ANNUAL REPORT
2012

International Bancshares Corporation

We do more

INTERNATIONAL BANCSHARES CORPORATION

ALL BANKS MEMBER FDIC
MEMBER BANKS:

International Bank Of Commerce
1200 San Bernardo Avenue
(956) 722-7611

Laredo
7002 San Bernardo Ave.
(956) 728-0060

1002 Matamoros
(956) 726-6622

1300 Guadalupe
(956) 726-6601

2418 Jacaman Rd.
(956) 764-6161

5300 San Dario Ste. 440D
(956) 728-0063

5300 San Dario Ste. 202
(956) 790-6500

9710 Mines Road
(956) 728-0092

4501 San Bernardo
(956) 722-0485

7909 McPherson Ave.
(956) 728-0064

2442 San Isidro Pkwy
(956) 726-6611

2415 S. Zapata Hwy.
(956) 728-0061

1320 San Dario Ave.
(956) 790-6511

5610 San Bernardo
(956) 726-6688

2320 Bob Bullock Lp 20
(956) 728-0062

4401 Highway 83 South
(956) 794-8140

Administration Center
2418 Jacaman Rd. (Rear)
(956) 722-7611

San Antonio
130 East Travis
(210) 518-2500

5029 Broadway
(210) 518-2523

6630 Callaghan
(210) 369-2960

6301 NW Lp. 410 Ste. Q14
(210) 369-2910

2201 NW Military Dr.
(210) 366-0617

12400 Hwy. 281 North
(210) 369-2900

16339 Huebner Rd.
(210) 369-2974

7400 San Pedro, Ste. 608
(210) 369-2940

1500 NE Lp. 410
(210) 281-2400

18750 Stone Oak Pkwy Ste. 100
(210) 496-6111

5300 Walzem Rd.
(210) 564-2300

10200 San Pedro Ave.
(210) 366-5400

11831 Bandera Rd.
(210) 369-2980

15900 La Cantera
Parkway Ste 10005
(210)354-6984

6909 N. Loop 1604 E Ste. E-01
(210) 369-2922

3119 SE Military Drive
(210) 354-6980

327 SW Loop 410
(210) 930-9825

2310 SW Military Dr. Ste #216
(210) 518-2558

999 E. Basse Rd. Ste. 150
(210) 369-2920

12018 Perrin Beitel Rd.
(210) 369-2916

938 SE Military Dr.
(210) 930-9815

735 SW Military
(210) 930-9835

11002 Culebra
(210) 930-9850

8503 NW Military Hwy
(210) 369-2918

20935 Hwy 281 N., Ste 121
(210) 369-2914

4100 S. New Braunfels Ave.
(210) 883-1415

Service Center
2416 Cee Gee
(210) 821-4700

8770 Tesoro
(210) 821-4700

Luling
200 S. Pecan St.
(830) 875-2445

Marble Falls
2401 Hwy. 281 North
(830) 693-4301

San Marcos
1081 Wonder World
(512) 353-1011

Shertz
3800 Hwy 3009
(210) 354-6982

McAllen
One S. Broadway
(956) 686-0263

7124 N. 23rd.
(956) 630-9310

301 S. 10th St.
(956) 688-3610

3600 N.10th. St.
(956) 688-3690

2200 S. 10th St. (La Plaza East)
(956) 688-3670

2200 S. 10th St. (La Plaza West)
(956) 688-3660

2225 Nolana
(956) 688-3600

1200 E. Jackson
(956) 688-3685

2800 Nolana
(956) 688-3620

2900 W. Exp 83
(956) 630-9350

Alamo
1421 West Frontage Rd.
(956) 688-3645

Edinburg
400 S. Closner
(956) 688-3640

4101 S. McColl
(956) 630-9337

1724 W. University Dr. Ste. B
(956) 688-3680

2205 W. University Dr.
(956) 630-9340

Mission
900 N. Bryan Rd.
(956) 688-3630

200 E. Griffin Pkwy
(956) 632-3512

2410 E. Expressway 83
(956) 688-3625

Pharr
401 South Cage
(956) 688-3635

1007 North I Rd.
(956) 688-3655

Weslaco
606 S. Texas Blvd.
(956) 688-3605

1310 N. Texas
(956) 937-9500

Hidalgo
1023 S. Bridge
(956) 688-3665

San Juan
108 E. FM 495
(956) 630-9320

Palmhurst
215 E. Mile 3 Rd.
(956) 688-3675

Penitas
1705 Expressway 83
(956) 630-9347

Corpus Christi
221 S. Shoreline
(361) 888-4000

6130 S. Staples
(361) 991-4000

4622 Everhart
(361) 903-7265

14066 Northwest Blvd.
(361) 903-7285

Flour Bluff
1317 Waldron Road
(361) 886-9950

Sinton
301 West Sinton
(361) 364-1230

Rockport
2701 Hwy. 35 N.
(361) 729-0500

2431 Hwy. 35
(361) 729-0500

Aransas Pass
2501 W. Wheeler
(361) 729-0500

Portland
1800 US Hwy 181
(361) 886-9910

Port Lavaca
311 N. Virginia St.
(361) 552-9771

Bay City
1916 7th Street
(979) 245-5781

Victoria
6411 N. Navarro
(361) 575-8394

Houston
5615 Kirby Dr.
(713) 526-1211

8203 S. Kirkwood
(713) 285-2165

1001 McKinney Ste. 150
(713) 285-2140

5250 FM 1640
(832) 595-0920

1777 Sage Rd.
(713) 285-2133

3200 Woodridge, Ste. 1350
(713) 285-2266

3939 Montrose Ste. W
(713) 285-2195

5085 Westheimer Ste. 4640
(713) 285-2296

1545 Eldridge Parkway
(713) 285-2042

1630 Spencer Highway
(713) 535-8344

9710 Katy Freeway
(713) 535-8335

Sugarland
10570 State Hwy 6
(713) 285-2199

Galveston
500 Seawall Blvd., Ste. 200
(409) 763-2254

Pearland
2805 Business Center Drive
(713) 535-8380

Katy
544 West Grand Parkway
(713) 285-2037

Lake Jackson
212 That Way
(979) 297-2466

Angleton
200 East Mulberry
(979) 849-7711

Freeport
1208 N. Brazosport Blvd.
(979) 233-2677

Dickinson
2301 West FM 646
(713) 285-2021

Eagle Pass
2395 E. Main Street
(830) 773-2313

2538 E. Main Street
(830) 773-2313

439 Main Street
(830) 773-2313

2305 Del Rio Blvd.
(830) 773-2313

International Bank Of Commerce
1200 San Bernardo Avenue
(956) 722-7611

455 S. Bibb Ave. Ste. 502
(830) 773-2313

2135 East Main Street
(830) 773-2313

Del Rio
2410 Dodson St.
(830) 775-4265

1507 Veteran's Blvd
(830) 775-4265

2205 Veterans Blvd, Suite E9
(830) 775-4265

Uvalde
3100 E. Hwy. 90
(830) 278-8045

2065 E. Main St.
(830) 278-8045

Austin
816 Congress Ave., Ste. 100
(512) 338-3900

10405 FM 2222
(512) 397-4584

2817 E. Cesar Chavez
(512) 320-9650

6001 Airport Blvd. Ste. 2390
(512) 397-4542

12625 North IH 35 Bldg. D
(512) 397-4570

11400 Burnett Road Bldg. 46
(512) 397-4595

9900 South IH 35 Southbound Svc Rd
(512) 397-4530

Bastrop
701 W. Hwy 71
(512) 308-9412

Cedar Park
301 W. Whitestone Blvd
(512) 397-4552

11200 Lakeline Mall Dr.
(512) 397-4559

Round Rock
1850 Gattis School Rd.
(512) 320-9530

Leander
1695 US Hwy 183
(512) 320-9089

Oklahoma
Ardmore
2302 12th Ave.
(580) 223-0345

Broken Arrow
6412 S. Elm Pl.
(918) 497-2492

8112 Garnett Rd.
(918) 497-2840

Chickasha
628 Grand Ave.
(405) 775-8052

Claremore
1050 N. Lynn Riggs Blvd.
(918) 497-2456

Clinton
1002 W. Frisco Ave.
(580) 323-0730

Duncan
1006 Main
(580) 255-8187

2311 N. Hwy 81
(580) 255-9055

Edmond
1812 SE 15th St.
(405) 775-8061

421 S. Santa Fe Ave.
(405) 841-8055

Grove
100 E. 3rd St.
(918)786-4438

Guthrie
120 N. Division St.
(405) 775-8064

Tulsa
2808 E. 101st St.
(918) 497-2810

1951 S. Yale Ave.
(918) 497-2452

4202 S. Garnett
(918) 497-2880

2250 E. 73rd St
(918) 497-2400

1 E. 5th St.
(918) 497-2449

8202 E. 71st St
(918) 497-2454

5302 E. Skelly Dr.
(918) 497-2453

Chandler
3108 E. First St.
(405) 258-2351

Oklahoma City
3817 NW Expressway
(405) 841-2100

100 W. Park Ave.
(405) 775-8093

5701 N. May Ave.
(405) 775-8056

10500 S. Pennsylvania Ave
(405) 775-8058

2301 N. Portland Ave.
(405) 775-8068

12241 N. May Ave.
(405) 775-8059

4902 N. Western Ave.
(405) 775-8054

14001 N. McArthur Blvd
(405) 775-1710

Lawton
2101 W. Gore
(580) 355-0253

6425 NW Cache Rd.
(580) 250-4311

200 SW C. Ave., Ste 10
(580) 248-2265

Miami
2520 N. Main
(918) 542-4411

Midwest City
414 N. Air Depot Blvd.
(405) 775-8092

2200 S. Douglas Blvd.
(405) 775-8057

Moore
513 NE 12th
(405) 775-8066

901 SW 19th
(405) 775-1720

Pauls Valley
700 W. Grant Ave.
(405) 238-7318

Purcell
430 Lincoln St.
(405) 775-8094

Sand Springs
3402 State Hwy. 97
(918) 497-2459

Sapulpa
911 E. Taft St.
(918) 497-2458

Shawnee
2512 N. Harrison Ave.
(405) 775-8067

Sulphur
2009 W. Broadway Ave.
(580) 622-3118

Weatherford
109 E. Franklin Ave.
(580) 772-7441

Yukon
1203 Cornwell Dr.
(405) 775-1711

Stillwater
1900 N. Perkins
(405) 372-0889

Owasso
9350 N. Garnett
(918) 497-2835

Elk City
1504 W. 3rd St.
(580) 225-7200

Norman
2403 W. Main St.
(405) 775-8069

Lindsey
211 E. Cherokee
(405) 756-4494

Muskogee
3143 Azalea Park Drive
(918) 682-2300

Bixby
11886 S. Memorial
(918) 497-2855

Bethany
7723 NW 23rd St.
(405) 775-8063

Commerce Bank
5800 San Dario
Laredo, Texas 78041
(956) 724-1616

2120 Saunders
(956) 724-1616

2302 Blaine St.
(956) 724-1616

1200 Welby Court
(956) 724-1616

International Bank of Commerce, Brownsville
1600 Ruben Torres Blvd
Brownsville, TX 78522-1831
(956) 547-1000

1623 Central Blvd.
(956) 547-1323

4520 E. 14th St.
(956) 547-1300

630 E. Elizabeth St.
(956) 547-1350

2370 N. Expressway
(956) 547-1380

3600 W. Alton Gloor Blvd.
(956) 547-1390

79 E. Alton Gloor Blvd
(956) 547-1360

7480 S. HWY 48
(956) 547-1370

2721 Boca Chica Blvd
(956) 547-1260

Harlingen
501 S. Dixieland Rd.
(956) 428-6902

321 S. 77th Sunshine Strip
(956) 428-6454

1801 W. Lincoln
(956)428-4559

South Padre Island
911 Padre Blvd.
(956) 547-1471

Port Isabel
1401 W. Hwy. 100
(956) 943-2108

International Bank of Commerce, Zapata
U.S Hwy. 83 @ 10th Ave.
Zapata, TX 78076
(956) 765-8361

Roma
1702 Grant St.
(956) 849-1047

Alice
2001 E. Main St.
(361) 661-1211

Rio Grande City
4015 E. Hwy. 83
(956) 487-5531

4534 E. Hwy. 83
(956) 488-6367

4031 E. Hwy 83
(956) 487-5535

Hebbronville
401 N. Smith Ave.
(361) 527-2645

Kingsville
1320 General Cavazos Blvd
(361) 516-1040

715 W. Santa Gertrudis
(361) 516-1040

Freer
405 S. Norton
(361) 661-1211

Beeville
802 E. Houston St.
(361) 358-8700

302 N. St. Mary's Street
(361) 358-8700

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES
(Consolidated)

The following consolidated selected financial data is derived from the Corporation's audited financial statements as of and for the five years ended December 31, 2012. The following consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes in this report.

SELECTED FINANCIAL DATA

	AS OF OR FOR THE YEARS ENDED DECEMBER 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands, Except Per Share Data)				
STATEMENT OF CONDITION					
Assets	$11,882,673	$11,739,649	$11,943,469	$11,762,543	$12,439,341
Investment securities available-for-sale	5,525,015	5,213,915	5,086,457	4,644,083	5,071,880
Net loans	4,716,811	4,969,283	5,325,521	5,571,869	5,799,372
Deposits	8,287,213	7,946,092	7,599,558	7,178,007	6,858,784
Other borrowed funds	749,027	494,161	1,026,780	1,347,625	2,522,986
Junior subordinated deferrable interest debentures	190,726	190,726	201,117	201,082	201,048
Shareholders' equity	1,435,708	1,600,165	1,459,217	1,407,470	1,257,297
INCOME STATEMENT					
Interest income	$ 375,639	$ 418,124	$ 458,769	$ 527,377	$ 564,603
Interest expense	74,499	94,298	114,036	139,796	231,731
Net interest income	301,140	323,826	344,733	387,581	332,872
Provision for probable loan losses	27,959	17,318	22,812	58,833	19,813
Non-interest income	200,591	201,493	218,784	201,013	189,809
Non-interest expense	315,372	316,774	339,725	309,031	301,226
Income before income taxes	158,400	191,227	200,980	220,730	201,642
Income taxes	50,565	64,078	70,957	77,988	69,530
Net income	107,835	127,149	130,023	142,742	132,112
Preferred stock dividends and discount accretion	14,362	13,280	13,126	12,984	—
Net income available to common shareholders	$ 93,473	$ 113,869	$ 116,897	$ 129,758	$ 132,112
Per common share:					
Basic	$ 1.39	$ 1.69	$ 1.72	$ 1.90	$ 1.93
Diluted	$ 1.39	$ 1.69	$ 1.72	$ 1.90	$ 1.92

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis represents an explanation of significant changes in the financial position and results of operations of International Bancshares Corporation and subsidiaries (the "Company" or the "Corporation") on a consolidated basis for the three-year period ended December 31, 2012. The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012, and the Selected Financial Data and Consolidated Financial Statements included elsewhere herein.

