,176	\$ 71,026	\$ 222,546	\$ 208,934
Investment securities:				
Taxable	20,620	24,149	67,760	76,873
Tax-exempt	2,901	2,744	8,423	8,995
Other interest income	27	39	105	133
Total interest income	100,724	97,958	298,834	294,935
Interest expense:				
Savings deposits	891	898	2,669	2,684
Time deposits	2,807	2,976	8,514	9,115
Securities sold under repurchase agreements	6,041	6,150	18,097	18,474
Other borrowings	375	488	1,219	1,608
Junior subordinated interest deferrable debentures	1,019	1,063	3,088	3,201
Total interest expense	11,133	11,575	33,587	35,082
Net interest income	89,591	86,383	265,247	259,853
Provision for probable loan losses	8,832	2,816	18,976	8,539
Net interest income after provision for probable loan losses	80,759	83,567	246,271	251,314
Non-interest income:				
Service charges on deposit accounts	20,627	22,514	59,669	67,026
Other service charges, commissions and fees				
Banking	11,028	10,880	34,556	33,791
Non-banking	2,091	2,083	5,057	5,143
Investment securities transactions, net		(6,446)	(428)	1,283
Other investments, net	4,400	5,641	12,117	17,008
Other income	4,876	1,811	9,029	11,873
Total non-interest income	43,022	36,483	120,000	136,124

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Non-interest expense:				
Employee compensation and benefits	\$ 31,962	\$ 32,326	\$ 93,364	\$ 92,560
Occupancy	7,143	7,865	20,003	22,729
Depreciation of bank premises and equipment	6,240	5,937	18,798	18,083
Professional fees	3,448	3,416	10,715	10,343
Deposit insurance assessments	1,511	1,515	4,441	4,512
Net expense, other real estate owned	1,678	(55)	4,074	1,704
Amortization of identified intangible assets	161	117	441	2,246
Advertising	1,857	1,928	5,887	5,713
Early termination fee securities sold under repurchase agreements	3,510		3,510	11,000
Impairment charges (Total other-than-temporary impairment losses, \$(26), net of \$223, \$(8), net of \$(281), \$150, net of \$850, and \$(115), net of \$(667), included in other comprehensive income)	249	273	700	552
Other	17,139	16,835	48,859	47,043
Total non-interest expense	74,898	70,157	210,792	216,485
Income before income taxes	48,883	49,893	155,479	170,953
Provision for income taxes	16,864	16,660	53,723	56,356
Net income	\$ 32,019	\$ 33,233	\$ 101,756	\$ 114,597
Basic earnings per common share:				
Weighted average number of shares outstanding:	66,449,974	66,860,997	66,430,440	66,971,555
Net income	\$.48	\$.50	\$ 1.53	\$ 1.71
Fully diluted earnings per common share:				
Weighted average number of shares outstanding:	66,661,841	67,016,937	66,633,913	67,119,213
Net income	\$.48	\$.50	\$ 1.53	\$ 1.71

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 32,019	\$ 33,233	\$ 101,756	\$ 114,597
Other comprehensive income (loss), net of tax				
Net unrealized holding gains (losses) on securities available for sale arising during period (tax effects of \$9,409, \$(7,888), \$7,855 and \$23,898)	17,474	(14,649)	14,587	44,382
Reclassification adjustment for gains (losses) on securities available for sale included in net income (tax effects of \$0, \$2,256, \$(150) and \$(449))		4,190	(278)	(834)
Reclassification adjustment for impairment charges on available for sale securities included in net income (tax effects of \$87, \$96, \$245 and \$193)	162	177	455	359
	17,636	(10,282)	14,764	43,907
Comprehensive income	\$ 49,655	\$ 22,951	\$ 116,520	\$ 158,504

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	\$ 101,756	\$ 114,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable loan losses	18,976	8,539
Specific reserve, other real estate owned	918	371
Depreciation of bank premises and equipment	18,798	18,083
Loss (gain) on sale of bank premises and equipment	256	(3,955)
Gain on sale of other real estate owned	(197)	(314)
Accretion of investment securities discounts	(1,337)	(2,161)
Amortization of investment securities premiums	21,197	20,096
Investment securities transactions, net	428	(1,283)
Impairment charges on available-for-sale investment securities	700	552
Amortization of identified intangible assets	441	2,246
Stock based compensation expense	872	766
Earnings from affiliates and other investments	(9,853)	(10,455)
Deferred tax expense (benefit)	1,274	(2,993)
Decrease in accrued interest receivable	2,022	2,081
Net decrease (increase) in other assets	9,372	(4,779)
Net increase in other liabilities	14,358	8,300
Net cash provided by operating activities	179,981	149,691
Investing activities:		
Proceeds from maturities of securities	1,075	
Proceeds from sales and calls of available for sale securities	30,282	621,588
Purchases of available for sale securities	(310,030)	(648,910)
Principal collected on mortgage-backed securities	659,852	582,631
Net increase in loans	(269,207)	(470,723)
Purchases of other investments	(14,587)	(12,930)
Distributions received on other investments	15,307	23,311
Purchases of bank premises and equipment	(15,830)	(42,089)
Proceeds from sales of other real estate owned	12,727	10,251
Proceeds from sale of bank premises and equipment	1,700	8,419
Net cash provided by investing activities	\$ 111,289	\$ 71,548

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2015	2014
Financing activities:		
Net increase in non-interest bearing demand deposits	\$ 159,013	\$ 227,784
Net (decrease) increase in savings and interest bearing demand deposits	(44,646)	71,928
Net decrease in time deposits	(86,212)	(129,064)
Net decrease in securities sold under repurchase agreements	(27,338)	(87,970)
Net decrease in other borrowed funds	(270,394)	(236,769)
Purchase of treasury stock	(3,146)	(11,717)
Repayment of long-term debt	(14,000)	(10,310)
Proceeds from stock transactions	1,248	405
Payments of dividends on common stock	(19,259)	(16,741)
Net cash used in financing activities	(304,734)	(192,454)
(Decrease) increase in cash and cash equivalents	(13,464)	28,785
Cash and cash equivalents at beginning of period	255,146	274,785
Cash and cash equivalents at end of period	\$ 241,682	\$ 303,570
Supplemental cash flow information:		
Interest paid	\$ 33,549	\$ 35,764
Income taxes paid	46,218	64,912
Non-cash investing and financing activities:		
Net transfer from loans to other real estate owned	6,936	(2,406)
Dividends declared, not yet paid on common stock	19,256	18,021

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The accounting and reporting policies of International Bancshares Corporation (Corporation) and Subsidiaries (the Corporation and Subsidiaries collectively referred to herein as the Company) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, International Bank of Commerce, Laredo (IBC), Commerce Bank, International Bank of Commerce, Zapata, International Bank of Commerce, Brownsville and the Corporation s wholly-owned non-bank subsidiaries, IBC Subsidiary Corporation, IBC Life Insurance Company, IBC Trading Company, Premier Tierra Holdings, Inc., IBC Charitable and Community Development Corporation, and IBC Capital Corporation. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto in the Company s latest Annual Report on Form 10-K. The consolidated statement of condition at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications have been made to make prior periods comparable. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 or any future period.

The Company operates as one segment. The operating information used by the Company s chief executive officer for purposes of assessing performance and making operating decisions about the Company is the consolidated statements presented in this report. The Company has four active operating subsidiaries, namely, the bank subsidiaries, otherwise known as International Bank of Commerce, Laredo, Commerce Bank, International Bank of Commerce, Zapata and International Bank of Commerce, Brownsville. The Company applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), FASB ASC 280, Segment Reporting , in determining its reportable segments and related disclosures.

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements. During this period, the Company did not have any material recognizable or non-recognizable subsequent events.

Note 2 Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

to transfer a liability in an orderly transaction between market participants at the measurement date; it also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- **Level 1 Inputs** Unadjusted quoted prices in active markets for identical assets or liabilities.
- **Level 2 Inputs** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3 Inputs** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy is set forth below.

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of September 30, 2015 by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using (Dollars in Thousands)			
	Assets/Liabilities Measured at Fair Value September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Measured on a recurring basis:</i>				
Assets:				
Available for sale securities				
Residential mortgage-backed securities	\$ 4,197,674	\$	\$ 4,175,914	\$ 21,760
States and political subdivisions	306,005		306,005	
Other	29,104	29,104		
	\$ 4,532,783	\$ 29,104	\$ 4,481,919	\$ 21,760

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of December 31, 2014 by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using (Dollars in Thousands)			
	Assets/Liabilities Measured at Fair Value December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Measured on a recurring basis:</i>				
Assets:				
Available for sale securities				
Residential mortgage-backed securities	\$ 4,600,372	\$	\$ 4,576,309	\$ 24,063
States and political subdivisions	282,276		282,276	
Other	29,315	29,315		
	\$ 4,911,963	\$ 29,315	\$ 4,858,585	\$ 24,063

Investment securities available-for-sale are classified within level 2 and level 3 of the valuation hierarchy, with the exception of certain equity investments that are classified within level 1. For investments classified as level 2 in the fair value hierarchy, the Company obtains fair value measurements for investment securities from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Investment securities classified as level 3 are non-agency mortgage-backed securities. The non-agency mortgage-backed securities held by the Company are traded in inactive markets and markets that have experienced significant decreases in volume and level of activity, as evidenced by few recent transactions, a significant decline or absence of new issuances, price quotations that are not based on comparable securities transactions and wide bid-ask spreads among other factors. As a result of the inability to use quoted market prices to determine fair value for these securities, the Company determined that fair value, as determined by level 3 inputs in the fair value hierarchy, is more appropriate for financial reporting and more consistent with the expected performance of the investments. For the investments classified within level 3 of the fair value hierarchy, the Company used a discounted cash flow model to determine fair value. Inputs in the model included both historical performance and expected future performance based on information currently available.

Assumptions used in the discounted cash flow model as of September 30, 2015 and December 31, 2014 were applied separately to those portions of the bond where the underlying residential mortgage loans had been performing under original contract terms for at least the prior 24 months and those where the underlying residential mortgages had not been meeting the original contractual obligation for the same period. Unobservable inputs included in the model are estimates on future principal prepayment rates, and default and loss severity rates. For that portion of the bond where the underlying residential mortgage had been meeting the original contract terms for at least 24 months, the Company used the following estimates in the model: (i) a voluntary prepayment rate of 7%, (ii) a 1% default rate, (iii) a loss severity rate of 25%, and (iv) a discount rate of 13%. The assumptions used in the model for the rest of the bond included the following estimates: (i) a voluntary prepayment rate of 2%, (ii) a default rate of 4.5%, (iii) a loss severity rate that started at 60% for the first year (2012) then declines by 5% for the following five years (2013, 2014, 2015, 2016 and 2017) and remains at 25% thereafter (2018 and beyond), and (iv) a discount rate of 13%. The estimates used in the model to determine fair value are based on observable historical data of the underlying collateral. The model anticipates that the housing market will gradually improve and that the underlying collateral will eventually all perform in accordance with the original contract terms on the bond. Should the number of loans in the underlying collateral that default and go into foreclosure or the severity of the losses in the underlying collateral significantly change, the results of the model would be impacted. The Company will continue to evaluate the actual historical performance of the underlying collateral and will modify the assumptions used in the model as necessary.

