

INTERNATIONAL BANCSHARES CORP
Form 10-Q
May 06, 2010

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 March 31, 2010

OR

OR

o **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

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(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

74-2157138

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

1200 San Bernardo Avenue, Laredo, Texas 78042-1359

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(Address of principal executive offices)

(Zip Code)

(956) 722-7611

(Registrant's telephone number, including area code)

None

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(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 No

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 No

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

Class
Common Stock, \$1.00 par value

Shares Issued and Outstanding
68,103,977 shares outstanding at May 3, 2010

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	March 31, 2010	December 31, 2009
Assets		
Cash and due from banks	\$ 376,820	\$ 224,638
Total cash and cash equivalents	376,820	224,638
Investment securities:		
Held-to-maturity (Market value of \$2,450 on March 31, 2010 and \$2,450 on December 31, 2009)	2,450	2,450
Available-for-sale (Amortized cost of \$3,584,389 on March 31, 2010 and \$4,541,851 on December 31, 2009)	3,665,904	4,644,083
Total investment securities	3,668,354	4,646,533
Loans, net of unearned discounts	5,567,985	5,667,262
Less allowance for probable loan losses	(95,838)	(95,393)
Net loans	5,472,147	5,571,869
Bank premises and equipment, net	484,917	490,375
Accrued interest receivable	35,945	41,731
Other investments	316,917	359,404
Identified intangible assets, net	21,101	22,358
Goodwill, net	282,532	282,532
Other assets	124,933	123,103
Total assets	\$ 10,783,666	\$ 11,762,543

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	March 31, 2010	December 31, 2009
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand non-interest bearing	\$ 1,588,972	\$ 1,516,799
Savings and interest bearing demand	2,334,051	2,262,552
Time	3,527,933	3,398,656
Total deposits	7,450,956	7,178,007
Securities sold under repurchase agreements	1,478,768	1,441,817
Other borrowed funds	99,575	1,347,625
Junior subordinated deferrable interest debentures	201,091	201,082
Other liabilities	141,242	186,542
Total liabilities	9,371,632	10,355,073
Commitments, Contingent Liabilities and Other Tax Matters (Note 10)		
Shareholders equity:		
Series A Cumulative perpetual preferred shares, \$.01 par value, \$1,000 per share liquidation value. Authorized 25,000,000 shares; issued 216,000 shares on March 31, 2010, net of discount of \$9,690 and issued 216,000 shares on December 31, 2009, net of discount of \$10,258	206,310	205,742
Common shares of \$1.00 par value. Authorized 275,000,000 shares; issued 95,711,111 shares on March 31, 2010 and 95,711,111 shares on December 31, 2009	95,711	95,711
Surplus	161,410	161,258
Retained earnings	1,139,491	1,122,290
Accumulated other comprehensive income	52,521	65,878
	1,655,443	1,650,879
Less cost of shares in treasury, 27,607,171 shares on March 31, 2010 and 27,607,171 shares on December 31, 2009	(243,409)	(243,409)
Total shareholders equity	1,412,034	1,407,470
Total liabilities and shareholders equity	\$ 10,783,666	\$ 11,762,543

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 March 31,	
	2010	2009
Interest income:		
Loans, including fees	\$ 80,614	\$ 83,626
Investment securities:		
Taxable	37,333	55,432
Tax-exempt	1,634	970
Other interest income	241	188
Total interest income	119,822	140,216
Interest expense:		
Savings deposits	2,481	2,949
Time deposits	13,053	17,851
Securities sold under repurchase agreements	11,052	11,361
Other borrowings	311	6,685
Junior subordinated interest deferrable debentures	3,030	3,224
Total interest expense	29,927	42,070
Net interest income	89,895	98,146
Provision for probable loan losses	7,229	12,225
Net interest income after provision for probable loan losses	82,666	85,921
Non-interest income:		
Service charges on deposit accounts	24,280	24,082
Other service charges, commissions and fees		
Banking	11,620	10,397
Non-banking	1,668	1,427
Investment securities transactions, net	28,264	561
Other investments, net	3,357	3,432
Other income	2,408	2,113
Total non-interest income	71,597	42,012