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 and the unavailability of such funds in the future could adversely impact the Company's growth strategy and prospects.
- 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 as a new 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 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.
- 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 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.
- 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 could subject us to increased operating costs as well as litigation and other liabilities.
- 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 regulatory or other governmental inquiries and the results of regulatory examinations or reviews.
- 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 proposed capital rules of the federal banking agencies that address the Basel III capital 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 215 facilities and 339 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.

A primary goal of the Company is to grow net interest income and non-interest income while adequately managing credit risk, interest rate risk and expenses. Effective management of capital is a critical objective of the Company. A key measure of the performance of a banking institution is the return on average common equity ("ROE"). The Company's ROE for the year ended December 31, 2012 was 7.17% as compared to 8.71% for the year ended December 31, 2011.

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 loan policies of the Company's bank subsidiaries generally require that loans to borrowers domiciled in foreign countries be primarily secured by assets located in the United States or have credit enhancements, in the form of guarantees, from significant United States corporations. 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. On September 22, 2011, the Company announced the approval of a restructuring plan that resulted in the closing of fifty-five (55) in store branches by December 31, 2011. The branch closures are a result of reduced levels of revenue resulting from regulatory changes related to interchange fee income. The branches were closed in order to align the Company's expenses with reduced levels of revenue, protecting the Company's financial strength while preserving IBC's free products program.

Results of Operations

Summary

Consolidated Statements of Condition Information

	December 31, 2012	December 31, 2011	Percent Increase (Decrease)
	(Dollars in Thousands)		
Assets	$11,882,673	$11,739,649	1.2%
Net loans	4,716,811	4,969,283	(5.1)
Deposits	8,287,213	7,946,092	4.3
Other borrowed funds	749,027	494,161	51.6
Junior subordinated deferrable interest debentures	190,726	190,726	—
Shareholders' equity	1,435,708	1,600,165	(10.3)

Consolidated Statements of Income Information

	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Increase (Decrease) 2012 vs. 2011	Year Ended December 31, 2010	Percent Increase (Decrease) 2011 vs. 2010
	(Dollars in Thousands)				
Interest income	$375,639	$418,124	(10.2)%	$458,769	(8.9)%
Interest expense	74,499	94,298	(21.0)	114,036	(17.3)
Net interest income	301,140	323,826	(7.0)	344,733	(6.1)
Provision for probable loan losses	27,959	17,318	61.4	22,812	(24.1)
Non-interest income	200,591	201,493	(.4)	218,784	(7.9)
Non-interest expense	315,372	316,774	(.4)	339,725	(6.8)
Net income	107,835	127,149	(15.2)	130,023	(2.2)
Net income available to common shareholders	93,473	113,869	(17.9)	116,897	(2.6)
Per common share:					
Basic	$ 1.39	$ 1.69	(17.8)%	$ 1.72	(1.7)%
Diluted	1.39	1.69	(17.8)	1.72	(1.7)

Net Income

Net income available to common shareholders for the year ended December 31, 2012 decreased by 17.9% as compared to the same period in 2011. Net income for the year ended December 31, 2012 was negatively impacted by narrowing interest margins caused by slow loan demand and declining yields in the bond markets coupled with lower levels of revenue on interchange fee income and overdraft programs due to regulatory changes, as well as the burden of increasing compliance costs arising from the Dodd-Frank Act and heightened regulatory oversight. Net income for the year ended December 31, 2012 was positively impacted by the sale of available-for-sale investments securities totaling $25 million, net of tax. The securities sales were a result of the Company re-positioning a portion of the investment portfolio. Net

income for the year ended December 31, 2012 was negatively impacted by a one-time charge of $20.5 million, net of tax, recorded in the third quarter as a result of the Company's lead bank subsidiary's early termination of a portion of its long-term repurchase agreements in order to help manage its long-term funding costs. Net income for the years ended December 31, 2011 and December 31, 2010, were positively affected by gains on investment securities sales totaling $11.2 million and $21.6 million, net of tax, respectively. The sales of the securities were to facilitate a re-positioning of the Company's investment portfolio. Net income for the year ended December 31, 2010 was negatively affected by an additional reserve of $21.8 million that the Company recorded during the first quarter of 2010 in connection with a dispute related to certain tax matters that were inherited by the Company in its 2004 acquisition of LFIN. See Note 17 to the Consolidated Financial Statements.

Net Interest Income

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. Net interest income is the Company's largest source of revenue. Net interest income is affected by both changes in the level of interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities.

	For the years ended December 31,		
	2012 Average Rate/Cost	2011 Average Rate/Cost	2010 Average Rate/Cost
Assets			
Interest earning assets:			
Loan, net of unearned discounts:			
Domestic	5.51%	5.63%	5.72%
Foreign	3.82	4.13	4.62
Investment securities:			
Taxable	1.95	2.40	3.30
Tax-exempt	5.55	5.29	5.02
Other	.25	1.55	2.23
Total interest-earning assets	3.68%	4.06%	4.64%
Liabilities			
Interest bearing liabilities:			
Savings and interest bearing demand deposits	.19%	.30%	.39%
Time deposits:			
Domestic	.79	1.03	1.46
Foreign	.67	.84	1.24
Securities sold under repurchase agreements	2.95	2.99	2.99
Other borrowings	.24	.22	.19
Junior subordinated deferrable interest debentures	3.46	5.66	6.07
Total interest bearing liabilities	.93%	1.13%	1.39%

The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net income and net interest margin. The yield on average interest-earning assets decreased 9.36% from 4.06% in 2011 to 3.68% in 2012, and the rates paid on average interest-bearing liabilities decreased 17.70% from 1.13% in 2011 to .93% in 2012. The yield on average interest-earning assets decreased 12.50% from 4.64% in 2010 to 4.06% in 2011, and the rates paid on average interest-bearing liabilities decreased 18.71% from 1.39% in 2010 to 1.13% in 2011. The majority of the Company's taxable investment securities are invested in mortgage backed securities and during rapid increases or reduction in interest rates, the yield on these securities do not re-price as quickly as the loans.

The following table analyzes the changes in net interest income during 2012, 2011 and 2010 and the relative effect of changes in interest rates and volumes for each major classification of interest-earning assets and interest-bearing liabilities. Non-accrual loans have been included in assets for the purpose of this analysis, which reduces the resulting yields:

	2012 compared to 2011			2011 compared to 2010		
	Net increase (decrease) due to			Net increase (decrease) due to		
	Volume(1)	Rate(1)	Total	Volume(1)	Rate(1)	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Interest earned on:						
Loans, net of unearned discounts:						
Domestic	$(16,414)	$ (5,356)	$(21,770)	$(15,564)	$ (4,571)	$(20,135)
Foreign	(1,536)	(620)	(2,156)	(391)	(1,162)	(1,553)
Investment securities:						
Taxable	3,502	(22,267)	(18,765)	20,976	(42,432)	(21,456)
Tax-exempt	1,025	547	1,572	2,346	505	2,851
Other	1,226	(2,592)	(1,366)	471	(823)	(352)
Total interest income	$(12,197)	$(30,288)	$(42,485)	$ 7,838	$(48,483)	$(40,645)
Interest incurred on:						
Savings and interest bearing demand deposits	$ 536	$ (3,031)	$ (2,495)	$ 928	$ (2,528)	$ (1,600)
Time deposits:						
Domestic	(579)	(3,982)	(4,561)	(1,077)	(7,411)	(8,488)
Foreign	(322)	(2,700)	(3,022)	(332)	(6,591)	(6,923)
Securities sold under repurchase agreements	(4,147)	(471)	(4,618)	(1,912)	(41)	(1,953)
Other borrowings	(703)	78	(625)	162	192	354
Junior subordinated deferrable interest debentures	(273)	(4,205)	(4,478)	(337)	(791)	(1,128)
Total interest expense	$ (5,488)	$(14,311)	$(19,799)	$ (2,568)	$(17,170)	$(19,738)
Net interest income	$ (6,709)	$(15,977)	$(22,686)	$ 10,406	$(31,313)	$(20,907)

(Note 1) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

As part of the 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. The Investment Committee is comprised of certain senior managers of the various Company bank subsidiaries along with consultants. 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.

At December 31, 2012, based on these simulations, a rate shift of 300 basis points in interest rates up will not vary net interest income by more than .84%, while a rate shift of 150 basis points up will not vary net interest income by more than 1.92% of projected net interest income for the following twelve months. The basis point shift in interest rates is a hypothetical rate scenario used to calibrate risk, and does not necessarily represent management's current view of future market developments. The Company believes that it is properly positioned for a potential interest rate increase or decrease.

Allowance for Probable Loan Loss

The following table presents information concerning the aggregate amount of non-accrual, past due and restructured domestic loans; certain loans may be classified in one or more categories:

	December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis	$71,768	$118,505	$108,023	$68,314	$163,700
Accruing loans contractually past due ninety days or more as to interest or principal payments	14,769	14,268	19,347	11,986	6,208

The allowance for probable loan losses decreased 30.9% to $58,193,000 at December 31, 2012 from $84,192,000 at December 31, 2011. The allowance was 1.2% of total loans, net of unearned income at December 31, 2012 and 1.67% at December 31, 2011. The provision for probable loan losses charged to expense increased $10,641,000 to $27,959,000 for the year ended December 31, 2012 from $17,318,000 for the same period in 2011 primarily due to the continued workout of impaired loans previously identified by the Company. The Company's provision for probable loan losses decreased for the year ended December 31, 2011 compared to the year ended December 31, 2010, mainly due to a decrease in the Company's charge-off experience and a decrease in the loan portfolio. The Company's provision for probable loan losses decreased for the year ended December 31, 2010 compared to the year ended December 31, 2009 mainly due to the decrease in the required reserves for impaired loans analyzed on an individual basis. The impaired loans have been measured based on the fair value of collateral. The majority of these loans show a fair value greater than the carrying value. The Company's provision for probable loan losses increased for the years ended December 31, 2009 and 2008, prompted by the analysis of management regarding the weakness in the overall economy and the impact of that weakness in the Company's loan portfolio and the related allowance for probable loan losses. Although the Texas and Oklahoma economies are performing better and appear to be recovering faster than other parts of the country, the long term weak economic environment may continue to reveal new problems within these markets. Loans accounted for as "troubled debt restructuring" were not significant.

The following table presents information concerning the aggregate amount of non-accrual and past due foreign loans extended to persons or entities in foreign countries. Certain loans may be classified in one or more category:

	December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis	$ —	$—	$ 7	$ 24	$530
Accruing loans contractually past due ninety days or more as to interest or principal payments	264	20	501	103	66

The gross income that would have been recorded during 2012 and 2011 on non-accrual loans in accordance with their original contract terms was $2,549,000 and $4,114,000 on domestic loans and $0 and

$0 on foreign loans, respectively. The amount of interest income on such loans that was recognized in 2012 and 2011 was $0 and $31,000 on domestic loans and $0 and $0 for foreign loans, respectively.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deem the collectability of the principal and/or interest to be in question, as well as when required by applicable regulatory guidelines. Interest income on non-accrual loans is recognized only to the extent payments are received or when, in management's opinion, the creditor's financial condition warrants reestablishment of interest accruals. Under special circumstances, a loan may be more than 90 days delinquent as to interest or principal and not be placed on non-accrual status. This situation generally results when a bank subsidiary has a borrower who is experiencing financial difficulties, but not to the extent that requires a restructuring of indebtedness. The majority of this category is composed of loans that are considered to be adequately secured and/or for which there has been a recent history of payments. When a loan is placed on non-accrual status, any interest accrued, not paid is reversed and charged to operations against interest income.

Loan commitments, consisting of unused commitments to lend, letters of credit, credit card lines and other approved loans, that have not been funded, were $1,650,410,000 and $1,235,699,000 at December 31, 2012 and 2011, respectively. See Note 19 to the Consolidated Financial Statements.

The following table summarizes loan balances at the end of each year and average loans outstanding during the year; changes in the allowance for probable loan losses arising from loans charged-off and recoveries on loans previously charged-off by loan category; and additions to the allowance which have been charged to expense:

	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Loans, net of unearned discounts, outstanding at December 31	$4,775,004	$5,053,475	$5,410,003	$5,667,262	$5,872,833
Average loans outstanding during the year (Note 1)	$4,932,728	$5,261,601	$5,542,230	$5,748,789	$5,683,130
Balance of allowance at January 1	$ 84,192	$ 84,482	$ 95,393	$ 73,461	$ 61,726
Provision (credit) charged to expense	27,959	17,318	22,812	58,833	19,813
Loans charged off:					
Domestic:					
Commercial, financial and agricultural	(48,445)	(18,085)	(7,702)	(14,565)	(5,754)
Real estate—mortgage	(1,417)	(2,109)	(2,973)	(2,500)	(1,400)
Real estate—construction	(7,617)	(1,467)	(22,186)	(17,953)	(202)
Consumer	(756)	(1,067)	(2,152)	(2,690)	(1,770)
Foreign	(111)	(171)	(227)	(831)	(8)
Total loans charged off:	(58,346)	(22,899)	(35,240)	(38,539)	(9,134)
Recoveries credited to allowance:					
Domestic:					
Commercial, financial and agricultural	3,767	4,422	626	519	576
Real estate—mortgage	208	328	517	128	94
Real estate—construction	229	171	16	19	21
Consumer	184	211	256	937	361
Foreign	—	159	102	35	4
Total recoveries	4,388	5,291	1,517	1,638	1,056
Net loans charged off	(53,958)	(17,608)	(33,723)	(36,901)	(8,078)
Allowance acquired in purchase transactions	—	—	—	—	—
Balance of allowance at December 31	$ 58,193	$ 84,192	$ 84,482	$ 95,393	$ 73,461
Ratio of net loans charged-off during the year to average loans outstanding during the year (Note 1)	1.09%	.33%	.61%	.64%	.14%
Ratio of allowance to loans, net of unearned discounts, outstanding at December 31	1.22%	1.67%	1.56%	1.68%	1.25%

(Note 1) The average balances for purposes of the above table are calculated on the basis of daily balances.