The following table presents a reconciliation of activity for such mortgage-backed securities on a net basis (Dollars in Thousands):

Balance at December 31, 2014	\$	24,063
Principal paydowns		(2,453)
Total unrealized losses included in:		
Other comprehensive income		850
Impairment realized		(700)
Balance at September 30, 2015	\$	21,760

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis. The instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period ended September 30, 2015 by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using (Dollars in Thousands)				
	Assets/Liabilities Measured at Fair Value September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net (Credit) Provision During Period
<i>Measured on a non-recurring basis:</i>					
Assets:					
Impaired loans	\$ 15,207	\$	\$	\$ 15,207	\$ (9,038)
Other real estate owned	7,633			7,633	918

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period ended December 31, 2014 by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using (Dollars in Thousands)				
	Assets/Liabilities Measured at Fair Value December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net (Credit) Provision During the Period
<i>Measured on a non-recurring basis:</i>					
Assets:					
Impaired loans	\$ 29,501	\$	\$	\$ 29,501	\$ (1,557)
Other real estate owned	6,112			6,112	597

The Company's assets measured at fair value on a non-recurring basis are limited to impaired loans and other real estate owned. Impaired loans are classified within level 3 of the valuation hierarchy. The fair value of impaired loans is derived in accordance with FASB ASC 310,

Receivables. Impaired loans are primarily comprised of collateral-dependent commercial loans. Understanding that as the primary sources of loan repayments decline, the secondary repayment source comes into play and correctly evaluating the fair value of that secondary source, the collateral, becomes even more important. Re-measurement of the impaired loan to fair value is done through a specific valuation allowance included in the allowance for probable loan losses. The fair value of impaired loans is based on the fair value of the collateral, as determined through either an appraisal or evaluation process. The basis for the Company's appraisal and appraisal review process is based on regulatory guidelines and strives to comply with all regulatory appraisal laws, regulations and the Uniform Standards of Professional Appraisal Practice. All appraisals and evaluations are as is (the property's highest and best use) valuations based on the current conditions of the property/project at that point in time. The determination of the fair value of the collateral is based on the net realizable value, which is the appraised value less any closing costs, when applicable. As of September 30, 2015, the Company had \$47,339,000 of impaired commercial collateral dependent loans, of which \$35,502,000 had an appraisal performed within the immediately preceding twelve months, and of which \$2,958,000 had an evaluation performed within the immediately preceding twelve months. As of December 31, 2014, the Company had \$65,551,000 of impaired commercial collateral dependent loans, of which \$52,092,000 had an appraisal performed within the immediately preceding twelve months and of which \$5,307,000 had an evaluation performed within the immediately preceding twelve months.

The determination to either seek an appraisal or to perform an evaluation begins in weekly credit quality meetings, where the committee analyzes the existing collateral values of the impaired loans and where obsolete appraisals are identified. In order to determine whether the Company would obtain a new appraisal or perform an internal evaluation to determine the fair value of the collateral, the credit committee reviews the existing appraisal to determine if the collateral value is reasonable in view of the current use of the collateral and the economic environment related to the collateral. If the analysis of the existing appraisal does not find that the collateral value is reasonable under the current circumstances, the Company would obtain a new appraisal on the collateral or perform an internal evaluation of the collateral. The ultimate decision to get a new appraisal rests with the independent credit administration group. A new appraisal is not required if an internal evaluation, as performed by in-house experts, is able to appropriately update the original appraisal assumptions to reflect current market conditions and provide an estimate of the collateral's market value for impairment analysis. The internal evaluations must be in writing and contain sufficient information detailing the analysis, assumptions and conclusions and they must support performing an evaluation in lieu of ordering a new appraisal.

Other real estate owned is comprised of real estate acquired by foreclosure and deeds in lieu of foreclosure. Other real estate owned is carried at the lower of the recorded investment in the property or its fair value less estimated costs to sell such property (as determined by independent appraisal) within level 3 of the fair value hierarchy. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for probable loan losses, if necessary. The fair value is reviewed periodically and subsequent write downs are made accordingly through a charge to operations. Other real estate owned is included in other assets on the consolidated financial statements. For the nine months ended September 30, 2015 and the twelve months ended December 31, 2014, respectively the Company recorded \$1,017,000 and \$367,000 in charges to the allowance for probable loan losses in connection with loans transferred to other real estate owned. For the nine months ended September 30, 2015 and the twelve months ended December 31, 2014, respectively, the Company recorded \$918,000 and \$597,000 in adjustments to fair value in connection with other real estate owned.

The fair value estimates, methods, and assumptions for the Company's financial instruments at September 30, 2015 and December 31, 2014 are outlined below.

Cash and Cash Equivalents

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Time Deposits with Banks

The carrying amounts of time deposits with banks approximate fair value.

Investment Securities Held-to-Maturity

The carrying amounts of investments held-to-maturity approximate fair value.

Investment Securities

For investment securities, which include U.S. Treasury securities, obligations of other U.S. government agencies, obligations of states and political subdivisions and mortgage pass through and related securities, fair values are from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. See disclosures of fair value of investment securities in Note 6.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, real estate and consumer loans as outlined by regulatory reporting guidelines. Each category is segmented into fixed and variable interest rate terms and by performing and non-performing categories.

For variable rate performing loans, the carrying amount approximates the fair value. For fixed rate performing loans, except residential mortgage loans, the fair value is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources or the primary origination market. Fixed rate performing loans are within Level 3 of the fair value hierarchy. At September 30, 2015, and December 31, 2014, the carrying amount of fixed rate performing loans was \$1,379,521,000 and \$1,352,147,000 respectively, and the estimated fair value was \$1,308,766,000 and \$1,285,648,000, respectively.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposit accounts, savings accounts and interest bearing demand deposit accounts, was equal to the amount payable on demand as of September 30, 2015 and December 31, 2014. The fair value of time

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

deposits is based on the discounted value of contractual cash flows. The discount rate is based on currently offered rates. Time deposits are within Level 3 of the fair value hierarchy. At September 30, 2015 and December 31, 2014, the carrying amount of time deposits was \$2,396,480,000 and \$2,482,692,000, respectively, and the estimated fair value was \$2,395,133,000 and \$2,480,390,000, respectively.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements include both short and long-term maturities. Due to the contractual terms of the short-term instruments, the carrying amounts approximated fair value at September 30, 2015 and December 31, 2014. The fair value of the long-term instruments is based on established market spreads using option adjusted spread methodology. Long-term repurchase agreements are within level 3 of the fair value hierarchy. At September 30, 2015 and December 31, 2014, the carrying amount of long-term repurchase agreements was \$560,000,000 and \$610,000,000, respectively, and the estimated fair value was \$518,148,000 and \$558,097,100, respectively.

Junior Subordinated Deferrable Interest Debentures

The Company currently has floating rate junior subordinated deferrable interest debentures outstanding. Due to the contractual terms of the floating rate junior subordinated deferrable interest debentures, the carrying amounts approximated fair value at September 30, 2015 and December 31, 2014.

Other Borrowed Funds

The Company currently has short-term borrowings issued from the Federal Home Loan Bank (FHLB). Due to the contractual terms of the short-term borrowings, the carrying amounts approximated fair value at September 30, 2015 and December 31, 2014. The Company had one long-term borrowing outstanding at December 31, 2014, which was paid off in the second quarter of 2015. The fair value of long-term borrowings is based on established market spreads for similar types of borrowings. The long-term borrowings were included in Level 2 of the fair value hierarchy. At December 31, 2014, the carrying amount of the long-term FHLB borrowings was \$6,244,000 and the estimated fair value was \$6,645,000, respectively.

Commitments to Extend Credit and Letters of Credit

Commitments to extend credit and fund letters of credit are principally at current interest rates, and, therefore, the carrying amount approximates fair value.

Limitations

Fair value estimates are made at a point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-and off-statement of condition financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets or liabilities include the bank premises and equipment and core deposit value. In addition, the tax ramifications related to the effect of fair value estimates have not been considered in the above estimates.

Note 3 Loans

A summary of loans, by loan type at September 30, 2015 and December 31, 2014 is as follows:

	September 30, 2015	December 31, 2014
	(Dollars in Thousands)	
Commercial, financial and agricultural	\$ 3,073,381	\$ 3,107,584

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

Real estate mortgage	948,700	910,326
Real estate construction	1,655,249	1,414,977
Consumer	58,286	61,137
Foreign	187,356	185,221
Total loans	\$ 5,922,972	\$ 5,679,245

Note 4 - Allowance for Probable Loan Losses

The allowance for probable loan losses primarily consists of the aggregate loan loss allowances of the bank subsidiaries. The allowances are established through charges to operations in the form of provisions for probable loan losses. Loan losses or recoveries are charged or credited directly to the allowances. The allowance for probable loan losses of each bank subsidiary is maintained at a level considered appropriate by management, based on estimated probable losses in the loan portfolio. The allowance for probable loan losses is derived from the following elements: (i) allowances established on specific impaired loans, which are based on a review of the individual characteristics of each loan, including the customer's ability to repay the loan, the underlying collateral values, and the industry in which the customer operates, (ii) allowances based on actual historical loss experience for similar types of loans in the Company's loan portfolio, and (iii) allowances based on general economic conditions, changes in the mix of loans, company resources, border risk and credit quality indicators, among other things. All segments of the loan portfolio continue to be impacted by the prolonged economic downturn. Loans secured by real estate could be impacted negatively by the continued economic environment and resulting decrease in collateral values. Consumer loans may be impacted by continued and prolonged unemployment rates.

The Company's management continually reviews the allowance for loan losses of the bank subsidiaries using the amounts determined from the allowances established on specific impaired loans, the allowance established on quantitative historical loss percentages, and the allowance based on qualitative data to establish an appropriate amount to maintain in the Company's allowance for loan losses. Should any of the factors considered by management in evaluating the adequacy of the allowance for probable loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for probable loan losses. While the calculation of the allowance for probable loan losses utilizes management's best judgment and all information available, the adequacy of the allowance is dependent on a variety of factors beyond the Company's control, including, among other things, the performance of the entire loan portfolio, the economy, changes in interest rates and the view of regulatory authorities towards loan classifications.

The loan loss provision is determined using the following methods. On a weekly basis, loan past due reports are reviewed by the credit quality committee to determine if a loan has any potential problems and if a loan should be placed on the Company's internal classified report. Additionally, the Company's credit department reviews the majority of the Company's loans for proper internal classification purposes regardless of whether they are past due and segregates any loans with potential problems for further review. The credit department will discuss the potential problem loans with the servicing loan officers to determine any relevant issues that were not discovered in the evaluation. Also, an analysis of loans that is provided through examinations by regulatory authorities is considered in the review process. After the above analysis is completed, the Company will determine if a loan should be placed on an internal classified report because of issues related to the analysis of the credit, credit documents, collateral and/or payment history.

A summary of the transactions in the allowance for probable loan losses by loan class is as follows:

	Three Months Ended September 30, 2015								Foreign	Total
	Domestic									
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign		
	(Dollars in Thousands)									
Balance at June 30,	\$ 18,902	\$ 13,524	\$ 17,885	\$ 685	\$ 3,434	\$ 4,308	\$ 625	\$ 1,175	\$ 60,538	
Losses charge to allowance	(4,921)	(10)			(45)	(60)	(131)		(5,167)	

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

Recoveries credited to allowance	770	98	7	4	155	21	2	1,057	
Net (losses) recoveries charged to allowance	(4,151)	88	7	(41)	95	(110)	2	(4,110)	
Provision charged to operations	5,774	654	1,733	120	287	130	127	7	8,832
Balance at September 30,	\$ 20,525	\$ 14,266	\$ 19,625	\$ 805	\$ 3,680	\$ 4,533	\$ 642	\$ 1,184	\$ 65,260

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

	Three Months Ended September 30, 2014							Foreign		Total
	Domestic									
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign		
	(Dollars in Thousands)									
Balance at June 30,	\$ 28,006	\$ 13,006	\$ 19,538	\$ 786	\$ 3,721	\$ 4,736	\$ 706	\$ 1,038	\$ 71,537	
Losses charge to allowance	(2,920)	(43)	(38)		(131)	(242)	(146)		(3,520)	
Recoveries credited to allowance	740	14	42		11	40	47		894	
Net (losses) recoveries charged to allowance	(2,180)	(29)	4		(120)	(202)	(99)		(2,626)	
Provision charged to operations	2,454	852	(701)	(41)	27	164	79	(18)	2,816	
Balance at September 30,	\$ 28,280	\$ 13,829	\$ 18,841	\$ 745	\$ 3,628	\$ 4,698	\$ 686	\$ 1,020	\$ 71,727	