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended March 31,	
	2010	2009
Non-interest expense:		
Employee compensation and benefits	\$ 31,664	\$ 32,156
Occupancy	8,518	8,717
Depreciation of bank premises and equipment	9,012	9,036
Professional fees	3,982	2,606
Deposit insurance assessments	2,544	367
Stationery and supplies	993	837
Amortization of identified intangible assets	1,301	1,309
Advertising	2,614	2,613
Litigation expense	21,803	
Impairment charges (Total other-than-temporary impairment charges, \$19,095, net of \$11,892 included in other comprehensive income)	7,203	
Other	15,943	12,585
Total non-interest expense	105,577	70,226
Income before income taxes	48,686	57,707
Provision for income taxes	16,640	20,179
Net income	\$ 32,046	\$ 37,528
Preferred Stock Dividends	3,268	3,233
Net income available to common shareholders	\$ 28,778	\$ 34,295
Basic earnings per common share:		
Weighted average number of shares outstanding:	68,103,940	68,602,478
Net income	\$.42	\$.50
Fully diluted earnings per common share:		
Weighted average number of shares outstanding:	68,205,891	68,617,573
Net income	\$.42	\$.50

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended March 31,	
	2010	2009
Net income	\$ 32,046	\$ 37,528
Other comprehensive income, net of tax:		
Net unrealized holding gains on securities available for sale arising during period (tax effects of \$179 and \$15,078)	333	28,002
Reclassification adjustment for gains on securities available for sale included in net income (tax effects of \$(9,892) and \$(196))	(18,372)	(365)
Reclassification adjustment for impairment charges on available for sale securities included in net income (tax effects of \$2,521 and \$0)	4,682	
Comprehensive income	\$ 18,689	\$ 65,165

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Three Months Ended March 31,	
	2010	2009
Operating activities:		
Net income	\$ 32,046	\$ 37,528
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for probable loan losses	7,229	12,225
Accretion of time deposit discounts	(4)	(4)
Depreciation of bank premises and equipment	9,012	9,036
(Gain) loss on sale of bank premises and equipment	(337)	68
Depreciation and amortization of leased assets		120
Accretion of investment securities discounts	(428)	(505)
Amortization of investment securities premiums	2,441	1,562
Investment securities transactions, net	(28,264)	(561)
Impairment charges on available-for-sale investment securities	7,203	
Amortization of junior subordinated debenture discounts	9	8
Amortization of identified intangible assets	1,301	1,309
Stock based compensation expense	152	142
Earnings from affiliates and other investments	(2,723)	(3,148)
Deferred tax (expense) benefit	(11,510)	4,403
Decrease in accrued interest receivable	5,786	4,025
Net increase in other assets	(1,874)	(16,288)
Net decrease in other liabilities	(56,417)	(78,298)
Net cash used in operating activities	(36,378)	(28,378)
Investing activities:		
Proceeds from maturities of securities	200	8,236
Proceeds from sales of available for sale securities	945,670	18,675
Purchases of available for sale securities	(200,133)	(21,448)
Principal collected on mortgage-backed securities	247,833	281,768
Net decrease in loans	92,493	87,021
Purchases of other investments	(14)	(3,674)
Distributions of other investments	45,224	4,467
Purchases of bank premises and equipment	(4,656)	(17,090)
Proceeds from sale of bank premises and equipment	1,439	68
Net cash provided by investing activities	1,128,056	358,023