The allowance for probable loan losses has been allocated based on the amount management has deemed to be reasonably necessary to provide for the probable losses incurred within the following categories of loans at the dates indicated and the percentage of loans to total loans in each category:

	At December 31,									
	2012		2011		2010		2009		2008	
	Allowance	Percent of total	Allowance	Percent of total	Allowance	Percent of total	Allowance	Percent of total	Allowance	Percent of total
	(Dollars in Thousands)									
Commercial, Financial and Agricultural	$34,206	52.8%	$51,847	50.6%	$38,439	48.5%	$47,676	47.8%	$33,737	43.8%
Real estate—Mortgage	8,838	17.6	9,322	17.7	12,670	17.5	16,825	16.8	11,639	15.1
Real estate—Construction	12,720	24.0	19,940	25.2	26,695	27.2	27,918	27.9	25,058	32.6
Consumer	1,289	1.6	1,724	1.9	6,241	2.3	2,581	2.6	2,223	2.9
Foreign	1,140	4.0	1,359	4.6	437	4.5	393	4.9	804	5.6
	$58,193	100.0%	$84,192	100.0%	$84,482	100.0%	$95,393	100.0%	$73,461	100.0%

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.

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, financial and agricultural or real estate loans are generally considered by management to represent a loss, in whole or part, (i) when an exposure beyond any collateral coverage is apparent, (ii) when no further collection of the portion of the loan so exposed is anticipated based on actual results, (iii) when the credit enhancements, if any, are not adequate, and (iv) when the borrower's financial condition would indicate so. Generally, unsecured consumer loans are charged off when 90 days past due.

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 within the existing portfolio of loans. The Company's allowance for probable loan loss methodology is based on guidance provided in Securities and Exchange Commission Staff Accounting Bulletin No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues" and includes allowance allocations calculated in accordance with ASC 310, "Receivables" and ASC 450, "Contingencies." The reserve allocated to all categories of loans decreased approximately $26.0 million from 2011 to 2012. The decrease in the reserve is mainly due to the continued workout of the impaired loans previously identified by the Company. The reserve allocated to all categories decreased $10.9 million from 2009 to 2010. The decrease in the reserve from 2009 to 2010 is mainly due to a decrease in the required reserves for impaired loans analyzed on an individual basis. The impaired loans have been measured based on the fair value of collateral. The majority of these loans show a fair value, after considering selling costs, greater than the carrying value. The increase in the reserve from 2008 to 2009 occurred as the result of the deterioration of economic conditions in 2008 that continued to occur in 2009. Please refer to Note 4—Allowance for Probable Loan Losses in the accompanying Notes to the consolidated Financial Statements.

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 December 31, 2012 was adequate to absorb probable losses from loans in the portfolio at that date. See Critical Accounting Policies on page 24. 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.

Non-Interest Income

	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Increase (Decrease) 2012 vs. 2011	Year Ended December 31, 2010	Percent Increase (Decrease) 2011 vs. 2010
	(Dollars in Thousands)				
Service charges on deposit accounts	$ 93,128	$ 97,968	(4.9)%	$ 99,644	(1.7)%
Other service charges, commissions and fees					
Banking	38,523	50,686	(24.0)	47,930	5.8
Non-banking	6,998	7,304	(4.2)	8,439	(13.4)
Investment securities transactions, net	38,446	17,285	122.4	33,209	(48.0)
Other investments, net	13,339	16,041	(16.8)	17,696	(9.4)
Other income	10,157	12,209	(16.8)	11,866	2.9
Total non-interest income	$200,591	$201,493	(.4)%	$218,784	(7.9)%

Investment securities transactions increased for the twelve months ended December 31, 2012 compared to the same period of 2011 primarily due to sales. The investment securities were sold as a result of the Company re-positioning a portion of the investment portfolio. Banking service charges, commissions and fees decreased 24% for the twelve months ended December 31, 2012 compared to the same period of 2011 primarily due to the impact of regulatory changes related to interchange fee income and overdraft programs. The investment securities transactions for the years ended December 31, 2011 and December 31, 2010 can be attributed to the sale of investment securities to facilitate the re-positioning of the Company's investment portfolio.

Non-Interest Expense

	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Increase (Decrease) 2012 vs. 2011	Year Ended December 31, 2010	Percent Increase (Decrease) 2011 vs. 2010
	(Dollars in Thousands)				
Employee compensation and benefits	$118,041	$126,004	(6.3)%	$127,469	(1.1)%
Occupancy	34,608	38,722	(10.6)	36,631	5.7
Depreciation of bank premises and equipment	26,756	34,935	(23.4)	35,395	(1.3)
Professional fees	14,369	12,998	10.5	15,625	(16.8)
Deposit insurance assessments	7,709	9,047	(14.8)	10,253	(11.8)
Net expense, other real estate owned	8,929	14,817	(39.7)	6,055	144.7
Amortization of identified intangible assets	4,651	5,293	(12.1)	5,284	.2
Advertising	7,017	5,807	20.8	7,716	(24.7)
Early termination fee—securities sold under repurchase agreements	31,550	—	100.0	—	—
Litigation expense	—	—	—	21,837	—
Impairment charges (Total other-than-temporary impairment charges, $(916) less gain of $(123), $(1,003) less loss of $26, and $(19,070) less loss of $10,654, included in other comprehensive income)	1,039	977	6.3	8,416	(88.4)
Other	60,703	68,174	(11.0)	65,044	4.8
Total non-interest expense	$315,372	$316,774	(.4)%	$339,725	(6.8)%

Non-interest expense for the twelve months ended December 31, 2012 was negatively impacted by a one-time charge of $31.6 million recorded by the Company's lead bank subsidiary. The lead bank subsidiary terminated a portion of its long-term repurchase agreements outstanding in order to help manage its long-term funding costs. Non-interest expense decreased 6.8% for the year ended December 31, 2011 compared to the same period of 2010. Non-interest expense for 2011 was negatively impacted by a valuation allowance taken for a foreclosed real estate project, included in "net expense, other real estate owned," in the table above. After evaluation of the carrying value of the foreclosed real estate, the Company determined that the property required a valuation allowance. Included in litigation expense for the year ended December 31, 2010, is a reserve of $21.8 million for a dispute related to certain tax deductions that were inherited by the Company's 2004 acquisition of LFIN. The dispute involves claims by the former controlling shareholders of LFIN related to tax refunds received by the Company based on deductions taken in 2003 by LFIN in connection with losses on loans acquired from a failed thrift and a dispute LFIN had with the FDIC regarding tax benefits related to the failed thrift acquisition, which originated in 1988. For more information about the LFIN dispute, please refer to Note 17—Commitments, Contingent Liabilities and Other Matters in the accompanying Notes to the Consolidated Financial Statements. The Company recorded other-than-temporary impairment charges of $1 million, $977 thousand and $8.4 million on non-agency mortgage-backed securities, representing the credit related impairment on the securities in during 2012, 2011 and 2010, respectively. During the fourth quarter of 2011, the Company also recognized charges of $5.36 million, before tax, related to the closing of

fifty-five (55) in-store branches by December 31, 2011. The charges are included in "Depreciation of bank premises and equipment" and "Other" in the table above.

Effects of Inflation

The principal component of earnings is net interest income, which is affected by changes in the level of interest rates. Changes in rates of inflation affect interest rates. It is difficult to precisely measure the impact of inflation on net interest income because it is not possible to accurately differentiate between increases in net interest income resulting from inflation and increases resulting from increased business activity. Inflation also raises costs of operations, primarily those of employment and services.

Financial Condition

Investment Securities

The following table sets forth the carrying value of investment securities as of December 31, 2012, 2011 and 2010:

	December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
U.S. Treasury Securities			
Available for sale	$ —	$ —	$ 1,327
Residential mortgage-backed securities			
Available for sale	5,265,204	4,969,263	4,924,468
Obligations of states and political subdivisions			
Available for sale	238,675	224,761	145,997
Equity securities			
Available for sale	21,136	19,891	14,665
Other securities			
Held to maturity	2,400	2,450	2,450
Total	$5,527,415	$5,216,365	$5,088,907

The following tables set forth the contractual maturities of investment securities, based on amortized cost, at December 31, 2012 and the average yields of such securities, except for the totals, which reflect the weighted average yields. Actual maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	Available for Sale Maturing							
	Within one year		After one but within five years		After five but within ten years		After ten years	
	Adjusted		Adjusted		Adjusted		Adjusted	
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield
	(Dollars in Thousands)							
Residential mortgage-backed securities	$ 5	—%	$3,337	5.64%	$555,625	3.68%	$4,627,685	2.43%
Obligations of states and political subdivisions	—	—	—	—	674	6.52	216,288	5.60
Equity securities	325	—	—	—	—	—	19,250	2.37
Other securities	—	—	—	—	—	—	—	—
Total	$330	—%	$3,337	5.64%	$556,299	3.69%	$4,863,223	2.57%

	Held to Maturity Maturing							
	Within one year		After one but within five years		After five but within ten years		After ten years	
	Adjusted Cost	Yield	Adjusted Cost	Yield	Adjusted Cost	Yield	Adjusted Cost	Yield
	(Dollars in Thousands)							
Other securities	$1,200	1.05%	$1,200	1.81%	$—	—%	$—	%
Total	$1,200	1.05%	$1,200	1.81%	$—	—%	$—	—%

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 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 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

The amounts of loans outstanding, by classification, at December 31, 2012, 2011, 2010, 2009 and 2008 are shown in the following table:

	December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Commercial, financial and agricultural	$2,525,380	$2,560,102	$2,615,878	$2,703,379	$2,574,247
Real estate—mortgage	838,467	895,870	948,982	954,010	888,095
Real estate—construction	1,147,669	1,273,389	1,473,471	1,583,057	1,911,954
Consumer	74,514	94,109	126,047	146,331	169,589
Foreign	188,974	230,005	245,625	280,485	328,948
Loans, net of unearned discount	$4,775,004	$5,053,475	$5,410,003	$5,667,262	$5,872,833

The following table shows the amounts of loans (excluding real estate mortgages and consumer loans) outstanding as of December 31, 2012, which based on remaining scheduled repayments of principal are due in the years indicated. Also, the amounts due after one year are classified according to the sensitivity to changes in interest rates:

	Maturing			
	Within one year	After one but within five years	After five years	Total
	(Dollars in Thousands)			
Commercial, financial and agricultural	$ 824,071	$1,561,972	$139,337	$2,525,380
Real estate—construction	552,085	577,451	18,133	1,147,669
Foreign	140,867	38,389	9,718	188,974
Total	$1,517,023	$2,177,812	$167,188	$3,862,023

	Interest sensitivity	
	Fixed Rate	Variable Rate
	(Dollars in Thousands)	
Due after one but within five years	$168,635	$2,009,177
Due after five years	37,003	130,185
Total	$205,638	$2,139,362

International Operations

On December 31, 2012, the Company had $188,974,000 (1.6% of total assets) in loans outstanding to borrowers domiciled in foreign countries, which included primarily borrowers domiciled in Mexico. The loan policies of the Company's bank subsidiaries generally require that loans to borrowers domiciled in foreign countries be primarily secured by assets located in the United States or have credit enhancements, in the form of guarantees, from significant United States corporations. The composition of such loans and the related amounts of allocated allowance for probable loan losses as of December 31, 2012 and 2011 is presented below.

	For the year ended December 31,			
	2012		2011	
	Amount of Loans	Related Allowance for Probable Losses	Amount of Loans	Related Allowance for Probable Losses
	(Dollars in Thousands)			
Secured by certificates of deposit in United States banks	$131,775	$ 551	$156,623	$ 669
Secured by United States real estate	24,005	236	18,775	201
Secured by other United States collateral (securities, gold, silver, etc.)	1,352	18	25,463	251
Unsecured	654	6	824	11
Other (principally Mexico real estate)	31,188	329	28,320	227
	$188,974	$1,140	$230,005	$1,359

The transactions for the years ended December 31, 2012, 2011 and 2010, in that portion of the allowance for probable loan losses related to foreign debt were as follows:

	2012	2011	2010
	(Dollars in Thousands)		
Balance at January 1,	$1,359	$ 437	$ 393
Charge-offs	(111)	(171)	(227)
Recoveries	—	159	102
Net charge-offs	(111)	(12)	(125)
Credit charged to expense	(108)	934	169
Balance at December 31	$1,140	$1,359	$ 437

Deposits

	2012 Average Balance	2011 Average Balance
	(Dollars in Thousands)	
Deposits:		
Demand—non-interest bearing		
Domestic	$1,832,870	$1,612,039
Foreign	239,669	205,742
Total demand non-interest bearing	2,072,539	1,817,781
Savings and interest bearing demand		
Domestic	2,289,706	2,138,297
Foreign	516,951	487,661
Total savings and interest bearing demand	2,806,657	2,625,958
Time certificates of deposit		
$100,000 or more:		
Domestic	1,037,528	1,024,335
Foreign	1,234,984	1,253,365
Less than $100,000:		
Domestic	636,062	705,681
Foreign	373,235	393,254
Total time, certificates of deposit	3,281,809	3,376,635
Total deposits	$8,161,005	$7,820,374

	2012	2011	2010
	(Dollars in Thousands)		
Interest expense:			
Savings and interest bearing demand			
Domestic	$ 4,487	$ 6,549	$ 7,771
Foreign	801	1,234	1,612
Total savings and interest bearing demand	5,288	7,783	9,383
Time, certificates of deposit			
$100,000 or more			
Domestic	8,263	10,299	14,839
Foreign	9,148	11,512	17,084
Less than $100,000			
Domestic	4,945	7,468	11,416
Foreign	1,617	2,277	3,628
Total time, certificates of deposit	23,973	31,556	46,967
Total interest expense on deposits	$29,261	$39,339	$56,350

Scheduled maturities of time deposits in amounts of $100,000 or more at December 31, 2012, were as follows:

Due within 3 months or less	$ 718,867
Due after 3 months and within 6 months	527,526
Due after 6 months and within 12 months	535,414
Due after 12 months	217,106
	$1,998,913

The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company relies primarily on its high quality customer service, sales programs, customer referrals and advertising to attract and retain these deposits. Deposits provide the primary source of funding for the Company's lending and investment activities, and the interest paid for deposits must be managed carefully to control the level of interest expense. Deposits at December 31, 2012 were $8,287,213,000, an increase of 4.3% from $7,946,092,000 at December 31, 2011.