	Nine Months Ended September 30, 2015							Foreign		Total
	Domestic									
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign		
	(Dollars in Thousands)									
Balance at December 31,	\$ 22,352	\$ 12,955	\$ 18,683	\$ 846	\$ 3,589	\$ 4,683	\$ 660	\$ 1,060	\$ 64,828	
Losses charge to allowance	(20,303)	(695)	(356)		(136)	(162)	(544)		(22,196)	
Recoveries credited to allowance	2,100	137	820		28	406	151	10	3,652	
Net (losses) recoveries charged to allowance	(18,203)	(558)	464		(108)	244	(393)	10	(18,544)	
Provision charged to operations	16,376	1,869	478	(41)	199	(394)	375	114	18,976	
Balance at September 30,	\$ 20,525	\$ 14,266	\$ 19,625	\$ 805	\$ 3,680	\$ 4,533	\$ 642	\$ 1,184	\$ 65,260	

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

	Nine Months Ended September 30, 2014							Foreign		Total
	Domestic							Foreign		
Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer				
(Dollars in Thousands)										
Balance at December 31,	\$ 22,433	\$ 12,541	\$ 24,467	\$ 776	\$ 3,812	\$ 4,249	\$ 750	\$ 1,133	\$ 70,161	
Losses charge to allowance	(7,780)	(442)	(208)		(261)	(395)	(555)	(50)	(9,691)	
Recoveries credited to allowance	2,156	66	100		16	140	194	46	2,718	
Net losses charged to allowance	(5,624)	(376)	(108)		(245)	(255)	(361)	(4)	(6,973)	
Provision charged to operations	11,471	1,664	(5,518)	(31)	61	704	297	(109)	8,539	
Balance at September 30,	\$ 28,280	\$ 13,829	\$ 18,841	\$ 745	\$ 3,628	\$ 4,698	\$ 686	\$ 1,020	\$ 71,727	

The allowance for probable loan losses is a reserve established through a provision for probable loan losses charged to expense, which represents management's best estimate of probable loan losses when evaluating loans (i) individually or (ii) collectively. The increase in losses charged to the allowance for probable loan losses for the nine months ended September 30, 2015 can be attributed to a charge down of a loan relationship that is mainly secured by multiple pieces of transportation equipment, the value of which fluctuates due to market factors and the amount and use of the equipment. The loan was classified as a Watch-List Impaired loan at December 31, 2014 and was included in the balance of loans individually evaluated for impairment with a specific reserve at December 31, 2014.

The table below provides additional information on the balance of loans individually or collectively evaluated for impairment and their related allowance, by loan class as of September 30, 2015 and December 31, 2014:

	September 30, 2015 (Dollars in Thousands)			
	Loans Individually Evaluated for Impairment		Loans Collectively Evaluated for Impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	\$ 31,265	\$ 1,174	\$ 981,126	\$ 19,351
Commercial real estate: other construction & land development	6,349	100	1,648,900	14,166
Commercial real estate: farmland & commercial	9,642	482	1,943,066	19,143
Commercial real estate: multifamily	812		107,470	805
Residential: first lien	5,294		403,982	3,680
Residential: junior lien	1,028		538,396	4,533
Consumer	1,243		57,043	642
Foreign	749		186,607	1,184

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

Total	\$	56,382	\$	1,756	\$	5,866,590	\$	63,504
-------	----	--------	----	-------	----	-----------	----	--------

	December 31, 2014 (Dollars in Thousands)			
	Loans individually evaluated for impairment		Loans collectively evaluated for impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	\$ 40,175	\$ 9,112	\$ 1,049,311	\$ 13,240
Commercial real estate: other construction & land development	10,876	1,890	1,404,101	11,065
Commercial real estate: farmland & commercial	14,166	1,219	1,887,233	17,464
Commercial real estate: multifamily	835		115,864	846
Residential: first lien	5,840		416,186	3,589
Residential: junior lien	2,895		485,405	4,683
Consumer	1,384		59,753	660
Foreign			185,221	1,060
Total	\$ 76,171	\$ 12,221	\$ 5,603,074	\$ 52,607

During the second quarter of 2015, the Company charged down a portion of an impaired loan relationship that is mainly secured by multiple pieces of transportation equipment, the value of which fluctuates due to market factors. The Company also foreclosed upon two other real-estate secured commercial impaired loans. The transactions and their impact to the Company's loan portfolio, including the allowance for probable loan losses, non-accrual loans and impaired loans with a related allowance for September 30, 2015 compared to December 31, 2014 are illustrated in the various associated tables on the following pages.

The table below provides additional information on loans accounted for on a non-accrual basis by loan class at September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	(Dollars in Thousands)			
Domestic				
Commercial	\$	31,213	\$	40,121
Commercial real estate: other construction & land development		3,797		8,621
Commercial real estate: farmland & commercial		7,379		11,903
Commercial real estate: multifamily		792		835
Residential: first lien		322		527
Residential: junior lien		16		1,523
Consumer		36		29
Foreign		356		
Total non-accrual loans	\$	43,911	\$	63,559

Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans are measured based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. In limited cases the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

The following tables detail key information regarding the Company's impaired loans by loan class at September 30, 2015 and December 31, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	September 30, 2015		Year to Date	
				Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
(Dollars in Thousands)							
Loans with Related Allowance							
Domestic							
Commercial	\$ 10,288	\$ 21,840	\$ 1,174	\$ 11,247	\$	\$ 15,634	\$
Commercial real estate: other construction & land development	169	169	100	170		1,136	
Commercial real estate: farmland & commercial	3,513	3,726	482	3,517	23	4,046	69
Total impaired loans with related allowance	\$ 13,970	\$ 25,735	\$ 1,756	\$ 14,934	\$ 23	\$ 20,816	\$ 69

	September 30, 2015					
	Recorded Investment	Unpaid Principal Balance	Quarter to Date		Year to Date	
			Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
(Dollars in Thousands)						
Loans with No Related Allowance						
Domestic						
Commercial	\$ 20,977	\$ 21,909	\$ 21,291	\$ 1	\$ 20,623	\$ 3
Commercial real estate: other construction & land development	6,180	6,206	6,045	20	6,561	57
Commercial real estate: farmland & commercial	6,129	7,263	6,203		7,253	
Commercial real estate: multifamily	812	812	819		832	1
Residential: first lien	5,294	5,353	5,315	65	5,375	188
Residential: junior lien	1,028	1,050	1,075	15	1,255	54
Consumer	1,243	1,244	1,263	1	1,201	2
Foreign	749	749	632	4	480	13
Total impaired loans with no related allowance	\$ 42,412	\$ 44,586	\$ 42,643	\$ 106	\$ 43,580	\$ 318

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
Loans with Related Allowance					
Domestic					
Commercial	\$ 19,944	\$ 20,026	\$ 9,112	\$ 19,313	\$
Commercial real estate: other construction & land development	6,714	6,949	1,890	7,183	
Commercial real estate: farmland & commercial	5,107	5,257	1,219	6,790	92
Total impaired loans with related allowance	\$ 31,765	\$ 32,232	\$ 12,221	\$ 33,286	\$ 92

	December 31, 2014			
	Recorded Investment	Unpaid Principal Balance (Dollars in Thousands)	Average Recorded Investment	Interest Recognized
Loans with No Related Allowance				
Domestic				
Commercial	\$ 20,231	\$ 20,260	\$ 18,563	\$ 4
Commercial real estate: other construction & land development	4,162	4,270	4,882	74
Commercial real estate: farmland & commercial	9,059	10,562	8,664	
Commercial real estate: multifamily	835	835	363	
Residential: first lien	5,840	6,034	6,293	273
Residential: junior lien	2,895	2,915	3,035	90
Consumer	1,384	1,386	1,402	3
Foreign				
Total impaired loans with no related allowance	\$ 44,406	\$ 46,262	\$ 43,202	\$ 444

The following tables detail key information regarding the Company's average recorded investment in and interest recognized on impaired loans by loan class at September 30, 2014:

	September 30, 2014			
	Quarter to Date		Year to Date	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
(Dollars in Thousands)				
Loans with Related Allowance				
Domestic				
Commercial	\$ 17,677	\$	\$ 17,550	\$
Commercial real estate: other construction & land development	7,329		7,326	
Commercial real estate: farmland & commercial	7,519	23	6,839	69
Total impaired loans with related allowance	\$ 32,525	\$ 23	\$ 31,715	\$ 69

	September 30, 2014			
	Quarter to Date		Year to Date	
	Average Recorded Investment	Interest Recognized (Dollars in Thousands)	Average Recorded Investment	Interest Recognized
Loans with No Related Allowance				
Domestic				
Commercial	\$ 21,265	\$ 1	\$ 19,557	\$ 3
Commercial real estate:				
other construction & land development	4,192	19	5,121	56
Commercial real estate: farmland & commercial	8,418		8,643	
Commercial real estate: multifamily	256		270	
Residential: first lien	5,648	64	6,028	191
Residential: junior lien	2,992	22	3,080	69
Consumer	1,408	1	1,407	3
Foreign	420	5	426	14
Total impaired loans with no related allowance	\$ 44,599	\$ 112	\$ 44,532	\$ 336

A portion of the impaired loans have adequate collateral and credit enhancements not requiring a related allowance for loan loss. The level of impaired loans is reflective of the economic weakness that has been created by the financial crisis and the subsequent economic downturn. Management is confident the Company's loss exposure regarding these credits will be significantly reduced due to the Company's long-standing practices that emphasize secured lending with strong collateral positions and guarantor support. Management is likewise confident the reserve for probable loan losses is adequate. The Company has no direct exposure to sub-prime loans in its loan portfolio, but the sub-prime crisis has affected the credit markets on a national level, and as a result, the Company has experienced an increasing amount of impaired loans; however, management's decision to place loans in this category does not necessarily mean that the Company will experience significant losses from these loans or significant increases in impaired loans from these levels.

Management of the Company recognizes the risks associated with these impaired loans. However, management's decision to place loans in this category does not necessarily mean that losses will occur. In the current environment, troubled loan management can be protracted because of the legal and process problems that delay the collection of an otherwise collectable loan. Additionally, management believes that the collateral related to these impaired loans and/or the secondary support from guarantors mitigates the potential for losses from impaired loans.

The following table details loans accounted for as troubled debt restructuring, segregated by loan class. Loans accounted for as troubled debt restructuring are included in impaired loans.

	September 30, 2015	December 31, 2014
	(Dollars in Thousands)	
Domestic		
Commercial	\$ 2,420	\$ 2,500
Commercial real estate: other construction & land development	2,553	2,254
Commercial real estate: farmland & commercial	2,853	2,861
Commercial real estate: multifamily	21	
Residential: first lien	4,972	5,313

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

Residential: junior lien	1,012	1,371
Consumer	1,208	1,354
Foreign	393	
Total troubled debt restructuring	\$ 15,432	\$ 15,653

The bank subsidiaries charge off that portion of any loan which management considers to represent a loss as well as that portion of any other loan which is classified as a loss by bank examiners. Commercial and industrial or real estate loans are generally considered by management to represent a loss, in whole or part, when an exposure beyond any collateral coverage is apparent and when no further collection of the loss portion is anticipated based on the borrower's financial condition and general economic conditions in the borrower's industry. Generally, unsecured consumer loans are charged-off when 90 days past due.

While management of the Company considers that it is generally able to identify borrowers with financial problems reasonably early and to monitor credit extended to such borrowers carefully, there is no precise method of predicting loan losses. The determination that a loan is likely to be uncollectible and that it should be wholly or partially charged-off as a loss is an exercise of judgment. Similarly, the determination of the adequacy of the allowance for probable loan losses can be made only on a subjective basis. It is the judgment of the Company's management that the allowance for probable loan losses at September 30, 2015 was adequate to absorb probable losses from loans in the portfolio at that date.