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Three Months Ended March 31,	
	2010	2009
Financing activities:		
Net increase in non-interest bearing demand deposits	\$ 72,173	\$ 15,992
Net increase in savings and interest bearing demand deposits	71,499	4,284
Net increase (decrease) in time deposits	129,281	(21,070)
Net increase in securities sold under repurchase agreements	36,951	31,805
Net decrease in other borrowed funds	(1,248,050)	(407,886)
Purchase of treasury stock		(68)
Proceeds from stock transactions		68
Payments of dividends on preferred stock	(1,350)	(1,560)
Net cash used in financing activities	(939,496)	(378,435)
Increase (decrease) in cash and cash equivalents	152,182	(48,790)
Cash and cash equivalents at beginning of period	224,638	298,720
Cash and cash equivalents at end of period	\$ 376,820	\$ 249,930
Supplemental cash flow information:		
Interest paid	\$ 29,716	\$ 45,309
Income taxes paid	4,120	6,100
Accrued dividends, preferred shares	1,350	1,140
Dividends declared, not yet paid	11,578	
Purchases of available-for-sale securities not yet settled	17,061	60,417

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, IBC Capital Corporation and Premier Tierra Holdings, Inc. 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, 2009 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.

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.

On July 1, 2009, the Financial Accounting Standards Board officially launched the FASB Accounting Standards Codification, (Codification), which is now the single official source of authoritative, non-governmental U.S. GAAP, in addition to guidance issued by the Securities and Exchange Commission (SEC). The Codification supersedes all prior accounting literature. With the launch of the Codification, U.S. GAAP now consists of two levels authoritative (Codification) and non-authoritative (anything not in the Codification). The Codification is effective for interim and annual periods ending after September 15, 2009, and is organized into approximately 90 accounting topics. The FASB will no longer be issuing accounting standards in the form of Statements, Staff Positions or Emerging Issues Task Force Abstracts. The FASB will instead amend the Codification by issuing Accounting Standards Updates. The adoption of the Codification did not have a significant impact on the Company 's consolidated financial statements.

Effective June 30, 2009, the Company adopted Statement of Financial Accounting Standards No. 165 (SFAS No. 165), Subsequent Events. SFAS No. 165 is currently included in the Codification under ASC Topic 855, Subsequent Events (ASC 855). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 defines (i) the period after the balance sheet date during which a reporting entity 's management should evaluate events or

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transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The adoption of the accounting standard did not have an impact on the Company's consolidated financial statements. 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

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements for financial assets and liabilities. Additionally, in accordance with Financial Accounting Standards Board Staff Position No. 157-2, (FSP No 157-2), Effective date of FASB Statement No. 157, the Company delayed application of SFAS No. 157 for non-financial assets and non-financial liabilities until January 1, 2009, except for those that are recognized or disclosed at fair value on a recurring basis. SFAS No. 157 and FSP No. 157-2 are now included in the Accounting Standards Codification (ASC) in Topic 820, Fair Value Measurements and Disclosures (ASC 820). 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 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.

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value as of March 31, 2010 by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using			
	(in thousands)			
Assets/Liabilities Measured at Fair Value March 31, 2010	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:				
U.S. Treasury securities				
Available-for-sale	\$ 1,327	\$ 1,327		
Mortgage-backed securities				
Available-for-sale	3,495,566	3,443,136	52,430	
States and political subdivisions				

None

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Available-for-sale	154,424		154,424
Other			
Available-for-sale	14,587	14,587	
<i>Measured on a non-recurring basis:</i>			
Assets:			
Impaired Loans	73,060		73,060

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The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value as of December 31, 2009 by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using (in thousands)			
	Assets/Liabilities Measured at Fair Value December 31, 2009	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:				
U.S. Treasury securities				
Available-for-sale	\$ 1,327	\$	\$ 1,327	\$
Residential mortgage-backed securities				
Available-for-sale	4,491,764		4,432,195	59,569
States and political subdivisions				
Available-for-sale	136,866		136,866	
Other				
Available-for-sale	14,126	626	13,500	
<i>Measured on a non-recurring basis:</i>				
Assets:				
Impaired Loans	76,225			76,225

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 in-active markets and markets that have experienced significant decreases in volume and level of activity, as exhibited 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 included estimates on future principal prepayment rates, default and loss severity rates. The Company estimates that future principal prepayment rates will range from 4-5% and used a 13% discount rate.