Return on Equity and Assets

Certain key ratios for the Company for the years ended December 31, 2012, 2011 and 2010 follows (Note 1):

	Years ended December 31,		
	2012	2011	2010
Percentage of net income to:			
Average shareholders' equity	7.17%	8.71%	9.43%
Average total assets	.91	1.08	1.15
Percentage of average shareholders' equity to average total assets	12.68	12.42	12.24
Percentage of cash dividends per share to net income per share	28.78	22.49	20.81

(Note 1) The average balances for purposes of the above table are calculated on the basis of daily balances.

Liquidity and Capital Resources

Liquidity

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. Historically, the Mexico based deposits of the Company's bank subsidiaries have been a stable source of funding. Such deposits comprised approximately 28%, 29%, and 30% of the Company's bank subsidiaries' total deposits at each of the years ended December 31, 2012, 2011 and 2010, respectively. Other important funding sources for the Company's bank subsidiaries have been borrowings from the Federal Home Loan Bank ("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. Primary liquidity of the Company and its subsidiaries has been maintained by means of increased investment in shorter-term securities, certificates of deposit and repurchase agreements. 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 over reasonable periods of time.

Asset/Liability Management

The Company's fund management policy has as its primary focus the measurement and management of the banks' earnings at risk in the face of rising or falling interest rate forecasts. The earliest and most simplistic concept of earnings at risk measurement is the gap report, which is used to generate a rough estimate of the vulnerability of net interest income to changes in market rates as implied by the relative re-pricings of assets and liabilities. The gap report calculates the difference between the amounts of assets

and liabilities re-pricing across a series of intervals in time, with emphasis typically placed on the one-year period. This difference, or gap, is usually expressed as a percentage of total assets.

If an excess of liabilities over assets matures or re-prices within the one-year period, the statement of condition is said to be negatively gapped. This condition is sometimes interpreted to suggest that an institution is liability-sensitive, indicating that earnings would suffer from rising rates and benefit from falling rates. If a surplus of assets over liabilities occurs in the one-year time frame, the statement of condition is said to be positively gapped, suggesting a condition of asset sensitivity in which earnings would benefit from rising rates and suffer from falling rates.

The gap report thus consists of an inventory of dollar amounts of assets and liabilities that have the potential to mature or re-price within a particular period. The flaw in drawing conclusions about interest rate risk from the gap report is that it takes no account of the probability that potential maturities or re-pricings of interest-rate-sensitive accounts will occur, or at what relative magnitudes. Because simplicity, rather than utility, is the only virtue of gap analysis, financial institutions increasingly have either abandoned gap analysis or accorded it a distinctly secondary role in managing their interest-rate risk exposure.

The net interest rate sensitivity at December 31, 2012, is illustrated in the following table. This information reflects the balances of assets and liabilities whose rates are subject to change. As indicated in the table on the following page, the Company is liability-sensitive during the early time periods and is asset-sensitive in the longer periods. The table shows the sensitivity of the statement of condition at one point in time and is not necessarily indicative of the position at future dates.

INTEREST RATE SENSITIVITY
(Dollars in Thousands)

December 31, 2012	Rate/Maturity 3 Months or Less	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
	(Dollars in Thousands)				
Rate sensitive assets					
Investment securities	$ 810,218	$1,274,184	$3,204,337	$ 238,676	$ 5,527,415
Loans, net of non-accruals	3,557,617	226,394	261,385	657,840	4,703,236
Total earning assets	$4,367,835	$1,500,578	$3,465,722	$ 896,516	$10,230,651
Cumulative earning assets	$4,367,835	$5,868,413	$9,334,135	$10,230,651	
Rate sensitive liabilities					
Time deposits	$1,152,804	$1,467,303	$ 333,783	$ 422	$ 2,954,312
Other interest bearing deposits	2,867,151	—	—	—	2,867,151
Securities sold under repurchase agreements	391,063	31,106	507,510	200,000	1,129,679
Other borrowed funds	742,500	—	—	6,527	749,027
Junior subordinated deferrable interest debentures	190,726	—	—	—	190,726
Total interest bearing liabilities	$5,344,244	$1,498,409	$ 841,293	$ 206,949	$ 7,890,895
Cumulative sensitive liabilities	$5,344,244	$6,842,653	$7,683,946	$ 7,890,895	
Repricing gap	$ (976,409)	$ 2,169	$2,624,429	$ 689,567	$ 2,339,756
Cumulative repricing gap	(976,409)	(974,240)	1,650,189	2,339,756	
Ratio of interest-sensitive assets to liabilities	.82	1.00	4.12	4.33	1.30
Ratio of cumulative, interest-sensitive assets to liabilities	.82	.86	1.21	1.30	

The detailed inventory of statement of condition items contained in gap reports is the starting point of income simulation analysis. Income simulation analysis also focuses on the variability of net interest income and net income, but without the limitations of gap analysis. In particular, the fundamental, but often unstated, assumption of the gap approach that every statement of condition item that can re-price will do so to the full extent of any movement in market interest rates is taken into consideration in income simulation analysis.

Accordingly, income simulation analysis captures not only the potential of assets and liabilities to mature or re-price, but also the probability that they will do so. Moreover, income simulation analysis focuses on the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time in a motion picture rather than snapshot fashion. Finally, income simulation analysis permits management to assess the probable effects on balance sheet items not only of changes in market interest rates, but also of proposed strategies for responding to such changes. The Company and many other institutions rely primarily upon income simulation analysis in measuring and managing exposure to interest rate risk.

At December 31, 2012, based on these simulations, a rate shift of 300 basis points in interest rates up will not vary projected net interest income by .84%, while a rate shift of 150 basis points up will not vary net interest income by more than 1.92% of projected net interest income. The basis point shift in interest rates is a hypothetical rate scenario used to calibrate risk, and does not necessarily represent

management's current view of future market developments. The Company believes that it is properly positioned for a potential interest rate increase or decrease.

All the measurements of risk described above are made based upon the Company's business mix and interest rate exposures at the particular point in time. The exposure changes continuously as a result of the Company's ongoing business and its risk management initiatives. While management believes these measures provide a meaningful representation of the Company's interest rate sensitivity, they do not necessarily take into account all business developments that have an effect on net income, such as changes in credit quality or the size and composition of the statement of condition.

Principal sources of liquidity and funding for the Company are dividends from subsidiaries and borrowed funds, with such funds being used to finance the Company's cash flow requirements. The Company closely monitors the dividend restrictions and availability from the bank subsidiaries as disclosed in Note 20 to the Consolidated Financial Statements. At December 31, 2012, the aggregate amount legally available to be distributed to the Company from bank subsidiaries as dividends was approximately $520,000,000, assuming that each bank subsidiary continues to be classified as "well capitalized" under the applicable regulations. The restricted capital (capital and surplus) of the bank subsidiaries was approximately $895,505,000 as of December 31, 2012. The undivided profits of the bank subsidiaries were approximately $824,532,000 as of December 31, 2012. Additionally, as a result of the Company's participation in the TARP Capital Purchase Program, the Company was restricted in the payment of dividends and was not allowed without the Treasury Department's consent, to declare or pay any dividend on the Company Common Stock other than a regular semi-annual cash dividend of not more than $.33 per share, as adjusted for any stock dividend or stock split. The restriction ceased to exist on December 23, 2011 and the Company exited the TARP program when it finalized the repayment of all the TARP funds on November 28, 2012.

At December 31, 2012, the Company has outstanding $749,027,000 in other borrowed funds and $190,726,000 in junior subordinated deferrable interest debentures. In addition to borrowed funds and dividends, the Company has a number of other available alternatives to finance the growth of its existing banks as well as future growth and expansion.

Capital

The Company maintains an adequate level of capital as a margin of safety for its depositors and shareholders. At December 31, 2012, shareholders' equity was $1,435,708,000 compared to $1,600,165,000 at December 31, 2011, a decrease of $164,457,000, or 10.3%. Shareholders' equity decreased due to the payment of cash dividends to shareholders, the repurchase of common stock under the Company's publicly announced stock purchase program and the repayment of the TARP funds during 2012. The accumulated other comprehensive income is not included in the calculation of regulatory capital ratios.

During 1990, the Federal Reserve Board ("FRB") adopted a minimum leverage ratio of 3% for the most highly rated bank holding companies and at least 4% to 5% for all other bank holding companies. The Company's leverage ratio (defined as shareholders' equity plus eligible trust preferred securities issued and outstanding less goodwill and certain other intangibles divided by average quarterly assets) was 10.86% at December 31, 2012 and 12.74% at December 31, 2011. The core deposit intangibles and goodwill of $290,351,000 as of December 31, 2012, are deducted from the sum of core capital elements when determining the capital ratios of the Company.

The FRB has adopted risk-based capital guidelines which assign risk weightings to assets and off-balance sheet items. The guidelines also define and set minimum capital requirements (risk-based capital ratios). Under the final 1992 rules, all banks are required to have Tier 1 capital of at least 4.0% of risk-weighted assets and total capital of 8.0% of risk-weighted assets. Tier 1 capital consists principally of shareholders' equity plus trust preferred securities issued and outstanding less goodwill and certain other intangibles, while total capital consists of Tier 1 capital, certain debt instruments and a portion of the

reserve for loan losses. In order to be deemed well capitalized pursuant to the regulations, an institution must have a total risk-weighted capital ratio of 10%, a Tier 1 risk-weighted ratio of 6% and a Tier 1 leverage ratio of 5%. The Company had risk-weighted Tier 1 capital ratios of 19.65% and 22.73% and risk weighted total capital ratios of 20.60% and 23.99% as of December 31, 2012 and 2011, respectively, which are well above the minimum regulatory requirements and exceed the well capitalized ratios (see Note 20 to Notes to Consolidated Financial Statements).

Junior Subordinated Deferrable Interest Debentures

The Company has formed eight statutory business trusts under the laws of the State of Delaware, for the purpose of issuing trust preferred securities. The eight 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 December 31, 2012 and December 31, 2011, the principal amount of debentures outstanding totaled $190,726,000. As a result of the participation in the TARP Capital Purchase Program, the Company was not permitted, without the consent of the Treasury Department, to redeem any of the Debentures. This restriction ceased to exist on December 23, 2011. The Company completed the repayment of the TARP funds on November 28, 2012. One half of the Trust I securities were redeemed on June 8, 2011 and the remaining one half of the Trust I securities were redeemed on July 1, 2011, with the consent of the Treasury Department.

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 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, VII, 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.

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 December 31, 2012 and December 31, 2011, the total $190,726,000 of the Capital Securities outstanding qualified as Tier 1 capital.

The following table illustrates key information about each of the Debentures and their interest rates at December 31, 2012:

	Junior Subordinated Deferrable Interest Debentures	Repricing Frequency	Interest Rate	Interest Rate Index	Maturity Date	Optional Redemption Date(1)
	(in thousands)					
Trust VI	$ 25,774	Quarterly	3.76%	LIBOR + 3.45	November 2032	February 2008
Trust VII	10,310	Quarterly	3.56%	LIBOR + 3.25	April 2033	April 2008
Trust VIII	25,774	Quarterly	3.39%	LIBOR + 3.05	October 2033	October 2008
Trust IX	41,238	Quarterly	1.98%	LIBOR + 1.62	October 2036	October 2011
Trust X	34,021	Quarterly	1.96%	LIBOR + 1.65	February 2037	February 2012
Trust XI	32,990	Quarterly	1.98%	LIBOR + 1.62	July 2037	July 2012
Trust XII	20,619	Quarterly	1.76%	LIBOR + 1.45	September 2037	September 2012
	$190,726					

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

Contractual Obligations and Commercial Commitments

The following table presents contractual cash obligations of the Company (other than deposit liabilities) as of December 31, 2012:

	Payments due by Period (Dollars in Thousands)				
Contractual Cash Obligations	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
Securities sold under repurchase agreements	$1,129,679	$ 322,169	$ 6,510	$501,000	$300,000
Federal Home Loan Bank borrowings	749,027	742,639	293	314	5,781
Junior subordinated deferrable interest debentures	190,726	—	—	—	190,726
Operating leases	12,697	4,580	5,539	2,147	431
Total Contractual Cash Obligations	$2,082,129	$1,069,388	$12,342	$503,461	$496,938

The following table presents contractual commercial commitments of the Company (other than deposit liabilities) as of December 31, 2012:

	Amount of Commitment Expiration Per Period (Dollars in Thousands)				
Commercial Commitments	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
Financial and Performance Standby Letters of Credit	$ 89,129	$ 77,818	$ 11,311	$ —	$ —
Commercial Letters of Credit	13,753	13,753	—	—	—
Credit Card Lines	66,243	66,243	—	—	—
Other Commercial Commitments	1,481,285	898,052	388,177	141,071	53,985
Total Commercial Commitments	$1,650,410	$1,055,866	$399,488	$141,071	$53,985

Due to the nature of the Company's commercial commitments, including unfunded loan commitments and lines of credit, the amounts presented above do not necessarily reflect the amounts the Company anticipates funding in the periods presented above.

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, (ii) allowances based on quantitative historical loss experience on the Company's loan portfolio, and (iii) allowances based on qualitative data, which includes general economic conditions and other risk factors both internal and external to the Company. 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.

The specific loan loss provision is determined using the following methods. On a weekly basis, loan past due reports are reviewed by the servicing loan officer 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 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, any analysis on 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.

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 require 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 bank if such weaknesses are not corrected. For loans that are

classified as impaired, management evaluates these credits under 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 (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 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. Management determined in 2010 that the allowance should be further segmented for commercial and consumer mortgage loans by the type of loans in order to better analyze the portfolio. Management determined in 2011 that a two year historical loss experience used in the calculation represents the long term economic environment that began in 2008. The further segmentation in 2010 and the change in the 2011 calculation did not have a significant impact on the allowance or provision for probable loan losses.

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.

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 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 loss. 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.

Recent Accounting Standards Issued

See Note 1—Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for details of recently issued and recently adopted accounting standards and their impact on the Company's consolidated financial statements.