The following table presents information regarding the aging of past due loans by loan class at September 30, 2015 and December 31, 2014:

	30 - 59 Days		60 - 89 Days		90 Days or Greater		September 30, 2015 90 Days or Greater & Still Accruing (Dollars in Thousands)		Total Past Due	Current	Total Portfolio
Domestic											
Commercial	\$ 7,460	\$ 1,318	\$ 24,206	\$ 653	\$ 32,984	\$ 979,407	\$ 1,012,391				
Commercial real estate: other construction & land development	2,847	1,930	7,292	3,791	12,069	1,643,180	1,655,249				
Commercial real estate: farmland & commercial	2,862	1,783	3,180	1,653	7,825	1,944,883	1,952,708				
Commercial real estate: multifamily	49	135	812	21	996	107,286	108,282				
Residential: first lien	3,926	1,897	5,908	5,628	11,731	397,545	409,276				
Residential: junior lien	814	388	370	370	1,572	537,852	539,424				
Consumer	855	201	422	389	1,478	56,808	58,286				
Foreign	1,310	230	938	582	2,478	184,878	187,356				
Total	\$ 20,123	\$ 7,882	\$ 43,128	\$ 13,087	\$ 71,133	\$ 5,851,839	\$ 5,922,972				

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

	December 31, 2014													
	30	59	60	89	90	90 Days	Total		Total					
	Days	Days	Days	Days	Days or	or Greater	Past	Current	Portfolio					
					Greater	& Still	Due							
						Accruing								
						(Dollars in Thousands)								
Domestic														
Commercial	\$	4,103	\$	2,665	\$	40,665	\$	2,890	\$	47,433	\$	1,042,053	\$	1,089,486
Commercial real estate: other construction & land development		596		10		8,707		439		9,313		1,405,664		1,414,977
Commercial real estate: farmland & commercial		2,905		7,131		10,724		1,711		20,760		1,880,639		1,901,399
Commercial real estate: multifamily		351				856		21		1,207		115,492		116,699
Residential: first lien		5,895		1,864		4,267		3,901		12,026		410,000		422,026
Residential: junior lien		899		231		1,931		431		3,061		485,239		488,300
Consumer		896		216		507		482		1,619		59,518		61,137
Foreign		1,616		98		113		113		1,827		183,394		185,221
Total past due loans	\$	17,261	\$	12,215	\$	67,770	\$	9,988	\$	97,246	\$	5,581,999	\$	5,679,245

The Company's internal classified report is segregated into the following categories: (i) Special Review Credits, (ii) Watch List - Pass Credits, or (iii) Watch List - Substandard Credits. The loans placed in the Special Review Credits category reflect the Company's opinion that the loans reflect potential weakness which requires monitoring on a more frequent basis. The Special Review Credits are reviewed and discussed on a regular basis with the credit department and the lending staff to determine if a change in category is warranted. The loans placed in the Watch List - Pass Credits category reflect the Company's opinion that the credit contains weaknesses which represent a greater degree of risk, which warrant extra attention. The Watch List - Pass Credits are reviewed and discussed on a regular basis with the credit department and the lending staff to determine if a change in category is warranted. The loans placed in the Watch List - Substandard Credits classification are considered to be potentially inadequately protected by the current sound worth and debt service capacity of the borrower or of any pledged collateral. These credit obligations, even if apparently protected by collateral value, have shown defined weaknesses related to adverse financial, managerial, economic, market or political conditions which may jeopardize repayment of principal and interest. Furthermore, there is the possibility that some future loss could be sustained by the Company if such weaknesses are not corrected. For loans that are classified as impaired, management evaluates these credits in accordance with the provisions of ASC 310-10, Receivables, and, if deemed necessary, a specific reserve is allocated to the credit. The specific reserve allocated under ASC 310-10, is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's loans evaluated as impaired under ASC 310-10 are measured using the fair value of collateral method. In limited cases, the Company may use other methods to determine the specific reserve of a loan under ASC 310-10 if such loan is not collateral dependent.

The allowance based on historical loss experience on the Company's remaining loan portfolio, which includes the Special Review Credits, Watch List - Pass Credits, and Watch List - Substandard Credits is determined by segregating the remaining loan portfolio into certain categories such as commercial loans, installment loans, international loans, loan concentrations and overdrafts. Installment loans are then further segregated by number of days past due. A historical loss percentage, adjusted for (i) management's evaluation of changes in lending policies and procedures, (ii) current economic conditions in the market area served by the Company, (iii) other risk factors, (iv) the effectiveness of the internal loan review function, (v) changes in loan portfolios, and (vi) the composition and concentration of credit volume is applied to each category. Each category is then added together to determine the allowance allocated under ASC 450-20.

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

A summary of the loan portfolio by credit quality indicator by loan class at September 30, 2015 and December 31, 2014 is as follows:

	Pass	Special Review	September 30, 2015		Watch List - Impaired
			Watch List - Pass	Watch List - Substandard	
(Dollars in Thousands)					
Domestic					
Commercial	\$ 867,908	\$	\$ 22,793	\$ 90,425	\$ 31,265
Commercial real estate: other construction & land development	1,586,892	327	12,278	49,403	6,349
Commercial real estate: farmland & commercial	1,800,442	5,397	37,293	99,934	9,642
Commercial real estate: multifamily	107,335			135	812
Residential: first lien	400,468			3,514	5,294
Residential: junior lien	538,140			256	1,028
Consumer	57,033			10	1,243
Foreign	186,607				749
Total	\$ 5,544,825	\$ 5,724	\$ 72,364	\$ 243,677	\$ 56,382

	December 31, 2014				
	Pass	Special Review	Watch List - Pass	Watch List - Substandard	Watch List - Impaired
(Dollars in Thousands)					
Domestic					
Commercial	\$ 961,490	\$ 38,382	\$ 3,793	\$ 45,646	\$ 40,175
Commercial real estate: other construction & land development	1,353,971	1,005	10,428	38,697	10,876
Commercial real estate: farmland & commercial	1,754,741	11,674	23,453	97,365	14,166
Commercial real estate: multifamily	115,729			135	835
Residential: first lien	412,668	3,500		18	5,840
Residential: junior lien	484,968			437	2,895
Consumer	59,622			131	1,384
Foreign	185,221				
Total	\$ 5,328,410	\$ 54,561	\$ 37,674	\$ 182,429	\$ 76,171

The decrease in Special Review credits for September 30, 2015 compared to December 31, 2014 can be attributed to the re-classification of a commercial loan relationship secured mainly by all assets, including contract rights of the borrower, to the Watch-List Substandard category. The decrease in Watch-List Impaired loans at September 30, 2015 compared to December 31, 2014 can be attributed to the charge down of a loan relationship that is mainly secured by multiple pieces of transportation equipment, the value of which fluctuates due to market factors, and the foreclosure of two other real estate secured commercial impaired loans. The increase in Watch-List Pass loans at September 30, 2015 compared to December 31, 2014 can be attributed to the a commercial loan relationship that is mainly secured by all assets, including contract rights, and oil and gas leases and a commercial loan relationship secured by a retail shopping center.

Note 5 Stock Options

On April 5, 2012, the Board of Directors adopted the 2012 International Bancshares Corporation Stock Option Plan (the 2012 Plan). There are 800,000 shares available for stock option grants under the 2012 Plan. Under the 2012 Plan, both qualified incentive stock options (ISOs) and non-qualified stock options (NQSOs) may be granted. Options granted may be exercisable for a period of up to 10 years from the date of grant, excluding ISOs granted to 10% shareholders, which may be exercisable for a period of up to only five years. As of September 30, 2015, 168,500 shares were available for future grants under the 2012 Plan.

A summary of option activity under the stock option plans for the nine months ended September 30, 2015 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$) (Dollars in Thousands)
Options outstanding at December 31, 2014	993,889	\$ 18.94		
Plus: Options granted	56,500	24.24		
Less:				
Options exercised	72,611	17.73		
Options expired	44,075	26.73		
Options forfeited	37,221	17.85		
Options outstanding at September 30, 2015	896,482	19.00	6.86	\$ 5,411
Options fully vested and exercisable at September 30, 2015	184,965	\$ 13.59	3.35	\$ 2,115

Stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2015 was approximately \$289,000 and \$872,000, respectively. Stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2014 was approximately \$301,000 and \$766,000, respectively. As of September 30, 2015, there was approximately \$3,263,000 of total unrecognized stock-based compensation cost related to non-vested options granted under the Company plans that will be recognized over a weighted average period of 2.0 years.

Note 6 - Investment Securities

The Company classifies debt and equity securities into one of three categories: held-to maturity, available-for-sale, or trading. Such securities are reassessed for appropriate classification at each reporting date. Securities classified as held-to-maturity are carried at amortized cost for financial statement reporting, while securities classified as available-for-sale and trading are carried at their fair value. Unrealized holding gains and losses are included in net income for those securities classified as trading, while unrealized holding gains and losses related to those securities classified as available-for-sale are excluded from net income and reported net of tax as other comprehensive income (loss) and accumulated other comprehensive income (loss) until realized, or in the case of losses, when deemed other than temporary.

The amortized cost and estimated fair value by type of investment security at September 30, 2015 are as follows:

	Amortized Cost	Gross Unrealized Gains	Held to Maturity Gross Unrealized Losses	Estimated Fair Value	Carrying Value
	(Dollars in Thousands)				
Other securities	\$ 2,400	\$	\$	\$ 2,400	\$ 2,400
Total investment securities	\$ 2,400	\$	\$	\$ 2,400	\$ 2,400

	Amortized Cost	Gross Unrealized Gains	Available for Sale Gross Unrealized Losses (Dollars in Thousands)	Estimated Fair Value	Carrying Value(1)
Residential mortgage-backed securities	\$ 4,170,907	\$ 48,841	\$ (22,074)	\$ 4,197,674	\$ 4,197,674
Obligations of states and political subdivisions	293,279	18,811	(6,085)	306,005	306,005
Equity securities	28,075	1,181	(152)	29,104	29,104
Total investment securities	\$ 4,492,261	\$ 68,833	\$ (28,311)	\$ 4,532,783	\$ 4,532,783

(1) Included in the carrying value of residential mortgage-backed securities are \$1,287,276 of mortgage-backed securities issued by Ginnie Mae, \$2,888,638 of mortgage-backed securities issued by Fannie Mae and Freddie Mac and \$21,760 issued by non-government entities

The amortized cost and estimated fair value by type of investment security at December 31, 2014 are as follows:

	Amortized Cost	Gross Unrealized Gains	Held to Maturity Gross Unrealized Losses (Dollars in Thousands)	Estimated Fair Value	Carrying Value
Other securities	\$ 2,400	\$	\$	\$ 2,400	\$ 2,400
Total investment securities	\$ 2,400	\$	\$	\$ 2,400	\$ 2,400

	Amortized Cost	Gross Unrealized Gains	Available for Sale Gross Unrealized Losses (Dollars in Thousands)	Estimated Fair Value	Carrying Value(1)
Residential mortgage-backed securities	\$ 4,597,590	\$ 47,960	\$ (45,178)	\$ 4,600,372	\$ 4,600,372
Obligations of states and political subdivisions	268,763	19,131	(5,618)	282,276	282,276
Equity securities	28,075	1,425	(185)	29,315	29,315
Total investment securities	\$ 4,894,428	\$ 68,516	\$ (50,981)	\$ 4,911,963	\$ 4,911,963

(1) Included in the carrying value of residential mortgage-backed securities are \$1,503,774 of mortgage-backed securities issued by Ginnie Mae, \$3,072,535 of mortgage-backed securities issued by Fannie Mae and Freddie Mac and \$24,063 issued by non-government entities

The amortized cost and estimated fair value of investment securities at September 30, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in Thousands)			
Due in one year or less	\$	\$	\$	\$
Due after one year through five years	2,400	2,400		
Due after five years through ten years			757	836
Due after ten years			292,522	305,169
Residential mortgage-backed securities			4,170,907	4,197,674
Equity securities			28,075	29,104
Total investment securities	\$ 2,400	\$ 2,400	\$ 4,492,261	\$ 4,532,783

Residential mortgage-backed securities are securities issued by Freddie Mac, Fannie Mae, Ginnie Mae or non-government entities. Investments in residential mortgage-backed securities issued by Ginnie Mae are fully guaranteed by the U.S. Government. Investments in mortgage-backed securities issued by Freddie Mac and Fannie Mae are not fully guaranteed by the U.S. Government, however, the Company believes that the quality of the bonds is similar to other AAA rated bonds with limited credit risk, particularly given the placement of Fannie Mae and Freddie Mac into conservatorship by the federal government in early September 2008 and because securities issued by others that are collateralized by residential mortgage-backed securities issued by Fannie Mae or Freddie Mac are rated consistently as AAA rated securities.