Preferred Stock, Common Stock and Dividends

The Company had issued and outstanding 67,187,912 shares of $1.00 par value Common Stock held by approximately 2,427 holders of record at February 20, 2013. The book value of the Common Stock at December 31, 2012 was $21.83 per share compared with $22.24 per share at December 31, 2011. On November 28, 2012, the Company completed the repurchase of all the 216,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share, having a liquidation preference of $1,000 per share that it had issued to the Treasury Department under TARP. The Company repaid all of the $216 million of TARP funds during the second half of 2012.

The Common Stock is traded on the NASDAQ National Market under the symbol "IBOC." The following table sets forth the approximate high and low bid prices in the Company's Common Stock during 2012 and 2011, as quoted on the NASDAQ National Market for each of the quarters in the two year period ended December 31, 2012. Some of the quotations reflect inter-dealer prices, without retail mark-up,

mark-down or commission and may not necessarily represent actual transactions. The closing sales price of the Company's Common Stock was $20.06 per share at February 20, 2013.

		High	Low
2012:	First quarter	$21.89	$18.32
	Second quarter	21.49	17.57
	Third quarter	20.40	17.45
	Fourth quarter	19.47	16.92

		High	Low
2011:	First quarter	$20.92	$17.33
	Second quarter	18.99	15.53
	Third quarter	17.70	12.62
	Fourth quarter	19.84	12.41

The Company paid cash dividends to the common shareholders of $.20 per share on April 20, 2012 to all holders of record on April 2, 2012 and $.20 per share on October 15, 2012 to all holders of record on September 28, 2012, or $26,894,000 in the aggregate during 2012. The Company paid cash dividends to the common shareholders of $.19 per share on April 18, 2011 to all holders of record on March 28, 2011 and $.19 per share on October 17, 2011 to all holders of record on September 30, 2011, or $25,648,000 in the aggregate during 2011.

Additionally, as a result of the Company's previous participation in the TARP Capital Purchase Program until November 28, 2012, the Company was restricted in the payment of dividends and was not allowed, without the Treasury Department's consent, to declare or pay any dividend on the Company Common Stock other than a regular semi-annual cash dividend of not more than $.33 per share, as adjusted for any stock dividend or stock split. On April 7, 2009, the Company gained consent from the Treasury Department (the "Treasury Consent") to use the regular semi-annual cash dividend funds of not more than $.33 per share, as adjusted for any stock dividend or stock split, to pay quarterly dividends and to repurchase common stock. The restrictions ceased to exist on December 23, 2011. While the IBC Board is inclined to continue to declare regular semi-annual cash dividends, there can be no assurance as to future dividends because they are dependent upon the Company's future earnings, capital requirements, financial condition, acquisition opportunities and general business conditions at the time.

In addition, the Company has not issued common stock dividends during the last five-year period ending December 31, 2012.

The Company's principal source of funds to pay cash dividends on its Common Stock is cash dividends from its bank subsidiaries. For a discussion of the limitations, please see Note 20 of Notes to Consolidated Financial Statements.

Stock Repurchase Program

The Company terminated its stock repurchase program on December 19, 2008, in connection with participating in the TARP Capital Purchase Program. The Company exited the TARP Capital Purchase Program on November 28, 2012. 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 22, 2012, 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 expiring on April 10, 2013, 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. As of February 20, 2013, a total of

7,807,293 shares had been repurchased under all programs at a cost of $236,912,000. The Company will determine on an ongoing basis the best use of the funds and whether a more frequent dividend program and expanded repurchase program are warranted and beneficial to its shareholders.

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 December 31, 2012.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly-Announced Program	Approximate Dollar Value of Shares Available for Repurchase(1)
October 1 - October 31, 2012	—	—	—	$39,466,000
November 1 - November 30, 2012	36,000	17.34	36,000	38,842,000
December 1 - December 31, 2012	—	—	—	38,842,000
Total	36,000	$17.34	36,000	

(1) The repurchase program was extended on March 22, 2012 and allows for the repurchase of up to an additional $40,000,000 of treasury stock through April 10, 2013.

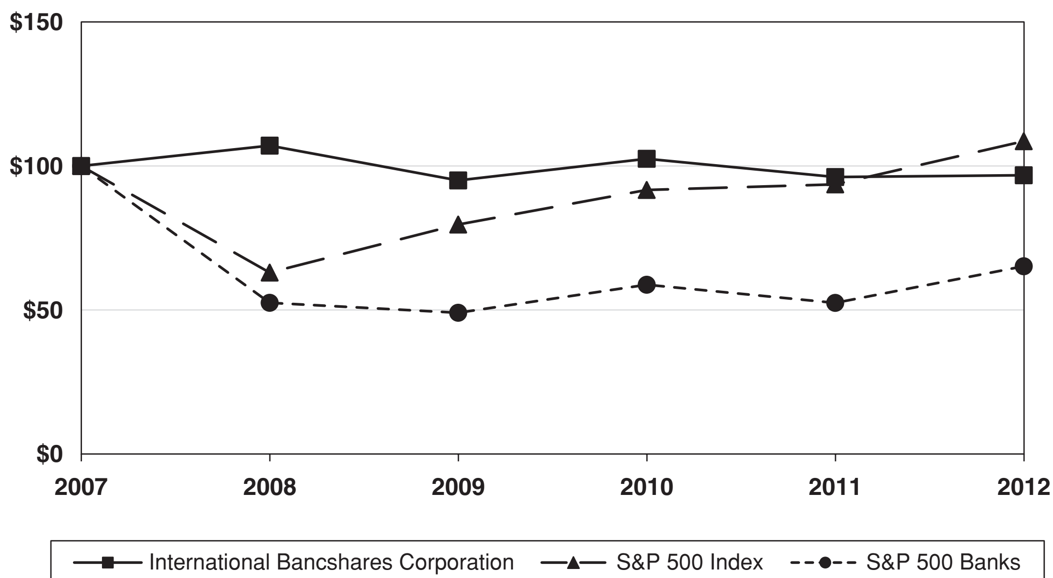
Equity Compensation Plan Information

The following table sets forth information as of December 31, 2012, with respect to the Company's equity compensation plans:

Plan Category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted average exercise price of outstanding options, warrants and rights	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity Compensation plans approved by security holders	794,877	$19.03	757,500
Total	794,877	$19.03	757,500

Stock Performance

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN



Total Return To Shareholders
(Includes reinvestment of dividends)

Company / Index	Base Period 2007	INDEXED RETURNS December 31, 2008	2009	2010	2011	2012
International Bancshares Corporation	**100**	107.07	94.99	102.50	96.16	96.78
S&P 500 Index	**100**	63.00	79.67	91.68	93.61	108.59
S&P 500 Banks	**100**	52.51	49.05	58.78	52.48	65.19

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INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition

December 31, 2012 and 2011

(Dollars in Thousands, Except Per Share Amounts)

	2012	2011
Assets		
Cash and cash equivalents	$ 283,100	$ 261,885
Investment securities:		
Held to maturity (Market value of $2,400 on December 31, 2012 and $2,450 on December 31, 2011)	2,400	2,450
Available for sale (Amortized cost of $5,423,189 on December 31, 2012 and $5,082,095 on December 31, 2011)	5,525,015	5,213,915
Total investment securities	5,527,415	5,216,365
Loans	4,775,004	5,053,475
Less allowance for probable loan losses	(58,193)	(84,192)
Net loans	4,716,811	4,969,283
Bank premises and equipment, net	481,287	453,050
Accrued interest receivable	31,034	32,002
Other investments	372,739	351,209
Identified intangible assets, net	7,819	12,190
Goodwill	282,532	282,532
Other assets	179,936	161,133
Total assets	$11,882,673	$11,739,649

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Continued)

December 31, 2012 and 2011

(Dollars in Thousands, Except Per Share Amounts)

	2012	2011
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand—non-interest bearing	$ 2,465,750	$ 1,927,018
Savings and interest bearing demand	2,867,151	2,707,693
Time	2,954,312	3,311,381
Total deposits	8,287,213	7,946,092
Securities sold under repurchase agreements	1,129,679	1,348,629
Other borrowed funds	749,027	494,161
Junior subordinated deferrable interest debentures	190,726	190,726
Other liabilities	90,320	159,876
Total liabilities	10,446,965	10,139,484
Commitments, Contingent Liabilities and Other Matters (Note 17)		
Shareholders' equity:		
Series A cumulative perpetual preferred shares, $.01 par value, $1,000 per share liquidation value. Authorized 25,000,000 shares; issued 0 shares on December 31, 2012, net of discount of $0 and 216,000 shares on December 31, 2011, net of discount of $5,452	—	210,548
Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 95,724,517 shares on December 31, 2012 and 95,719,652 shares on December 31, 2011	95,725	95,720
Surplus	163,287	162,767
Retained earnings	1,369,543	1,302,964
Accumulated other comprehensive income (including $(6,811) on December 31, 2012 and $(6,889) on December 31, 2011 of comprehensive loss related to other-than-temporary impairment for non-credit related issues)	65,662	84,959
	1,694,217	1,856,958
Less cost of shares in treasury, 28,537,180 shares on December 31, 2012 and 28,441,714 shares on December 31, 2011	(258,509)	(256,793)
Total shareholders' equity	1,435,708	1,600,165
Total liabilities and shareholders' equity	$11,882,673	$11,739,649

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2012, 2011 and 2010

(Dollars in Thousands, Except Per Share Amounts)

	2012	2011	2010
Interest income:			
Loans, including fees	$268,588	$292,514	$314,202
Investment securities:			
Taxable	94,885	113,650	135,106
Tax-exempt	11,663	10,091	7,240
Other interest income	503	1,869	2,221
Total interest income	375,639	418,124	458,769
Interest expense:			
Savings and interest bearing demand deposits	5,288	7,783	9,383
Time deposits	23,973	31,556	46,967
Securities sold under repurchase agreements	37,645	42,263	44,216
Other borrowings	998	1,623	1,269
Junior subordinated deferrable interest debentures	6,595	11,073	12,201
Total interest expense	74,499	94,298	114,036
Net interest income	301,140	323,826	344,733
Provision for probable loan losses	27,959	17,318	22,812
Net interest income after provision for probable loan losses	273,181	306,508	321,921
Non-interest income:			
Service charges on deposit accounts	93,128	97,968	99,644
Other service charges, commissions and fees			
Banking	38,523	50,686	47,930
Non-banking	6,998	7,304	8,439
Investment securities transactions, net	38,446	17,285	33,209
Other investments, net	13,339	16,041	17,696
Other income	10,157	12,209	11,866
Total non-interest income	200,591	201,493	218,784

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Continued)

Years ended December 31, 2012, 2011 and 2010

(Dollars in Thousands, Except Per Share Amounts)

	2012	2011	2010
Non-interest expense:			
Employee compensation and benefits	$ 118,041	$ 126,004	$ 127,469
Occupancy	34,608	38,722	36,631
Depreciation of bank premises and equipment	26,756	34,935	35,395
Professional fees	14,369	12,998	15,625
Deposit insurance assessments	7,709	9,047	10,253
Net expense, other real estate owned	8,929	14,817	6,055
Amortization of identified intangible assets	4,651	5,293	5,284
Advertising	7,017	5,807	7,716
Early termination fee—securities sold under repurchase agreements	31,550	—	—
Litigation expense	—	—	21,837
Impairment charges (Total other-than-temporary impairment charges, $(916) less gain of $(123), $(1,003) less loss of $26, and $(19,070) less loss of $10,654, included in other comprehensive income)	1,039	977	8,416
Other	60,703	68,174	65,044
Total non-interest expense	315,372	316,774	339,725
Income before income taxes	158,400	191,227	200,980
Provision for income taxes	50,565	64,078	70,957
Net income	$ 107,835	$ 127,149	$ 130,023
Preferred stock dividends and discount accretion	14,362	13,280	13,126
Net income available to common shareholders	$ 93,473	$ 113,869	$ 116,897
Basic earnings per common share:			
Weighted average number of shares outstanding	67,236,681	67,506,554	67,921,353
Net income	$ 1.39	$ 1.69	$ 1.72
Fully diluted earnings per common share:			
Weighted average number of shares outstanding	67,313,963	67,569,468	68,004,441
Net income	$ 1.39	$ 1.69	$ 1.72

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2012, 2011, and 2010

(Dollars in Thousands)

	2012	2011	2010
Net income	$107,835	$127,149	$130,023
Other comprehensive income (loss), net of tax:			
Net unrealized holding gains (losses) on securities available for sale arising during period (net of tax effects of $2,701, $35,960, and $(11,300))	5,018	66,782	(20,985)
Reclassification adjustment for gains on securities available for sale included in net income (net of tax effects of $(13,456), $(6,050), and $(11,623))	(24,990)	(11,235)	(21,586)
Reclassification adjustment for impairment charges on available for sale securities included in net income (net of tax effects of $364, $342, and $2,946)	675	635	5,470
	(19,297)	56,182	(37,101)
Comprehensive income	$ 88,538	$183,331	$ 92,922

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2012, 2011 and 2010

(in Thousands)

	Preferred Stock	Number of Shares	Common Stock	Surplus	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2009	$ 205,742	95,711	$95,711	$161,258	$1,122,290	$ 65,878	$(243,409)	$1,407,470
Net Income	—	—	—	—	130,023	—	—	130,023
Dividends:								
Cash ($.36 per share)	—	—	—	—	(24,444)	—	—	(24,444)
Preferred stock (5%) including discount accretion	2,326	—	—	—	(13,126)	—	—	(10,800)
Purchase of treasury (408,888 shares)	—	—	—	—	—	—	(6,949)	(6,949)
Exercise of stock options	—	—	—	484	—	—	—	484
Stock compensation expense recognized in earnings	—	—	—	534	—	—	—	534
Other comprehensive income, net of tax:								
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustment	—	—	—	—	—	(37,101)	—	(37,101)
Balance at December 31, 2010	208,068	95,711	95,711	162,276	1,214,743	28,777	(250,358)	1,459,217
Net Income	—	—	—	—	127,149	—	—	127,149
Dividends:								
Cash ($.38 per share)	—	—	—	—	(25,648)	—	—	(25,648)
Preferred stock (5%) including discount accretion	2,480	—	—	—	(13,280)	—	—	(10,800)
Purchase of treasury stock (425,655 shares)	—	—	—	—	—	—	(6,435)	(6,435)
Exercise of stock options	—	9	9	104	—	—	—	113
Stock compensation expense recognized in earnings	—	—	—	387	—	—	—	387
Other comprehensive income, net of tax:								
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustment	—	—	—	—	—	56,182	—	56,182
Balance at December 31, 2011	210,548	95,720	95,720	162,767	1,302,964	84,959	(256,793)	1,600,165
Net Income	—	—	—	—	107,835	—	—	107,835
Dividends:								
Cash ($.40 per share)	—	—	—	—	(26,894)	—	—	(26,894)
Preferred stock (5%) including discount accretion	5,452	—	—	—	(14,362)	—	—	(8,910)
Redemption of Series A Preferred Shares (216,000 shares)	(216,000)	—	—	—	—	—	—	(216,000)
Purchase of treasury stock (95,466 shares)	—	—	—	—	—	—	(1,716)	(1,716)
Exercise of stock options	—	5	5	46	—	—	—	51
Stock compensation expense recognized in earnings	—	—	—	474	—	—	—	474
Other comprehensive loss, net of tax:								
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments	—	—	—	—	—	(19,297)	—	(19,297)
Balance at December 31, 2012	$ —	95,725	$95,725	$163,287	$1,369,543	$ 65,662	$(258,509)	$1,435,708