The amortized cost and fair value of available for sale investment securities pledged to qualify for fiduciary powers, to secure public monies as required by law, repurchase agreements and short-term fixed borrowings was \$1,858,273,000 and \$1,874,111,000, respectively, at September 30, 2015.

Proceeds from the sale of securities available-for-sale were \$0 and \$30,282,000 for the three and nine months ended September 30, 2015, which included \$0 and \$23,992,000 of mortgage-backed securities, respectively. Gross gains of \$0 and \$0 and gross losses of \$0 and \$428,000 were realized on the sales for the three and nine months ended September 30, 2015, respectively. Proceeds from the sale of securities available-for-sale were \$253,292,000 and \$621,588,000 for the three and nine months ended September 30, 2014, which included \$253,292,000 and \$620,933,000 of mortgage-backed securities. Gross gains of \$0 and \$9,479,000 and gross losses of \$6,446,000 and \$8,196,000 were realized on the sales for the three and nine months ended September 30, 2014, respectively.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015, were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in Thousands)					
Available for sale:						
Residential mortgage-backed securities	\$ 276,858	\$ (1,190)	\$ 1,485,041	\$ (20,884)	\$ 1,761,899	\$ (22,074)
Obligations of states and political subdivisions	9,306	(111)	25,521	(5,974)	34,827	(6,085)
Equity securities	72	(4)	5,602	(148)	5,674	(152)
	\$ 286,236	\$ (1,305)	\$ 1,516,164	\$ (27,006)	\$ 1,802,400	\$ (28,311)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 were as follows:

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in Thousands)						
Available for sale:						
Residential mortgage-backed securities	\$ 808,072	\$ (4,910)	\$ 1,836,218	\$ (40,268)	\$ 2,644,290	\$ (45,178)
Obligations of states and political subdivisions	8,833	(97)	27,793	(5,521)	36,626	(5,618)
Equity securities	74	(1)	8,066	(184)	8,140	(185)
	\$ 816,979	\$ (5,008)	\$ 1,872,077	\$ (45,973)	\$ 2,689,056	\$ (50,981)

The unrealized losses on investments in residential mortgage-backed securities are primarily caused by changes in market interest rates. Residential mortgage-backed securities are primarily securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. The contractual cash obligations of the securities issued by Ginnie Mae are fully guaranteed by the U.S. Government. The contractual cash obligations of the securities issued by Freddie Mac and Fannie Mae are not fully guaranteed by the U.S. Government; however, the Company believes that the quality of the bonds is similar to other AAA rated bonds with limited credit risk, particularly given the placement of Fannie Mae and Freddie Mac into conservatorship by the federal government in early September 2008 and because securities issued by others that are collateralized by residential mortgage-backed securities issued by Fannie Mae and Freddie Mac are rated consistently as AAA rated securities. The decrease in fair value on residential mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae is due to market interest rates. The Company has no intent to sell and will more than likely not be required to sell before a market price recovery or maturity of the securities; therefore, it is the conclusion of the Company that the investments in residential mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae are not considered other-than-temporarily impaired. In addition, the Company has a small investment in non-agency residential mortgage-backed securities that have additional market volatility beyond economically induced interest rate events and the Company has concluded that the investments in non-agency residential mortgage-backed securities are other-than-temporarily impaired due to both credit and other than credit issues. Impairment charges of \$700,000 (\$455,000, after tax) and \$249,000 (\$161,850, after tax) were recorded for the three and nine months ended September 30, 2015, respectively. Impairment charges of \$273,000 (\$177,000, after tax) and \$552,000 (\$359,000, after tax) were recorded for the three and nine months ended September 30, 2014, respectively. The impairment charge represents the credit related impairment on the securities.

The unrealized losses on investments in other securities are caused by fluctuations in market interest rates. The underlying cash obligations of the securities are guaranteed by the entity underwriting the debt instrument. It is the belief of the Company that the entity issuing the debt will honor its interest payment schedule, as well as the full debt at maturity. The securities are purchased by the Company for their economic value. The decrease in fair value is primarily due to market interest rates and not other factors, and because the Company has no intent to sell and will more than likely not be required to sell before a market price recovery or maturity of the securities, it is the conclusion of the Company that the investments are not considered other-than-temporarily impaired.

The following table presents a reconciliation of credit-related impairment charges on available-for-sale investments recognized in earnings for the three months ended September 30, 2015 (Dollars in Thousands):

Balance at June 30, 2015	\$ 13,074
Impairment charges recognized during period	249
Balance at September 30, 2015	\$ 13,323

The following table presents a reconciliation of credit-related impairment charges on available-for-sale investments recognized in earnings for the nine months ended September 30, 2015 (Dollars in Thousands):

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

Balance at December 31, 2014	\$	12,623
Impairment charges recognized during period		700
Balance at September 30, 2015	\$	13,323

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

The following table presents a reconciliation of credit-related impairment charges on available-for-sale investment recognized in earnings for the three months ended September 30, 2014 (Dollars in Thousands):

Balance at June 30, 2014	\$	12,085
Impairment charges recognized during period		273
Balance at September 30, 2014	\$	12,358

The following table presents a reconciliation of credit-related impairment charges on available-for-sale investment recognized in earnings for the nine months ended September 30, 2014 (Dollars in Thousands):

Balance at December 31, 2013	\$	11,806
Impairment charges recognized during period		552
Balance at September 30, 2014	\$	12,358

Note 7 Other Borrowed Funds

Other borrowed funds include Federal Home Loan Bank borrowings, which are short-term and long-term borrowings issued by the FHLB of Dallas at the market price offered at the time of funding. These borrowings are secured by residential mortgage-backed investment securities and a portion of the Company's loan portfolio. At September 30, 2015, other borrowed funds totaled \$803,550,000 a decrease of 25.2% from \$1,073,944,000 at December 31, 2014. The decrease in borrowings can be primarily attributed to the use of funds generated from principal paydowns on available for sale securities.

Note 8 Junior Subordinated Interest Deferrable Debentures

The Company has formed seven statutory business trusts under the laws of the State of Delaware, for the purpose of issuing trust preferred securities. The seven statutory business trusts formed by the Company (the Trusts) have each issued Capital and Common Securities and invested the proceeds thereof in an equivalent amount of junior subordinated debentures (the Debentures) issued by the Company. As of September 30, 2015 and December 31, 2014, the principal amount of debentures outstanding totaled \$161,416,000 and \$175,416,000, respectively. On February 11, 2014, the Company bought back all of the Capital and Common Securities of IB Capital Trust VII from the holder of the securities for a price that reflected an approximate six percent discount from the redemption price of the securities and thereby retired the \$10,310,000 of related Junior Subordinated Deferrable Interest Debentures related to IB Capital Trust VII. On December 24, 2014, the Company bought back a portion of the Capital Securities of IB Capital Trust XI from the holder of the securities for a price that reflected an approximate 23.6% discount from the redemption price of the securities and thereby retired \$5,000,000 of the total \$32,900,000 of related Junior Subordinated Deferrable Interest Debentures related to IB Capital Trust XI. On July 29, 2015, the Company bought back a portion of the Capital Securities of IBC Capital Trusts X and XI from the holder of the securities for a price that reflected an approximate 24.5% discount from the redemption prices of the securities. The Company thereby retired \$13,000,000 of the total \$34,021,000 of related Junior Subordinated Deferrable Interest Debentures related to IB Capital Trust X and \$1,000,000 of the total \$27,900,000 of related Junior Subordinated Deferrable Interest Debentures related to IB Capital Trust XI.

The Debentures are subordinated and junior in right of payment to all present and future senior indebtedness (as defined in the respective indentures) of the Company, and are pari passu with one another. The interest rate payable on, and the payment terms of the Debentures are the same as the distribution rate and payment terms of the respective issues of Capital and Common Securities issued by the Trusts. The Company

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

has fully and unconditionally guaranteed the obligations of each of the Trusts with respect to the Capital and Common Securities. The Company has the right, unless an Event of Default (as defined in the Indentures) has occurred and is continuing, to defer payment of interest on the Debentures for up to twenty consecutive quarterly periods on Trusts VI, VIII, IX, X, XI and XII. If interest payments on any of the Debentures are deferred, distributions on both the Capital and Common Securities related to that Debenture would also be deferred. The redemption prior to maturity of any of the Debentures may require the prior approval of the Federal Reserve and/or other regulatory bodies.

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

For financial reporting purposes, the Trusts are treated as investments of the Company and not consolidated in the consolidated financial statements. Although the Capital Securities issued by each of the Trusts are not included as a component of shareholders' equity on the consolidated statement of condition, the Capital Securities are treated as capital for regulatory purposes. Specifically, under applicable regulatory guidelines, the Capital Securities issued by the Trusts qualify as Tier 1 capital up to a maximum of 25% of Tier 1 capital on an aggregate basis. Any amount that exceeds the 25% threshold would qualify as Tier 2 capital. At September 30, 2015 and December 31, 2014, the total \$161,416,000 and \$175,416,000, respectively, of the Capital Securities outstanding qualified as Tier 1 capital.

The following table illustrates key information about each of the Capital and Common Securities and their interest rate at September 30, 2015:

	Junior Subordinated Deferrable Interest Debentures		Repricing Frequency	Interest Rate	Interest Rate Index (1)	Maturity Date	Optional Redemption Date(1)
	(Dollars in Thousands)						
Trust VI	\$ 25,774		Quarterly	3.77%	LIBOR + 3.45	November 2032	February 2008
Trust VIII	25,774		Quarterly	3.34%	LIBOR + 3.05	October 2033	October 2008
Trust IX	41,238		Quarterly	1.90%	LIBOR + 1.62	October 2036	October 2011
Trust X	21,021		Quarterly	1.95%	LIBOR + 1.65	February 2037	February 2012
Trust XI	26,990		Quarterly	1.90%	LIBOR + 1.62	July 2037	July 2012
Trust XII	20,619		Quarterly	1.78%	LIBOR + 1.45	September 2037	September 2012
	\$ 161,416						

(1) The Capital Securities may be redeemed in whole or in part on any interest payment date after the Optional Redemption Date.

Note 9 Common Stock and Dividends

The Company had outstanding 216,000 shares of Series A cumulative perpetual preferred stock (the Senior Preferred Stock), issued to the US Treasury under the Company's participation in the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program). The Company redeemed all of the Senior Preferred Stock in 2012. In conjunction with the purchase of the Senior Preferred Stock, the US Treasury received a warrant (the Warrant) to purchase 1,326,238 shares of the Company's common stock (the Warrant Shares) at \$24.43 per share, which would represent an aggregate common stock investment in the Company on exercise of the warrant in full equal to 15% of the Senior Preferred Stock investment. The term of the Warrant is ten years and was immediately exercisable. The Warrant is included as a component of Tier 1 capital. On June 12, 2013, the U.S. Treasury sold the Warrant to a third party. As of September 30, 2015, the Warrant is still outstanding, but expires on December 23, 2018 with no value if not exercised before that date. Adjustments to the \$24.43 per share Exercise Price of the Warrant will be made if the Company pays cash dividends in excess of 33 cents per semi-annual period or makes certain other shareholder distributions before the Warrant expires on December 23, 2018.

The Company paid cash dividends to the common shareholders of \$.29 per share on April 17, 2015 and October 15, 2015 to all holders of record on April 1, 2015 and September 30, 2015. The Company paid cash dividends to the common shareholders of \$.25 per share on April 18, 2014 to all holders of record on April 1, 2014 and \$.27 per share on October 15, 2014 to all shareholders of record on September 30, 2014.

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

In April 2009, following receipt of the Treasury Department's consent, the Board of Directors re-established a formal stock repurchase program that authorized the repurchase of up to \$40 million of common stock within the following twelve months and on March 6, 2015, the Board of Directors extended the repurchase program and again authorized the repurchase of up to \$40 million of common stock during the twelve month period commencing on April 9, 2015, which repurchase cap the Board is inclined to increase over time. Stock repurchases may be made from time to time, on the open market or through private transactions. Shares repurchased in this program will be held in treasury for reissue for various corporate purposes, including employee stock option plans. During the third quarter of 2015, the Company's Board of Directors adopted a Rule 10b5-1 plan and intends to adopt additional Rule 10b5-1 trading plans that will allow the Company

to purchase its shares of common stock during certain trading blackout periods when the Company ordinarily would not be in the market due to trading restrictions in its internal trading policy. During the term of a 10b5-1 Plan, purchases of common stock are automatic to the extent the conditions of the 10b5-1 Plan's trading instructions are met. Shares repurchased in this program will be held in treasury for reissue for various corporate purposes, including employee stock option plans. As of November 2, 2015, a total of 8,791,759 shares had been repurchased under all programs at a cost of \$260,340,000. The Company is not obligated to repurchase shares under its stock repurchase program or to enter into additional Rule 10b5-1 plans. The timing, actual number and value of shares purchased will depend on many factors, including the Company's cash flow and the liquidity and price performance of its shares of common stock.

Note 10 - Commitments and Contingent Liabilities and Other Tax Matters

The Company is involved in various legal proceedings that are in various stages of litigation. Some of these actions allege lender liability claims on a variety of theories and claim substantial actual and punitive damages. The Company has determined, based on discussions with its counsel that any material loss in such actions, individually or in the aggregate, is remote or the damages sought, even if fully recovered, would not be considered material to the consolidated financial position or results of operations of the Company. However, many of these matters are in various stages of proceedings and further developments could cause management to revise its assessment of these matters.

Note 11 Capital Ratios

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 amount and classifications are also subject to qualitative judgements by regulators about components, risk-weighting and other factors.

In July 2013, the Federal Deposit Insurance Corporation (FDIC) and other regulatory bodies established a new, comprehensive capital framework for U.S. banking organizations, consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the BASEL III capital reforms and various Dodd-Frank Act related capital provisions. Consistent with the Basel international framework, the rules include a new minimum ratio of Common Equity Tier 1 (CET1) to risk-weighted assets of 4.5 percent and a CET1 capital conservation buffer of 2.5 percent of risk-weighted assets. The capital conservation buffer will be phased-in beginning on January 1, 2016 at .625% and will increase each year until January 1, 2019, when the Company will be required to have a 2.5% capital conservation buffer, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. Regarding the quality of capital, the new rules emphasize CET1 capital and implements strict eligibility criteria for regulatory capital instruments. The new rules also improve the methodology for calculating risk-weighted assets to enhance risk sensitivity. The new rules are subject to a four year phase in period for mandatory compliance and the Company was required to begin to phase in the new rules beginning on January 1, 2015.

The Company had a CET1 to risk-weighted assets ratio of 16.06% on September 30, 2015. The Company had a Tier 1 capital to average total asset (leverage) ratio of 12.80% and 12.33%, risk-weighted Tier 1 capital ratio of 17.91% and 19.34% and risk-weighted total capital ratio of 18.72% and 20.24% at September 30, 2015 and December 31, 2014, respectively. The Company's CET1 capital consists of common stock and related surplus, net of treasury stock, and retained earnings. The Company and its subsidiary banks elected to opt-out of the requirement to include most components of accumulated other comprehensive income (loss) in the calculation of CET1 capital. CET1 is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions. Tier 1 capital includes CET1 capital and additional Tier 1 capital. Additional Tier 1 capital of the Company includes the Capital Securities issued by the Trusts up to a maximum of 25% of Tier 1 capital on an aggregate basis. Any amount that exceeds the 25% threshold qualifies as Tier 2 capital. As of September 30, 2015, the

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

total of \$161,416,000 of the Capital Securities outstanding qualified as Tier 1 capital. The Company actively monitors the regulatory capital ratios to ensure that the Company's bank subsidiaries are well capitalized under the regulatory framework.

The CET1 (beginning in 2015), Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill and other intangible assets, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 capital to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

As of September 30, 2015, capital levels at the Company exceed all capital adequacy requirements under the Basel III Capital Rules as currently applicable to the Company. Based on the ratios presented above, capital levels as of September 30, 2015 at the Company exceed the minimum levels necessary to be considered well capitalized.

The Company and its subsidiary banks are subject to the regulatory capital requirements administered by the Federal Reserve, and, for the subsidiary banks, the FDIC. Regulatory authorities can initiate certain mandatory actions if the Company or any of the subsidiary banks fail to meet the minimum capital requirements, which could have a direct material effect on our financial statements. Management believes, as of September 30, 2015, that the Company and each of its subsidiary banks meet all capital adequacy requirements to which they are subject.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year-ended December 31, 2014, included in the Company's 2014 Form 10-K. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015, or any future period.

Special Cautionary Notice Regarding Forward Looking Information

Certain matters discussed in this report, excluding historical information, include forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by these sections. Although the Company believes such forward-looking statements are based on reasonable assumptions, no assurance can be given that every objective will be reached. The words estimate, expect, intend, believe and project, as well as other words or expressions of a similar meaning are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. Such statements are based on current expectations, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors.

Risk factors that could cause actual results to differ materially from any results that are projected, forecasted, estimated or budgeted by the Company in forward-looking statements include, among others, the following possibilities:

- Local, regional, national and international economic business conditions and the impact they may have on the Company, the Company's customers, and such customers' ability to transact profitable business with the Company, including the ability of its borrowers to repay their loans according to their terms or a change in the value of the related collateral.

- Volatility and disruption in national and international financial markets.
- Government intervention in the U.S. financial system.
- The Company relies, in part, on external financing to fund the Company's operations from the FHLB, the Fed and other sources and the unavailability of such funding sources in the future could adversely impact the Company's growth strategy, prospects and performance.
- Changes in consumer spending, borrowings and savings habits.
- Changes in interest rates and market prices, which could reduce the Company's net interest margins, asset valuations and expense expectations, including, without limitation, the repeal of federal prohibitions on the payment of interest on demand deposits.
- Changes in the capital markets utilized by the Company and its subsidiaries, including changes in the interest rate environment that may reduce margins.
- Changes in state and/or federal laws and regulations to which the Company and its subsidiaries, as well as their customers, competitors and potential competitors, are subject, including, without limitation, the impact of the Consumer Financial Protection Bureau (CFPB) as a regulator of financial institutions, changes in the accounting, tax and regulatory treatment of trust preferred securities, as well as changes in banking, tax, securities, insurance, employment, environmental and immigration laws and regulations and the risk of litigation that may follow.
- Changes in our liquidity position.

- Changes in U.S. Mexico trade, including, without limitation, reductions in border crossings and commerce resulting from the Homeland Security Programs called US-VISIT, which is derived from Section 110 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996.
- The reduction of deposits from nonresident alien individuals due to the new IRS rules requiring U.S. financial institutions to report to the IRS deposit interest payments made to nonresident alien individuals.
- The loss of senior management or operating personnel.
- Increased competition from both within and outside the banking industry.
- The timing, impact and other uncertainties of the Company's potential future acquisitions including the Company's ability to identify suitable potential future acquisition candidates, the success or failure in the integration of their operations and the Company's ability to maintain its current branch network and to enter new markets successfully and capitalize on growth opportunities.
- Changes in the Company's ability to pay dividends on its Common Stock.
- Changes in estimates of future reserve requirements based upon periodic review thereof under relevant regulatory and accounting requirements.
- Additions to the Company's loan loss allowance as a result of changes in local, national or international conditions which adversely affect the Company's customers, including, without limitation, lower real estate values, lower oil prices or environmental liability risks associated with foreclosed properties.
- Greater than expected costs or difficulties related to the development and integration of new products and lines of business, including the restrictions of arbitration clauses by the CFPB related to the CFPB study on the use of such clauses.
- Increased labor costs and effects related to health care reform and other laws, regulations and legal developments impacting labor costs.
- Impairment of carrying value of goodwill could negatively impact our earnings and capital.
- Changes in the soundness of other financial institutions with which the Company interacts.
- Political instability in the United States or Mexico.
- Technological changes or system failure or breaches of our network security as well as other cyber security risks could subject us to increased operating costs as well as litigation and other liabilities.
- Changes in the reliability of our vendors, internal control systems or information systems.
- Acts of war or terrorism.
- Natural disasters.

- Reduced earnings resulting from the write down of the carrying value of securities held in our securities available-for-sale portfolio following a determination that the securities are other-than-temporarily impaired.
- The effect of changes in accounting policies and practices as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standards setters.
- The costs and effects of regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews and the ability to obtain required regulatory approvals.
- The effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions, as well as the effect of any other regulatory or legal developments that limit overdraft services.
- The reduction of income and possible increase in required capital levels related to the adoption of new legislation, including, without limitation, the Dodd-Frank Regulatory Reform Act (the Dodd-Frank Act) and the implementing rules and regulations, including the Federal Reserve's rule that establishes debit card interchange fee standards and prohibits network exclusivity arrangements and routing restrictions that is negatively affecting interchange revenue from debit card transactions as well as revenue from consumer services.
- The possible increase in required capital levels related to the implementation of capital and liquidity rules of the federal banking agencies that address or are impacted by the Basel III capital and liquidity standards.
- The enhanced due diligence burden imposed on banks related to the banks' inability to rely on credit ratings under Dodd-Frank which may result in a limitation on the types of securities certain banks will be able to purchase as a result of the due diligence burden.
- The Company's success at managing the risks involved in the foregoing items, or a failure or circumvention of the Company's internal controls and risk management, policies and procedures.

Forward-looking statements speak only as of the date on which such statements are made. It is not possible to foresee or identify all such factors. The Company makes no commitment to update any forward-looking statement, or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking

statement, unless required by law.

Overview

The Company, which is headquartered in Laredo, Texas, with 208 facilities and more than 320 ATMs, provides banking services for commercial, consumer and international customers of South, Central and Southeast Texas and the State of Oklahoma. The Company is one of the largest independent commercial bank holding companies headquartered in Texas. The Company, through its bank subsidiaries, is in the business of gathering funds from various sources and investing those funds in order to earn a return. The Company either directly or through a bank subsidiary owns two insurance agencies, a liquidating subsidiary, a broker/dealer and a fifty percent interest in an investment banking unit that owns a broker/dealer. The Company's primary earnings come from the spread between the interest earned on interest-bearing assets and the interest paid on interest-bearing liabilities. In addition, the Company generates income from fees on products offered to commercial, consumer and international customers.

The Company is very active in facilitating trade along the United States border with Mexico. The Company does a large amount of business with customers domiciled in Mexico. Deposits from persons and entities domiciled in Mexico comprise a large and stable portion of the deposit base of the Company's bank subsidiaries. The Company also serves the growing Hispanic population through the Company's facilities located throughout South, Central and Southeast Texas and the State of Oklahoma.

Expense control is an essential element in the Company's long-term profitability. As a result, the Company monitors the efficiency ratio, which is a measure of non-interest expense to net interest income plus non-interest income closely. As the Company adjusts to regulatory changes related to the Dodd-Frank Act, the Company's efficiency ratio may suffer because the additional regulatory compliance costs are expected to increase non-interest expense. The Company monitors this ratio over time to assess the Company's efficiency relative to its peers. The Company uses this measure as one factor in determining if the Company is accomplishing its long-term goals of providing superior returns to the Company's shareholders.