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012, 2011 and 2010

(Dollars in Thousands)

	2012	2011	2010
Operating activities:			
Net income	$ 107,835	$ 127,149	$ 130,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for probable loan losses	27,959	17,318	22,812
Specific reserve, other real estate owned	1,776	9,806	657
Accretion of time deposit discounts	—	(11)	(14)
Depreciation of bank premises and equipment	26,756	34,935	35,395
Gain on sale of bank premises and equipment	(538)	(361)	(22)
Loss (gain) on sale of other real estate owned	488	(738)	(266)
Accretion of investment securities discounts	(3,195)	(2,081)	(1,693)
Amortization of investment securities premiums	30,501	18,362	13,211
Investment securities transactions, net	(38,446)	(17,285)	(33,209)
Impairment charges on available for sale securities	1,039	977	8,416
Accretion of junior subordinated debenture discounts	—	9	35
Amortization of identified intangible assets	4,651	5,293	5,284
Stock based compensation expense	474	387	534
Earnings from affiliates and other investments	(9,892)	(11,633)	(15,023)
Deferred tax expense (benefit)	7,923	(2,299)	(3,532)
Decrease in accrued interest receivable	968	3,658	6,071
(Increase) decrease in other assets	(5,392)	2,303	7,824
Increase (decrease) in other liabilities	7,106	(4,966)	1,652
Net cash provided by operating activities	160,013	180,823	178,155
Investing activities:			
Proceeds from maturities of securities	1,125	1,425	4,423
Proceeds from sales and calls of available for sale securities	1,382,231	1,102,849	1,149,021
Purchases of available for sale securities	(3,081,034)	(2,231,330)	(2,666,596)
Principal collected on mortgage backed securities	1,294,197	999,419	1,085,817
Net decrease in loans	170,072	306,915	164,241
Purchases of other investments	(4,228)	(11,941)	(7,438)
(Contributions) distributions from other investments	(7,410)	33,320	20,910
Purchases of bank premises and equipment	(62,030)	(20,393)	(15,953)
Proceeds from sales of bank premises and equipment	7,575	1,719	2,005
Proceeds from sales of other real estate owned	38,766	25,324	8,362
Purchase of identified intangible asset	(280)	(174)	(235)
Net cash (used in) provided by investing activities	(261,016)	207,133	(255,443)

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2012, 2011 and 2011

(Dollars in Thousands)

	2012	2011	2010
Financing activities:			
Net increase in non-interest bearing demand deposits	$ 538,732	$ 287,942	$ 122,277
Net increase in savings and interest bearing demand deposits	159,458	184,851	260,290
Net (decrease) increase in time deposits	(357,069)	(126,248)	38,998
Net decrease in securities sold under repurchase agreements	(218,950)	(84,641)	(8,547)
Other borrowed funds, net	254,866	(532,619)	(320,845)
Repayment of long-term debt	—	(10,400)	—
Purchase of treasury stock	(1,716)	(6,435)	(6,949)
Redemption of Series A preferred shares	(216,000)	—	—
Proceeds from stock transactions	51	113	484
Payments of cash dividends—common	(26,894)	(25,648)	(24,444)
Payments of cash dividends—preferred	(10,260)	(10,800)	(10,800)
Net cash provided by (used in) financing activities	122,218	(323,885)	50,464
Increase (decrease) in cash and cash equivalents	21,215	64,071	(26,824)
Cash and cash equivalents at beginning of year	261,885	197,814	224,638
Cash and cash equivalents at end of year	$ 283,100	$ 261,885	$ 197,814
Supplemental cash flow information:			
Interest paid	$ 77,431	$ 97,699	$ 116,037
Income taxes paid	36,303	60,922	78,435
Non-cash investing and financing activities:			
Purchases of available-for-sale securities not yet settled	—	72,538	160,216
Net transfers from loans to other real estate owned	54,441	32,005	59,429
Accrued dividends, preferred shares	—	1,350	1,350

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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 following is a description of the more significant of those policies.

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned bank 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. and IBC Capital Corporation. All significant inter-company balances and transactions have been eliminated in consolidation.

The Company, through its subsidiaries, is primarily engaged in the business of banking, including the acceptance of checking and savings deposits and the making of commercial, real estate, personal, home improvement, automobile and other installment and term loans. The primary markets of the Company are South, Central, and Southeast Texas and the state of Oklahoma. Each bank subsidiary is very active in facilitating international trade along the United States border with Mexico and elsewhere. Although the Company's loan portfolio is diversified, the ability of the Company's debtors to honor their contracts is primarily dependent upon the economic conditions in the Company's trade area. In addition, the investment portfolio is directly impacted by fluctuations in market interest rates. The Company and its bank subsidiaries are subject to the regulations of certain Federal agencies as well as the Texas Department of Banking and undergo periodic examinations by those regulatory authorities. Such agencies may require certain standards or impose certain limitations based on their judgments or changes in law and regulations.

The Company owns two insurance-related subsidiaries, IBC Life Insurance Company and IBC Insurance Agency, Inc., a wholly owned subsidiary of IBC, the bank subsidiary. Neither of the insurance-related subsidiaries conducts underwriting activities. The IBC Life Insurance Company is in the business of reinsuring credit life and credit accident and health insurance. The business is assumed from an unaffiliated insurer and the only business written is generated by the bank subsidiaries of the Company. The risk assumed on each of the policies is not significant to the consolidated financial statements.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the statement of condition and income and expenses for the periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for probable loan losses.

Subsequent Events

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.

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities

The Company classifies debt and equity securities into one of these categories: held-to-maturity, available-for-sale, or trading. Such classifications are reassessed for appropriate classification at each reporting date. Securities that are intended and expected to be held until maturity are classified as "held-to-maturity" and are carried at amortized cost for financial statement reporting. Securities that are not positively expected to be held until maturity, but are intended to be held for an indefinite period of time are classified as "available-for-sale" or "trading" and 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 and in shareholders' equity as accumulated other comprehensive income until realized. The Company did not maintain any trading securities during the three year period ended December 31, 2012.

Mortgage-backed securities held at December 31, 2012 and 2011 represent participating interests in pools of long-term first mortgage loans originated and serviced by the issuers of the securities. Mortgage-backed securities are either issued or guaranteed by the U.S. Government or its agencies including the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Federal National Mortgage Association ("Fannie Mae"), the Government National Mortgage Association ("Ginnie Mae") or other non-government entities. 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 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. Market interest rate fluctuations can affect the prepayment speed of principal and the yield on the security.

Premiums and discounts are amortized using the level yield or "interest method" over the terms of the securities. Declines in the fair value of held-to-maturity and available-for sale-securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to hold and the determination of whether the Company will more likely than not be required to sell the security prior to a recovery in fair value. If the Company determines that (1) it intends to sell the security or (2) it is more likely than not that it will be required to sell the security before it's anticipated recovery, the other-than-temporary impairment that is recognized in earnings is equal to the difference between the fair value of the security and the Company's amortized cost in the security. If the Company determines that it (1) does not intend to sell the security and (2) it will not be more likely than not required to sell the security before it's anticipated recovery, the other-than-temporary impairment is segregated into its two components (1) the amount of impairment related to credit loss and (2) the amount of impairment related to other factors. The difference between the present value of the cash flows expected to be collected and the amortized cost is the credit loss recognized through earnings and an adjustment to the cost basis of the security. The amount of impairment related to other factors is included in other comprehensive income (loss). Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(1) Summary of Significant Accounting Policies (Continued)

Provision and Allowance for Probable Loan Losses

The allowance for probable loan losses is maintained at a level considered adequate by management to provide for probable loan losses. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The provision for probable loan losses is the amount, which, in the judgment of management, is necessary to establish the allowance for probable loan losses at a level that is adequate to absorb known and inherent risks in the loan portfolio.

Management believes that the allowance for probable loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's bank subsidiaries' allowances for probable loan losses. Such agencies may require the Company's bank subsidiaries to make additions or reductions to their U.S. generally accepted accounting principles ("GAAP") allowances based on their judgments of information available to them at the time of their examination.

Loans

Loans are reported at the principal balance outstanding, net of unearned discounts. Interest income on loans is reported on an accrual basis. Loan fees and costs associated with originating the loans are amortized over the life of the loan using the interest method. The Company originates mortgage loans that may subsequently be sold to an unaffiliated third party. The loans are not securitized and if sold, are sold without recourse. Loans held for sale are carried at cost and the principal amount outstanding is not significant to the consolidated financial statements.

Impaired Loans

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. 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.

Non-Accrual Loans

The non-accrual loan policy of the Company's bank subsidiaries is to discontinue the accrual of interest on loans when management determines that it is probable that future interest accruals will be un-collectible. As it relates to consumer loans, management charges off those loans when the loan is contractually 90 days past due. Under special circumstances, a consumer or non-consumer loan may be more than 90 days delinquent as to interest or principal and not be placed on non-accrual status. This situation generally results when a bank subsidiary has a borrower who is experiencing financial difficulties, but not to the extent that requires a restructuring of indebtedness. The majority of this category is composed of loans that are considered to be adequately secured and/or for which there are expected future payments. When a loan is placed on non-accrual status, any interest accrued, not paid is reversed and charged to operations against interest income. As it relates to non-consumer loans that are not 90 days past due, management will evaluate each of these loans to determine if placing the loan on non-accrual status is

(1) Summary of Significant Accounting Policies (Continued)

warranted. Interest income on non-accrual loans is recognized only to the extent payments are received or when, in management's opinion, the debtor's financial condition warrants reestablishment of interest accruals.

Other Real Estate Owned

Other real estate owned is comprised of real estate acquired by foreclosure and deeds in lieu of foreclosure. Other real estate 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). 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 loan probable losses, if necessary. Any subsequent write-downs are charged against other non-interest expense. Other real estate owned totaled $100,106,000 and $86,626,000 at December 31, 2012 and 2011, respectively. Other real estate owned is included in other assets.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on straight-line and accelerated methods over the estimated useful lives of the assets. Repairs and maintenance are charged to operations as incurred and expenditures for renewals and betterments are capitalized.

Other Investments

Other investments include equity investments in non-financial companies, bank owned life insurance, as well as equity securities with no readily determinable fair market value. Equity investments are accounted for using the equity method of accounting. Equity securities with no readily determinable fair value are accounted for using the cost method.

Income Taxes

Deferred income tax assets and liabilities are determined using the asset and liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Company files a consolidated federal income tax return with its subsidiaries.

Recognition of deferred tax assets is based on management's assessment that the benefit related to certain temporary differences, tax operating loss carry forwards, and tax credits are more likely than not to be realized. A valuation allowance is recorded for the amount of the deferred tax items for which it is more likely than not that the tax benefits will not be realized.

The Company evaluates uncertain tax positions at the end of each reporting period. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from any such a position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of December 31, 2012 and 2011, respectively, after evaluating all uncertain tax positions, the

(1) Summary of Significant Accounting Policies (Continued)

Company has recorded no liability for unrecognized tax benefits at the end of the reporting period. The Company would recognize any interest accrued on unrecognized tax benefits as other interest expense and penalties as other non-interest expense. During the years ended December 31, 2012, 2011 and 2010, the Company recognized no interest expense or penalties related to uncertain tax positions.

The Company files consolidated tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2009.

Stock Options

Compensation expense for stock awards is based on the market price of the stock on the measurement date, which is generally the date of grant, and is recognized ratably over the service period of the award. The fair value of stock options granted was estimated, using the Black-Sholes-Merton option-pricing model. This model was developed for use in estimating the fair value of publicly traded options that have no vesting restrictions and are fully transferable. Additionally, the model requires the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of publicly traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the Black-Scholes-Merton option-pricing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Net Income Per Share

Basic Earnings Per Share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding. The computation of diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The dilutive effect of stock options is considered in earnings per share calculations, if dilutive, using the treasury stock method.

Goodwill and Identified Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill is tested for impairment at least annually or on an interim basis if an event triggering impairment may have occurred. As of October 1, 2012, after completing goodwill testing, the Company has determined that no goodwill impairment exists.

Identified intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The Company's identified intangible assets relate to core deposits and contract rights. As of December 31, 2012, the Company has determined that no impairment of identified intangibles exists. Identified intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. See Note 6— Goodwill and Other Intangible Assets.

(1) Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying value of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of condition and reported at the lower of the carrying value or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of condition.

Consolidated Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Company considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Also, the Company reports transactions related to deposits and loans to customers on a net basis.

Accounting for Transfers and Servicing of Financial Assets

The Company accounts for transfers and servicing of financial assets and extinguishments of liabilities based on the application of a financial-components approach that focuses on control. After a transfer of financial assets, the Company recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished. The Company has retained mortgage servicing rights in connection with the sale of mortgage loans. Because the Company may not initially identify loans as originated for resale, all loans are initially treated as held for investment. The value of the mortgage servicing rights are reviewed periodically for impairment and are amortized in proportion to, and over the period of estimated net servicing income or net servicing losses. The value of the mortgage servicing rights is not significant to the consolidated statements of condition.

Segments of an Enterprise and Related Information

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 financial 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.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale.

(1) Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred.

Reclassifications

Certain amounts in the prior year's presentations have been reclassified to conform to the current presentation. These reclassifications had no effect on previously reported net income or total assets.

New Accounting Standards

In April 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-02, to ASC 310, "Receivables." The update clarifies which loan modifications are troubled debt restructurings and provides additional guidance to help creditors determine whether a modification of a loan meets the criteria to be considered a troubled debt restructuring. For modifications that are troubled debt restructurings, the update requires that a creditor separately conclude that (i) the restructuring constitutes a concession, and (ii) the debtor is experiencing financial difficulties. The update became effective for the first interim or annual period beginning on or after June 15, 2011 and was applied retrospectively for the 2011 annual reporting period. The adoption of the update did not have a significant impact on the Company's consolidated financial statements.

In April 2011, the Financial Accounting Standards Board issued Accounting Standards Update No 2011-03, to ASC 860, "Transfers and Servicing." The update is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The update removes the following from the assessment of effective control included in existing literature (i) the criteria requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criteria. The update is effective for the first interim or annual period beginning on or after December 15, 2011 and is to be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of the update to existing standards did not have a significant impact to the Company's consolidated financial statements.

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-04, to ASC 820, "Fair Value Measurement." The update is intended to converge the fair value measurement guidance in U.S. GAAP with International Financial Reporting Standards. The update clarifies the application of existing fair value measurement requirements, changes certain principles in existing guidance and requires additional fair value disclosures. The update is effective for interim and annual periods beginning after December 15, 2011. The provisions of the update are to be applied prospectively and early adoption is not permitted. The adoption of the update to existing standards did not have a significant impact to the Company's consolidated financial statements.

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, to ASC 220, "Comprehensive Income." The update is an amendment to existing literature and requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate, but consecutive statements. The update also requires entities to present, on the face of the financial statement, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where

(1) Summary of Significant Accounting Policies (Continued)

the components of that net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of the update to existing standards did not have a significant impact to the Company's consolidated financial statements.

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-08 to ASC 350, "Intangibles—Goodwill and Other." The update amends existing literature to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two step impairment test is unnecessary. If an entity concludes otherwise, then it is required to perform the first step of the two step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. The update was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the update to existing standards did not have a significant impact to the Company's consolidated financial statements.

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-12 to ASC 220, "Comprehensive Income." The update defers the effective date for amendments to the presentation of reclassifications of items out of other accumulated comprehensive income, as required by Accounting Standards Update No. 2011-05. The deferment is intended to allow the Financial Accounting Standards Board adequate time to re-deliberate the proposed changes to present on the face of the financial statements the effects of reclassifications out of accumulated comprehensive income on the components of net income and other comprehensive income for all periods presented.

In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-02 to ASC 350, "Intangibles, Goodwill and Other: Testing Goodwill for Impairment." The update amends existing literature to allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test of indefinite-lived intangible assets. If after assessing the qualitative factors, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test, similar to the goodwill impairment testing guidance included in ASC Update No. 2011-08. The update is effective for annual periods beginning after January 1, 2012, with early adoption permitted. The adoption of the update to existing standards is not expected to have a significant impact to the Company's consolidated financial statements.

(2) Investment Securities

The amortized cost and estimated fair value by type of investment security at December 31, 2012 are as follows:

	Held to Maturity				
	Amortized cost	Gross unrealized gains	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

	Available for Sale				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Carrying value(1)
	(Dollars in Thousands)				
Residential mortgage-backed securities	$5,186,652	$ 94,585	$(16,033)	$5,265,204	$5,265,204
Obligations of states and political subdivisions	216,962	23,504	(1,791)	238,675	238,675
Equity securities	19,575	1,581	(20)	21,136	21,136
Total investment securities	$5,423,189	$119,670	$(17,844)	$5,525,015	$5,525,015

(1) Included in the carrying value of residential mortgage-backed securities are $2,035,742 of mortgage-backed securities issued by Ginnie Mae, $3,196,602 of mortgage-backed securities issued by Fannie Mae and Freddie Mac and $32,860 issued by non-government entities

The amortized cost and estimated fair value of investment securities at December 31, 2012, 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.

	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	$1,200	$1,200	$ —	$ —
Due after one year through five years	1,200	1,200	—	—
Due after five years through ten years	—	—	674	765
Due after ten years	—	—	216,288	237,910
Residential mortgage-backed securities	—	—	5,186,652	5,265,204
Equity securities	—	—	19,575	21,136
Total investment securities	$2,400	$2,400	$5,423,189	$5,525,015

(2) Investment Securities (Continued)

The amortized cost and estimated fair value by type of investment security at December 31, 2011 are as follows:

	Held to Maturity				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Carrying value
	(Dollars in Thousands)				
Other securities	$2,450	$—	$—	$2,450	$2,450
Total investment securities	$2,450	$—	$—	$2,450	$2,450

	Available for Sale				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Carrying value(1)
	(Dollars in Thousands)				
Residential mortgage-backed securities	$4,851,747	$128,196	$(10,680)	$4,969,263	$4,969,263
Obligations of states and political subdivisions	211,523	14,449	(1,211)	224,761	224,761
Equity securities	18,825	1,115	(49)	19,891	19,891
Total investment securities	$5,082,095	$143,760	$(11,940)	$5,213,915	$5,213,915

(1) Included in the carrying value of residential mortgage-backed securities are $3,008,935 of mortgage-backed securities issued by Ginnie Mae, $1,920,723 of mortgage-backed securities issued by Fannie Mae and Freddie Mac and $39,605 issued by non-government entities

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 $2,323,648,000 and $2,393,435,000, respectively, at December 31, 2012.

Proceeds from the sale and call of securities available-for-sale were $1,382,231,000, $1,102,849,000 and $1,149,021,000 during 2012, 2011 and 2010, respectively, which amounts included $1,338,723,000, $1,095,815,000 and $1,133,610,000 of mortgage-backed securities. Gross gains of $38,447,000, $17,318,000 and $33,223,000 and gross losses of $1,000, $33,000 and $14,000 were realized on the sales in 2012, 2011 and 2010, respectively.

(2) Investment Securities (Continued)

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, 2012 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	$738,492	$(5,476)	$32,860	$(10,557)	$771,352	$(16,033)
Obligations of states and political subdivisions	5,117	(114)	10,437	(1,677)	15,554	(1,791)
Equity securities	—	—	56	(20)	56	(20)
	$743,609	$(5,590)	$43,353	$(12,254)	$786,962	$(17,844)

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 loss position, at December 31, 2011 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	$ —	$ —	$39,605	$(10,680)	$39,605	$(10,680)
Obligations of states and political subdivisions	9,531	(315)	3,398	(896)	12,929	(1,211)
Equity securities	3,485	(16)	42	(33)	3,527	(49)
	$13,016	$(331)	$43,045	$(11,609)	$56,061	$(11,940)

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

(2) Investment Securities (Continued)

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 strong credit backgrounds and include additional credit enhancements to protect the Company from losses arising from high foreclosure rates. These securities have additional market volatility beyond economically induced interest rate events. It is the conclusion of the Company that the investments in non-agency residential mortgage-backed securities are other-than-temporarily impaired due to both credit and other than credit issues. An impairment charge of $1,039,000 ($675,000, after tax), was recorded in 2012 on the non-agency residential mortgage backed securities. Impairment charges of $977,000 ($635,000, after tax) and $8,416,000 ($5,470,000, after tax) were recorded in 2011 and 2010, respectively on the non-agency residential mortgage backed securities. The impairment charges represent 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 twelve months ended December 31, 2012 (in Thousands):

Balance at December 31, 2011	$ 9,393
Impairment charges recognized during period	1,039
Balance at December 31, 2012	$10,432

The following table presents a reconciliation of credit-related impairment charges on available-for-sale investments recognized in earnings for the twelve months ended December 31, 2011 (in Thousands):

Balance at December 31, 2010	$8,416
Impairment charges recognized during period	977
Balance at December 31, 2011	$9,393

The following table presents a reconciliation of credit-related impairment charges on available-for-sale investments recognized in earnings for the twelve months ended December 31, 2010 (in Thousands):

Balance at December 31, 2009	$ —
Impairment charges recognized during period	8,416
Balance at December 31, 2010	$8,416

(3) Loans

A summary of loans, by loan type at December 31, 2012 and 2011 is as follows:

	December 31,	
	2012	2011
	(Dollars in thousands)	
Commercial, financial and agricultural	$2,525,380	$2,560,102
Real estate—mortgage	838,467	895,870
Real estate—construction	1,147,669	1,273,389
Consumer	74,514	94,109
Foreign	188,974	230,005
Total loans	$4,775,004	$5,053,475

(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 the customer operates in, (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 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 loss. 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 specific loan loss provision is determined using the following methods. On a weekly basis, loan past due reports are reviewed by the servicing loan officer 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 regardless of whether they are past due and segregates any loans with potential problems for further review. The credit department will

(4) Allowance for Probable Loan Losses (Continued)

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.

While the Texas and Oklahoma economies are performing better than other parts of the country, Texas and Oklahoma are not completely immune to the problems associated with the U.S. economy. The increase in income and capital gains taxes on certain individuals, the increase in payroll taxes, and the unprecedented debt and deficit of the United States not yet resolved, adds uncertainty to the possibility of robust economic growth and may create a slowdown in the economy. Thus, the risk of loss associated with all segments of the loan portfolio in these markets continues to be impacted by the prolonged economic weakness. The downturn in the economy and other risk factors are minimized by the underwriting standards of the bank subsidiaries. The general underwriting standards encompass the following principles: (i) the financial strength of the borrower including strong earnings, a high net worth, significant liquidity and an acceptable debt to worth ratio, (ii) managerial and business competence, (iii) the ability to repay, (iv) for a new business, projected cash flows, (v) loan to value, (vi) in the case of a secondary guarantor, a guarantor financial statement, and (vii) financial and/or other character references. Although the underwriting standards reduce the risk of loss, unique risk factors exist in each type of loan that the bank subsidiaries invest.

Commercial and industrial loans are mostly secured by the collateral pledged by the borrower that are directly related to the business activities of the company such as accounts receivable and inventory. The ability of the borrower to collect accounts receivable, and to turn inventory into sales are risk factors in the repayment of the loan.

Construction and land development loans can carry risk of repayment when projects incur cost overruns, have an increase in the price of building materials, encounter zoning and environmental issues, or encounter other factors that may affect the completion of a project on time and on budget. Additionally, repayment risk may be negatively impacted when the market experiences a deterioration in the value of real estate. Risks specifically related to 1-4 family development loans also include the practice by the mortgage industry of more restrictive underwriting standards, which inhibits the buyer from obtaining long term financing and excessive housing and lot inventory in the market.

Commercial real estate loans demonstrate a risk of repayment when market values deteriorate, the business experiences turnover in key management, the business has an inability to attract or keep occupancy levels stable, or when the market experiences an exit of a specific business industry that is significant to the local economy, such as a manufacturing plant.

First and second lien residential 1-4 family mortgage and consumer loan repayments may be affected by unemployment or underemployment and deteriorating market values of real estate.

(4) Allowance for Probable Loan Losses (Continued)

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

	December 31, 2012								
	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	Foreign	Total
	(Dollars in Thousands)								
Balance at December 31,	$ 26,617	$19,940	$ 24,227	$1,003	$4,562	$ 4,760	$1,724	$1,359	$ 84,192
Losses charge to allowance	(34,721)	(7,617)	(13,724)	—	(227)	(1,190)	(756)	(111)	(58,346)
Recoveries credited to allowance	3,547	229	220	—	13	195	184	—	4,388
Net losses charged to allowance	(31,174)	(7,388)	(13,504)	—	(214)	(995)	(572)	(111)	(53,958)
Provision (credit) charged to operations	16,189	168	11,157	(309)	42	683	137	(108)	27,959
Balance at December 31,	$ 11,632	$12,720	$ 21,880	$ 694	$4,390	$ 4,448	$1,289	$1,140	$ 58,193

	December 31, 2011								
	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	Foreign	Total
	(Dollars in Thousands)								
Balance at December 31,	$ 22,046	$26,695	$16,340	$ 53	$10,059	$ 2,611	$ 6,241	$ 437	$ 84,482
Losses charge to allowance	(16,130)	(1,467)	(1,955)	—	(805)	(1,304)	(1,067)	(171)	(22,899)
Recoveries credited to allowance	4,126	171	296	—	28	300	211	159	5,291
Net losses charged to allowance	(12,004)	(1,296)	(1,659)	—	(777)	(1,004)	(856)	(12)	(17,608)
Provision (credit) charged to operations	16,575	(5,459)	9,546	950	(4,720)	3,153	(3,661)	934	17,318
Balance at December 31,	$ 26,617	$19,940	$24,227	$1,003	$ 4,562	$ 4,760	$ 1,724	$1,359	$ 84,192

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 Company's allowance for probable loan losses decreased for the year ended December 31, 2012 mainly due to the continued workout of impaired loans previously identified by the Company.

(4) Allowance for Probable Loan Losses (Continued)

The table below provides additional information on the balance of loans individually or collectively evaluated for impairment and their related allowance, by loan class:

	December 31, 2012 (Dollars in Thousands)			
	Loans individually evaluated for impairment		Loans collectively evaluated for impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	$32,768	$1,477	$ 736,342	$10,155
Commercial real estate: other construction & land development	28,660	539	1,119,009	12,181
Commercial real estate: farmland & commercial	13,945	2,730	1,659,377	19,150
Commercial real estate: multifamily	353	—	82,595	694
Residential: first lien	3,656	—	453,075	4,390
Residential: junior lien	1,850	—	379,886	4,448
Consumer	1,326	—	73,188	1,289
Foreign	447	—	188,527	1,140
Total	$83,005	$4,746	$4,691,999	$53,447

	December 31, 2011 (Dollars in Thousands)			
	Loans individually evaluated for impairment		Loans collectively evaluated for impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	$ 27,603	$14,402	$ 746,213	$12,215
Commercial real estate: other construction & land development	60,428	3,073	1,212,961	16,867
Commercial real estate: farmland & commercial	42,231	9,754	1,622,456	14,473
Commercial real estate: multifamily	411	—	121,188	1,003
Residential: first lien	2,290	23	493,432	4,539
Residential: junior lien	1,962	—	398,186	4,760
Consumer	1,334	—	92,775	1,724
Foreign	46	—	229,959	1,359
Total	$136,305	$27,252	$4,917,170	$56,940

Loans accounted for on a non-accrual basis at December 31, 2012, 2011 and 2010 amounted to $71,768,000, $118,505,000 and $108,030,000, respectively. The effect of such non-accrual loans reduced interest income by $2,549,000, $4,114,000 and $3,750,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Amounts received on non-accruals are applied, for financial accounting purposes, first to principal and then to interest after all principal has been collected. Accruing loans contractually past due 90 days or more as to principal or interest payments at December 31, 2012, 2011 and 2010 amounted to $15,033,000, $14,288,000 and $19,848,000, respectively.