Results of Operations

Summary

Consolidated Statements of Condition Information

	September 30, 2015	December 31, 2014 (Dollars in Thousands)	Percent Increase (Decrease)
Assets	\$ 12,052,217	\$ 12,196,520	(1.2)%
Net loans	5,857,712	5,614,417	4.3
Deposits	8,466,780	8,438,625	.3
Other borrowed funds	803,550	1,073,944	(25.2)
Junior subordinated deferrable interest debentures	161,416	175,416	(8.0)
Shareholders equity	1,657,637	1,580,658	4.9

Consolidated Statements of Income Information

	Three Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)
	2015	2014		2015	2014	
Interest income	\$ 100,724	\$ 97,958	2.8%	298,834	294,935	1.3%
Interest expense	11,133	11,575	(3.8)	33,587	35,082	(4.3)
Net interest income	89,591	86,383	3.7	265,247	259,853	2.1
Provision for probable loan losses	8,832	2,816	213.6	18,976	8,539	122.2
Non-interest income	43,022	36,483	17.9	120,000	136,124	(11.8)
Non-interest expense	74,898	70,157	6.8	210,792	216,485	(2.6)
Net income	32,019	33,233	(3.7)	101,756	114,597	(11.2)
Per common share:						
Basic	.48	.50	(4.0)%	1.53	1.71	(10.5)%
Diluted	.48	.50	(4.0)	1.53	1.71	(10.5)

Net Income

Net income for the three and nine months ended September 30, 2015 decreased by 3.7% and 11.2%, respectively, when compared to the same periods in 2014. Net income for the three and nine months ended September 30, 2015 was negatively impacted by an increase in the provision for probable loan losses during the period as a result of an increase in the portion of the allowance for probable loan losses calculated based on actual historical loss experience in the commercial loan category of the Company's loan portfolio. The decrease in non-interest income for the nine months ended September 30, 2015 compared to the same period of 2014 can be attributed to infrequent transactions that occurred in the first quarter of 2014. Positively impacting net income for the first quarter of 2014 were the sale of an equity investment by a merchant banking company in which the Company holds a 50% interest, insurance proceeds from a policy the lead bank subsidiary had purchased to cover the cost

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

of employee compensation and benefit programs, the sale of property originally held by the bank subsidiaries, the discount recorded in connection with the buyback of \$10.3 million of the outstanding capital securities issued by one of the statutory business trusts formed by the Company and gains on sales of investments of \$5.0 million, after tax.

Net Interest Income

	Three Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)
	2015	2014		2015	2014	
Interest income:						
Loans, including fees	\$ 77,176	\$ 71,026	8.7%	\$ 222,546	\$ 208,934	6.5%
Investment securities:						
Taxable	20,620	24,149	(14.6)	67,760	76,873	(11.9)
Tax-exempt	2,901	2,744	5.7	8,423	8,995	(6.4)
Other interest income	27	39	(30.8)	105	133	(21.1)
Total interest income	100,724	97,958	2.8	298,834	294,935	1.3
Interest expense:						
Savings deposits	891	898	(.8)	2,669	2,684	(.6)
Time deposits	2,807	2,976	(5.7)	8,514	9,115	(6.6)
Securities sold under						
Repurchase agreements	6,041	6,150	(1.8)	18,097	18,474	(2.0)
Other borrowings	375	488	(23.2)	1,219	1,608	(24.2)
Junior subordinated interest deferrable debentures	1,019	1,063	(4.1)	3,088	3,201	(3.5)
Total interest expense	11,133	11,575	(3.8)	33,587	35,082	(4.3)
Net interest income	\$ 89,591	\$ 86,383	3.7%	\$ 265,247	\$ 259,853	2.1%

Net interest income is the spread between income on interest earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, such as deposits, repurchase agreements and funds borrowed. As part of its strategy to manage interest rate risk, the Company strives to manage both assets and liabilities so that interest sensitivities match. One method of calculating interest rate sensitivity is through gap analysis. A gap is the difference between the amount of interest rate sensitive assets and interest rate sensitive liabilities that re-price or mature in a given time period. Positive gaps occur when interest rate sensitive assets exceed interest rate sensitive liabilities, and negative gaps occur when interest rate sensitive liabilities exceed interest rate sensitive assets. A positive gap position in a period of rising interest rates should have a positive effect on net interest income as assets will re-price faster than liabilities. Conversely, net interest income should contract somewhat in a period of falling interest rates. Management can quickly change the Company's interest rate position at any given point in time as market conditions dictate. Additionally, interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Analytical techniques employed by the Company to supplement gap analysis include simulation analysis to quantify interest rate risk exposure. The gap analysis prepared by management is reviewed by the Investment Committee of the Company twice a year (see table on page 44 for the September 30, 2015 gap analysis). Management currently believes that the Company is properly positioned for interest rate changes; however if management determines at any time that the Company is not properly positioned, it will strive to adjust the interest rate sensitive assets and liabilities in order to manage the effect of interest rate changes.

Non-Interest Income

	Three Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)
	2015	2014		2015	2014	
Service charges on deposit accounts	\$ 20,627	\$ 22,514	(8.4)%	\$ 59,669	\$ 67,026	(11.0)%
Other service charges, commissions and fees						
Banking	11,028	10,880	1.4	34,556	33,791	2.3
Non-banking	2,091	2,083	.4	5,057	5,143	(1.7)
Investment securities transactions, net		(6,446)	100.0	(428)	1,283	(133.4)
Other investments, net	4,400	5,641	(22.0)	12,117	17,008	(28.8)
Other income	4,876	1,811	169.2	9,029	11,873	(24.0)
Total non-interest income	\$ 43,022	\$ 36,483	17.9%	\$ 120,000	\$ 136,124	(11.8)%

Total non-interest income increased 17.9% for the three months ended September 30, 2015 compared to the same period of 2014 and decreased 11.8% for the nine months ended September 30, 2015 from the same period of 2014. Non-interest income for the three months ended September 30, 2015 was positively impacted by a discount recorded in connection with the partial buyback of \$14.0 million of the outstanding capital securities issued by two of the statutory business trusts formed by the Company in the amount of approximately \$3.4 million, before tax. The decrease in the nine months ended September 30, 2015 compared to the same period of 2014 occurred primarily in other investments, other income and service charges on deposits. The decrease in other investments can be attributed to infrequent transactions that occurred in the first quarter of 2014, namely, the sale of an equity investment by a merchant banking company in which the Company holds a 50% interest and insurance proceeds from a policy the lead bank subsidiary had purchased to cover the cost of employee compensation and benefit programs. The decrease in other income for the nine months ended September 30, 2015 compared to the same period of 2014 can be attributed to the sale of property originally held by the bank subsidiaries resulting in a net gain of approximately \$2.9 million and the discount recorded in connection with the buyback of \$10.3 million of the outstanding capital securities issued by one of the statutory business trusts formed by the Company in the amount of approximately \$600,000. The decrease in service charges on deposit accounts can be attributed to a decrease in the volume of overdraft charges on deposit accounts for the periods indicated in 2015 compared to 2014.

Non-Interest Expense

	Three Months Ended September 30, (Dollars in Thousands)			Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)			Percent Increase (Decrease)
	2015	2014			2015	2014		
Employee compensation and benefits	\$ 31,962	\$ 32,326	(1.1)%	\$ 93,364	\$ 92,560	.9%		
Occupancy	7,143	7,865	(9.2)	20,003	22,729	(12.0)		
Depreciation of bank premises and equipment	6,240	5,937	5.1	18,798	18,083	4.0		
Professional fees	3,448	3,416	.9	10,715	10,343	3.6		
Deposit insurance assessments	1,511	1,515	(.3)	4,441	4,512	(1.6)		
Net expense, other real estate owned	1,678	(55)	3,150.9	4,074	1,704	139.1		
Amortization of identified intangible assets	161	117	37.6	441	2,246	(80.4)		
Advertising	1,857	1,928	(3.7)	5,887	5,713	3.0		
Early termination fee securities sold under repurchase agreements	3,510		100.0	3,510	11,000	(68.1)		
Impairment charges (Total other- than-temporary impairment less, \$(8), net of \$(281), \$(13), net of \$(560), \$(115), net of \$(667), and \$(27), net of \$(1,273), included in other comprehensive income)	249	273	(8.8)	700	552	26.8		
Other	17,139	16,835	1.8	48,859	47,043	3.9		
Total non-interest expense	\$ 74,898	\$ 70,157	6.8%	\$ 210,792	\$ 216,485	(2.6)%		

Non-interest expense increased 6.8% for the three months ended September 30, 2015 compared to the same period of 2014 and decreased 2.6% for the nine months ended September 30, 2015 compared to the same period of 2014. The increase in non-interest expense for the three months ended September 30, 2015 can be primarily attributed to an infrequent charge of \$3.5 million recorded by the Company's lead bank subsidiary related to the termination of a portion of its long-term repurchase agreements outstanding to help manage its long-term funding costs. The decrease in non-interest expense for the nine months ended September 30, 2015 can be primarily attributed to an infrequent charge of \$11.0 million taken by the lead bank subsidiary in the first quarter of 2014 on a similar transaction.

Financial Condition**Allowance for Probable Loan Losses**

The allowance for probable loan losses increased .7% to \$65,260,000 at September 30, 2015 from \$64,828,000 at December 31, 2014. The provision for probable loan losses charged to expense increased 122.2% to \$18,976,000 for the nine months ended September 30, 2015 from

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

\$8,539,000 for the same period in 2014. The increase in the provision for possible loan losses charged to expense can be attributed to increase in the portion of the allowance for probable loan losses calculated based on actual historical loss experience in the commercial loan category of the Company's loan portfolio. The allowance for probable loan losses was 1.10% and 1.14% of total loans at September 30, 2015 and December 31, 2014, respectively.

Investment Securities

Mortgage-backed securities are securities primarily issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Government National Mortgage Association (Ginnie Mae). Investments in residential mortgage-backed securities issued by Ginnie Mae are fully guaranteed by the U.S. Government. Investments in residential mortgage-backed securities issued by Freddie Mac and Fannie Mae are not fully guaranteed by the U.S. Government, however, the Company believes that the quality of the bonds is similar to other AAA rated bonds with limited credit risk, particularly given the placement of Fannie Mae and Freddie Mac into conservatorship by the federal government in early September 2008 and because securities issued by others that are collateralized by residential mortgage-backed securities issued by Fannie Mae or Freddie Mac are rated consistently as AAA rated securities.

Loans

Net loans increased 4.3% to \$5,857,712,000 at September 30, 2015, from \$5,614,417,000 at December 31, 2014. The increase in loans can be attributed to improved opportunities for loan growth.

Deposits

Deposits increased by .3% to \$8,466,780,000 at September 30, 2015, from \$8,438,625,000 at December 31, 2014. The increase in deposits is the result of the increased availability of deposits in the banking market. Even though the Company increased its deposits, the Company is still experiencing a substantial amount of competition for deposits at higher than market rates. As a result, the Company has attempted to maintain certain deposit relationships but has allowed certain deposits to leave as the result of aggressive pricing.

Foreign Operations

On September 30, 2015, the Company had \$12,052,217,000 of consolidated assets, of which approximately \$187,356,000, or 1.6%, was related to loans outstanding to borrowers domiciled in foreign countries, compared to \$185,221,000, or 1.52%, at December 31, 2014. Of the \$187,356,000, 81.1% is directly or indirectly secured by U.S. assets, certificates of deposits and real estate; 16.1% is secured by foreign real estate or other assets; and 2.8% is unsecured.

Critical Accounting Policies

The Company has established various accounting policies which govern the application of accounting principles in the preparation of the Company's consolidated financial statements. The significant accounting policies are described in the notes to the consolidated financial statements. Certain accounting policies involve significant subjective judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies.

The Company considers its Allowance for Probable Loan Losses as a policy critical to the sound operations of the bank subsidiaries. The allowance for probable loan losses primarily consists of the aggregate loan loss allowances of the bank subsidiaries. The allowances are established through charges to operations in the form of provisions for probable loan losses. Loan losses or recoveries are charged or credited directly to the allowances. The allowance for probable loan losses of each bank subsidiary is maintained at a level considered appropriate by management, based on estimated probable losses in the loan portfolio. The allowance is derived from the following elements: (i) allowances established on specific impaired loans, which are based on a review of the individual characteristics of each loan, including the customer's ability to repay the loan, the underlying collateral values, and the industry in which the customer operates, (ii) allowances based on actual historical loss experience for similar types of loans in the Company's loan portfolio, and (iii) allowances based on general economic conditions, changes in the mix of loans, Company resources, border risk and credit quality indicators, among other things. See also discussion regarding the allowance for probable loan losses and provision for probable loan losses included in the results of operations and Provision and Allowance for Probable Loan Losses included in Notes 1 and 4 of the notes to Consolidated Financial Statements in the Company's latest Annual Report on Form 10-K for further information regarding the Company's provision and allowance for probable loan losses policy.

Liquidity and Capital Resources

The maintenance of adequate liquidity provides the Company's bank subsidiaries with the ability to meet potential

depositor withdrawals, provide for customer credit needs, maintain adequate statutory reserve levels and take full advantage of high-yield investment opportunities as they arise. Liquidity is afforded by access to financial markets and by holding appropriate amounts of liquid assets. The Company's bank subsidiaries derive their liquidity largely from deposits of individuals and business entities. Deposits from persons and entities domiciled in Mexico comprise a stable portion of the deposit base of the Company's bank subsidiaries. Deposits from persons and entities domiciled in Mexico comprise a stable portion of the deposit base of the Company's bank subsidiaries. Other important funding sources for the Company's bank subsidiaries during 2015 and 2014 were borrowings from the FHLB, securities sold under repurchase agreements and large certificates of deposit, requiring management to closely monitor its asset/liability mix in terms of both rate sensitivity and maturity distribution. The borrowings from FHLB are primarily short term in nature and are renewed at maturity. The Company's bank subsidiaries have had a long-standing relationship with the FHLB and keep open unused lines of credit in order to fund liquidity needs. In the event that the FHLB bank indebtedness is not renewed, the repayment of the outstanding indebtedness would more than likely be repaid through proceeds generated from the sales of unpledged available for sale securities. The Company maintains a sizable, high quality investment portfolio to provide significant liquidity. These securities can be sold or sold under agreements to repurchase, to provide immediate liquidity. As in the past, the Company will continue to monitor the volatility and cost of funds in an attempt to match maturities of rate-sensitive assets and liabilities and respond accordingly to anticipated fluctuations in interest rates over reasonable periods of time.

The Company maintains an adequate level of capital as a margin of safety for its depositors and shareholders. At September 30, 2015, shareholders' equity was \$1,657,637,000 compared to \$1,580,658,000 at December 31, 2014. The increase in shareholders' equity can be primarily attributed to the retention of earnings offset by the payment of cash dividends to common shareholders.

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 amount and classifications are also subject to qualitative judgements by regulators about components, risk-weighting and other factors.

In July 2013, the Federal Deposit Insurance Corporation (FDIC) and other regulatory bodies established a new, comprehensive capital framework for U.S. banking organizations, consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the BASEL III capital reforms and various Dodd-Frank Act related capital provisions. Consistent with the Basel international framework, the rules includes a new minimum ratio of Common Equity Tier 1 (CET1) to risk-weighted assets of 4.5 percent and a CET1 capital conservation buffer of 2.5 percent of risk-weighted assets. The capital conservation buffer will be phased-in beginning on January 1, 2016 at .625% and will increase each year until January 1, 2019, when the Company will be required to have a 2.5% capital conservation buffer, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. Regarding the quality of capital, the new rules emphasize CET1 capital and implements strict eligibility criteria for regulatory capital instruments. The new rules also improve the methodology for calculating risk-weighted assets to enhance risk sensitivity. The new rules are subject to a four year phase in period for mandatory compliance and the Company was required to begin to phase in the new rules beginning on January 1, 2015.

The Company had a CET1 to risk-weighted assets ratio of 16.06% on September 30, 2015. The Company had a Tier 1 capital to average total asset (leverage) ratio of 12.80% and 12.33%, risk-weighted Tier 1 capital ratio of 17.91% and 19.34% and risk-weighted total capital ratio of 18.72% and 20.24% at September 30, 2015 and December 31, 2014, respectively. The Company's CET1 capital consists of common stock and related surplus, net of treasury stock, and retained earnings. The Company and its subsidiary banks elected to opt-out of the requirement to include most components of accumulated other comprehensive income (loss) in the calculation of CET1 capital. CET1 is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions. Tier 1 capital includes CET1 capital and additional Tier 1 capital. Additional Tier 1 capital of the Company includes the Capital Securities issued by the Trusts up to a maximum of 25% of Tier 1 capital on an aggregate basis. Any amount that exceeds the 25% threshold qualifies as Tier 2 capital. As of September 30, 2015, the total of \$161,416,000 of the Capital Securities outstanding qualified as Tier 1 capital. The Company actively monitors the regulatory capital ratios to ensure that the Company's bank subsidiaries are well capitalized under the regulatory framework.

Edgar Filing: INTERNATIONAL BANCSHARES CORP - Form 10-Q

The CET1 (beginning in 2015), Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill and other intangible assets, allocated by risk weight category, and certain off-balance-sheet items,

among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 capital to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

As of September 30, 2015, capital levels at the Company exceed all capital adequacy requirements under the Basel III Capital Rules as currently applicable to the Company. Based on the ratios presented above, capital levels as of September 30, 2015 at the Company exceed the minimum levels necessary to be considered well capitalized.

The Company and its subsidiary banks are subject to the regulatory capital requirements administered by the Federal Reserve, and, for the subsidiary banks, the FDIC. Regulatory authorities can initiate certain mandatory actions if the Company or any of the subsidiary banks fail to meet the minimum capital requirements, which could have a direct material effect on our financial statements. Management believes, as of September 30, 2015, that the Company and each of its subsidiary banks meet all capital adequacy requirements to which they are subject.

As in the past, the Company will continue to monitor the volatility and cost of funds in an attempt to match maturities of rate-sensitive assets and liabilities, and respond accordingly to anticipate fluctuations in interest rates by adjusting the balance between sources and uses of funds as deemed appropriate. The net-interest rate sensitivity as of September 30, 2015 is illustrated in the table entitled Interest Rate Sensitivity. This information reflects the balances of assets and liabilities for which rates are subject to change. A mix of assets and liabilities that are roughly equal in volume and re-pricing characteristics represents a matched interest rate sensitivity position. Any excess of assets or liabilities results in an interest rate sensitivity gap.

The Company undertakes an interest rate sensitivity analysis to monitor the potential risk on future earnings resulting from the impact of possible future changes in interest rates on currently existing net asset or net liability positions. However, this type of analysis is as of a point-in-time position, when in fact that position can quickly change as market conditions, customer needs, and management strategies change. Thus, interest rate changes do not affect all categories of asset and liabilities equally or at the same time. As indicated in the table, the Company is liability sensitive during the early time periods and asset sensitive in the longer periods. The Company's Asset and Liability Committee semi-annually reviews the consolidated position along with simulation and duration models, and makes adjustments as needed to control the Company's interest rate risk position. The Company uses modeling of future events as a primary tool for monitoring interest rate risk.

Interest Rate Sensitivity**(Dollars in Thousands)**

September 30, 2015	3 Months or Less	Over 3 Months to 1 Year	Rate/Maturity Over 1 Year to 5 Years	Over 5 Years	Total
Rate sensitive assets					
Investment securities	\$ 262,576	\$ 850,544	\$ 3,116,058	\$ 306,005	\$ 4,535,183
Loans, net of non-accruals	4,498,222	212,027	385,207	783,605	5,879,061
Total earning assets	\$ 4,760,798	\$ 1,062,571	\$ 3,501,265	\$ 1,089,610	\$ 10,414,244
Cumulative earning assets	\$ 4,760,798	\$ 5,823,369	\$ 9,324,634	\$ 10,414,244	
Rate sensitive liabilities					
Time deposits	\$ 996,637	\$ 1,157,862	\$ 241,923	\$ 58	\$ 2,396,480
Other interest bearing deposits	2,981,034				2,981,034
Securities sold under repurchase agreements	355,844	15,168	460,000		831,012
Other borrowed funds	803,550				803,550
Junior subordinated deferrable interest debentures	161,416				161,416
Total interest bearing liabilities	\$ 5,298,481	\$ 1,173,030	\$ 701,923	\$ 58	\$ 7,173,492
Cumulative sensitive liabilities	\$ 5,298,481	\$ 6,471,511	\$ 7,173,434	\$ 7,173,492	
Repricing gap	(537,683)	(110,459)	2,799,342	1,089,552	3,240,752
Cumulative repricing gap	(537,683)	(648,142)	2,151,200	3,240,752	
Ratio of interest-sensitive assets to liabilities	.899	.906	4.988	18,786.379	1.452
Ratio of cumulative, interest-sensitive assets to liabilities	.899	.900	1.300	1.452	

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the first nine months of 2015, there were no material changes in market risk exposures that affected the quantitative and qualitative disclosures regarding market risk presented under the caption "Liquidity and Capital Resources" located on pages 19 through 25 of the Company's 2014 Annual Report as filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within specified time periods. As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer evaluated, with the participation of the Company's management, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)). Based on the evaluation, which disclosed no material weaknesses, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal proceedings that are in various stages of litigation. Some of these actions allege lender liability claims on a variety of theories and claim substantial actual and punitive damages. The Company has determined, based on discussions with its counsel that any material loss in such actions, individually or in the aggregate, is remote or the damages sought, even if fully recovered, would not be considered material to the consolidated financial position or results of operations of the Company. However, many of these matters are in various stages of proceedings and further developments could cause management to revise its assessment of these matters.

1A. Risk Factors

There were no material changes in the risk factors as previously disclosed in Item 1A to Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

From time to time, the Company's Board of Directors has authorized stock repurchase plans. In April 2009, the Board of Directors established a formal stock repurchase program that authorized the repurchase of up to \$40 million of common stock within the following twelve months and on March 6, 2015, the Board of Directors extended the repurchase program and again authorized the repurchase of up to \$40 million of common stock during the twelve month period commencing on April 9, 2015, which repurchase cap the Board is inclined to increase over time. Stock repurchases may be made from time to time, on the open market or through private transactions. During the third quarter, the Company's Board of Directors adopted a Rule 10b5-1 plan and intends to adopt additional Rule 10b5-1 trading plans that will allow the Company to purchase its shares of common stock during certain trading blackout periods when the Company ordinarily would not be in the market due to trading restrictions in its internal trading policy. During the terms of a 10b5-1 plan, purchases of common stock are automatic to the extent the conditions of the plan's trading instructions are met. Shares repurchased in this program will be held in treasury for reissue for various corporate purposes, including employee stock option plans. As of November 2, 2015, a total of 8,791,759 shares had been repurchased under all repurchase programs at a cost of \$260,340,000. The Company is not obligated to repurchase shares under its stock purchase program or to enter into additional Rule 10b5-1 plans. The timing, actual number and value of shares purchased will depend on many factors, including the Company's cash flow and the liquidity and price performance of its shares of common stock.

Except for repurchases in connection with the administration of an employee benefit plan in the ordinary course of business and consistent with past practices, common stock repurchases are only conducted under publicly announced repurchase programs approved by the Board of Directors. The following table includes information about common stock share repurchases for the quarter ended September 30, 2015.

	Total Number of Shares Purchased	Average Price Paid Per Share	Shares Purchased as Part of a Publicly- Announced Program	Approximate Dollar Value of Shares Available for Repurchase (1)
July 1 July 31, 2015	1,020	26.76	1,020	\$ 39,973,000
August 1 August 31, 2015	5,601	24.55	5,601	39,835,000
September 1 September 30, 2015	70,128	24.80	70,128	38,099,000
	76,749	24.80	76,749	

(1) The repurchase program was extended on March 6, 2015 and allows for the repurchase of up to an additional \$40,000,000 of treasury stock through April 9, 2016.

Item 6. Exhibits

The following exhibits are filed as a part of this Report:

31(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31(b) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32(a) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32(b) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101++ Interactive Data File

++ Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Earnings for the three and nine months ended September 30, 2015 and 2014, (ii) the Condensed Consolidated Balance Sheet as of September 30, 2015 and December 31, 2014, and (iii) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2015 and 2014.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL BANCSHARES CORPORATION

Date: November 6, 2015

/s/ Dennis E. Nixon
Dennis E. Nixon
President

Date: November 6, 2015

/s/ Imelda Navarro
Imelda Navarro
Treasurer