(4) Allowance for Probable Loan Losses (Continued)

The table below provides additional information on loans accounted for on a non-accrual basis by loan class:

	December 31, 2012	December 31, 2011
	(Dollars in Thousands)	
Domestic		
Commercial	$31,929	$ 26,819
Commercial real estate: other construction & land development	26,410	54,336
Commercial real estate: farmland & commercial	11,681	34,910
Commercial real estate: multifamily	353	411
Residential: first lien	1,175	1,848
Residential: junior lien	175	135
Consumer	45	46
Total non-accrual loans	$71,768	$118,505

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 for the year ended December 31, 2012:

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)				
Loans with Related Allowance					
Domestic					
Commercial	$ 1,633	$ 1,679	$1,477	$21,126	$ 39
Commercial real estate: other construction & land development	3,671	3,671	539	6,608	—
Commercial real estate: farmland & commercial	6,678	9,923	2,730	7,342	92
Total impaired loans with related allowance	$11,982	$15,273	$4,746	$35,076	$131

(4) Allowance for Probable Loan Losses (Continued)

	December 31, 2012			
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)			
Loans with No Related Allowance				
Domestic				
Commercial	$31,135	$31,170	$ 2,996	$ 4
Commercial real estate: other construction & land development	24,989	25,160	39,449	141
Commercial real estate: farmland & commercial	7,267	9,340	16,536	8
Commercial real estate: multifamily	353	353	381	—
Residential: first lien	3,656	3,984	2,876	60
Residential: junior lien	1,850	1,944	1,939	104
Consumer	1,326	1,330	1,193	—
Foreign	447	447	166	6
Total impaired loans with no related allowance	$71,023	$73,728	$65,536	$323

The following tables detail key information regarding the Company's impaired loans by loan class for the year ended December 31, 2011:

	December 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)				
Loans with Related Allowance					
Domestic					
Commercial	$24,108	$24,108	$14,402	$23,101	$ 41
Commercial real estate: other construction & land development	34,417	34,432	3,073	32,408	—
Commercial real estate: farmland & commercial	28,636	28,671	9,754	23,226	817
Residential: first lien	208	208	23	1,117	—
Total impaired loans with related allowance	$87,369	$87,419	$27,252	$79,852	$858

(4) Allowance for Probable Loan Losses (Continued)

	December 31, 2011			
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)			
Loans with No Related Allowance				
Domestic				
Commercial	$ 3,495	$ 3,500	$ 685	$ —
Commercial real estate: other construction & land development	26,011	26,042	25,696	117
Commercial real estate: farmland & commercial	13,595	14,129	9,268	102
Commercial real estate: multifamily	411	411	439	—
Residential: first lien	2,082	2,116	1,636	27
Residential: junior lien	1,962	1,970	1,956	122
Consumer	1,334	1,337	1,239	—
Foreign	46	46	47	4
Total impaired loans with no related allowance	$48,936	$49,551	$40,966	$372

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. It is also important to note that even though the economic conditions in Texas and Oklahoma are weakened, we believe these markets are improving and better positioned to recover than many other areas of the country.

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.

(4) Allowance for Probable Loan Losses (Continued)

The following table presents information regarding the aging of past due loans by loan class:

	December 31, 2012						
	30 - 59 Days	60 - 89 Days	90 Days or Greater	90 Days or greater & still accruing	Total Past due	Current	Total Portfolio
	(Dollars in Thousands)						
Domestic							
Commercial	$ 4,393	$ 471	$ 3,386	$ 2,689	$ 8,250	$ 760,860	$ 769,110
Commercial real estate: other construction & land development	1,107	2,300	24,225	497	27,632	1,120,037	1,147,669
Commercial real estate: farmland & commercial	3,127	21,272	2,310	929	26,709	1,646,613	1,673,322
Commercial real estate: multifamily	685	—	353	—	1,038	81,910	82,948
Residential: first lien	4,305	2,510	10,645	9,657	17,460	439,271	456,731
Residential: junior lien	2,035	410	259	115	2,704	379,032	381,736
Consumer	1,598	404	915	882	2,917	71,597	74,514
Foreign	2,257	1,005	264	264	3,526	185,448	188,974
Total past due loans	$19,507	$28,372	$42,357	$15,033	$90,236	$4,684,768	$4,775,004

	December 31, 2011						
	30 - 59 Days	60 - 89 Days	90 Days or Greater	90 Days or greater & still accruing	Total Past due	Current	Total Portfolio
	(Dollars in Thousands)						
Domestic							
Commercial	$ 5,180	$ 1,369	$ 1,842	$ 1,490	$ 8,391	$ 765,425	$ 773,816
Commercial real estate: other construction & land development	23,426	4,360	49,887	979	77,673	1,195,716	1,273,389
Commercial real estate: farmland & commercial	9,467	10,269	7,879	1,231	27,615	1,637,072	1,664,687
Commercial real estate: multifamily	450	—	411	—	861	120,738	121,599
Residential: first lien	6,207	2,757	10,295	9,382	19,259	476,463	495,722
Residential: junior lien	1,433	378	368	320	2,179	397,969	400,148
Consumer	1,643	408	912	866	2,963	91,146	94,109
Foreign	666	53	20	20	739	229,266	230,005
Total past due loans	$48,472	$19,594	$71,614	$14,288	$139,680	$4,913,795	$5,053,475

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

(4) Allowance for Probable Loan Losses (Continued)

placed in the "Special Review Credits" category reflect the Company's opinion that the loans reflect potential weakness which require 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 bank if such weaknesses are not corrected. For loans that are classified as impaired, management evaluates these credits under 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 (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 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.

(4) Allowance for Probable Loan Losses (Continued)

A summary of the loan portfolio by credit quality indicator by loan class is as follows:

	December 31, 2012				
	Pass	Special Review	Watch List—Pass	Watch List—Substandard	Watch List—Impaired
	(Dollars in Thousands)				
Domestic					
Commercial	$ 675,263	$ 4,278	$16,535	$40,266	$32,768
Commercial real estate: other construction & land development	1,038,749	55,079	2,614	22,567	28,660
Commercial real estate: farmland & commercial	1,486,572	109,144	46,316	17,345	13,945
Commercial real estate: multifamily	82,542	—	53	—	353
Residential: first lien	446,218	519	—	6,338	3,656
Residential: junior lien	378,000	77	309	1,500	1,850
Consumer	73,188	—	—	—	1,326
Foreign	188,499	—	28	—	447
Total	$4,369,031	$169,097	$65,855	$88,016	$83,005

	December 31, 2011				
	Pass	Special Review	Watch List—Pass	Watch List—Substandard	Watch List—Impaired
	(Dollars in Thousands)				
Domestic					
Commercial	$ 655,154	$ 5,279	$ 6,361	$ 79,419	$ 27,603
Commercial real estate: other construction & land development	1,058,843	76,722	11,083	66,313	60,428
Commercial real estate: farmland & commercial	1,449,822	83,581	40,510	48,543	42,231
Commercial real estate: multifamily	121,188	—	—	—	411
Residential: first lien	490,924	132	974	1,402	2,290
Residential: junior lien	397,861	—	319	6	1,962
Consumer	92,714	—	41	20	1,334
Foreign	229,898	—	61	—	46
Total	$4,496,404	$165,714	$59,349	$195,703	$136,305

(5) Bank Premises and Equipment

A summary of bank premises and equipment, by asset classification, at December 31, 2012 and 2011 were as follows:

	Estimated useful lives	2012	2011
		(Dollars in Thousands)	
Bank buildings and improvements	5 - 40 years	$ 433,942	$ 390,875
Furniture, equipment and vehicles	1 - 20 years	258,222	266,547
Land		128,695	124,694
Real estate held for future expansion:			
Land, building, furniture, fixture and equipment	7 - 27 years	562	614
Less: accumulated depreciation		(340,134)	(329,680)
Bank premises and equipment, net		$ 481,287	$ 453,050

(6) Goodwill and Other Intangible Assets

The majority of the Company's identified intangibles are in the form of amortizable core deposit premium, with the exception of $1,118,000, which represents identified intangibles in the acquisition of the rights to the insurance agency contracts of InsCorp, Inc., acquired in 2008. Information on the Company's identified intangible assets follows:

	Carrying Amount	Accumulated Amortization	Net
	(Dollars in Thousands)		
December 31, 2012:			
Core deposit premium	$58,675	$51,974	$ 6,701
Identified intangible (contract rights)	2,022	904	1,118
Total identified intangibles	$60,697	$52,878	$ 7,819
December 31, 2011:			
Core deposit premium	$58,675	$47,632	$11,043
Identified intangible (contract rights)	1,742	595	1,147
Total identified intangibles	$60,417	$48,227	$12,190

(6) Goodwill and Other Intangible Assets (Continued)

Amortization expense of intangible assets for the years ended December 31, 2012, 2011 and 2010, was $4,651,000, $5,293,000 and $5,284,000, respectively. Estimated amortization expense for each of the five succeeding fiscal years, and thereafter, is as follows:

Fiscal year ending December 31:

	Total
	(in thousands)
2013	$4,633
2014	2,389
2015	452
2016	295
2017	25
Thereafter	25
Total	$7,819

There were no changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011.

(7) Deposits

Deposits as of December 31, 2012 and 2011 and related interest expense for the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011
	(Dollars in Thousands)	
Deposits:		
Demand—non-interest bearing		
Domestic	$2,002,920	$1,717,286
Foreign	462,830	209,732
Total demand non-interest bearing	2,465,750	1,927,018
Savings and interest bearing demand		
Domestic	2,350,872	2,221,758
Foreign	516,279	485,935
Total savings and interest bearing demand	2,867,151	2,707,693
Time, certificates of deposit		
$100,000 or more		
Domestic	973,824	1,022,450
Foreign	1,025,089	1,244,018
Less than $100,000		
Domestic	601,766	664,111
Foreign	353,633	380,802
Total time, certificates of deposit	2,954,312	3,311,381
Total deposits	$8,287,213	$7,946,092

(7) Deposits (Continued)

	2012	2011	2010
	(Dollars in Thousands)		
Interest expense:			
Savings and interest bearing demand			
Domestic	$ 4,487	$ 6,549	$ 7,771
Foreign	801	1,234	1,612
Total savings and interest bearing demand	5,288	7,783	9,383
Time, certificates of deposit			
$100,000 or more			
Domestic	8,263	10,299	14,839
Foreign	9,148	11,512	17,084
Less than $100,000			
Domestic	4,945	7,468	11,416
Foreign	1,617	2,277	3,628
Total time, certificates of deposit	23,973	31,556	46,967
Total interest expense on deposits	$29,261	$39,339	$56,350

Scheduled maturities of time deposits as of December 31, 2012 were as follows:

	Total
	(in thousands)
2013	$2,623,178
2014	224,606
2015	72,214
2016	27,437
2017	6,478
Thereafter	399
Total	$2,954,312

Scheduled maturities of time deposits in amounts of $100,000 or more at December 31, 2012, were as follows:

Due within 3 months or less	$ 718,867
Due after 3 months and within 6 months	527,526
Due after 6 months and within 12 months	535,414
Due after 12 months	217,106
	$1,998,913

(8) Securities Sold Under Repurchase Agreements

The Company's bank subsidiaries have entered into repurchase agreements with an investment banking firm and individual customers of the bank subsidiaries. The purchasers have agreed to resell to the bank subsidiaries identical securities upon the maturities of the agreements. Securities sold under repurchase agreements were mortgage-backed book entry securities and averaged $1,276,831,000 and $1,415,769,000 during 2012 and 2011, respectively, and the maximum amount outstanding at any month end during 2012 and 2011 was $1,412,744,000 and $1,437,480,000, respectively.

Further information related to repurchase agreements at December 31, 2012 and 2011 is set forth in the following table:

	Collateral Securities		Repurchase Borrowing	
	Book Value of Securities Sold	Fair Value of Securities Sold	Balance of Liability	Weighted Average Interest Rate
	(Dollars in Thousands)			
December 31, 2012 term:				
Overnight agreements	$ 340,711	$ 350,933	$ 263,992	.28%
1 to 29 days	10,378	10,910	6,992	1.10
30 to 90 days	33,619	35,097	22,078	1.05
Over 90 days	1,033,957	1,062,897	836,617	3.73
Total	$1,418,665	$1,459,837	$1,129,679	2.85%
December 31, 2011 term:				
Overnight agreements	$ 377,620	$ 388,304	$ 245,026	.32%
1 to 29 days	13,772	14,227	10,263	1.13
30 to 90 days	45,512	48,177	30,095	1.12
Over 90 days	1,236,021	1,285,811	1,063,245	3.72
Total	$1,672,925	$1,736,519	$1,348,629	3.02%

The book value and fair value of securities sold includes the entire book value and fair value of securities partially or fully pledged under repurchase agreements.

(9) Other Borrowed Funds

Other borrowed funds include Federal Home Loan Bank borrowings, which are short and long-term fixed borrowings issued by the Federal Home Loan Bank of Dallas at the market price offered at the time of funding. These borrowings are secured by mortgage-backed investment securities and a portion of the Company's loan portfolio.

(9) Other Borrowed Funds (Continued)

Further information regarding the Company's other borrowed funds at December 31, 2012 and 2011 is set forth in the following table:

	December 31,	
	2012	2011
	(Dollars in Thousands)	
Federal Home Loan Bank advances—short-term		
Balance at year end	$ 742,500	$ 487,500
Rate on balance outstanding at year end	.15%	.18%
Average daily balance	$ 412,919	$ 733,559
Average rate	.19%	.19%
Maximum amount outstanding at any month end	$1,005,500	$1,235,900
Federal Home Loan Bank advances—long-term(1)		
Balance at year end	$ 6,527	$ 6,661
Rate on balance outstanding at year end	3.51%	3.51%
Average daily balance	$ 6,590	$ 6,721
Average rate	3.51%	3.51%
Maximum amount outstanding at any month end	$ 6,650	$ 6,780

(1) The amortization of the long-term advances is approximately $149 per year for each of the next five years and the final maturity date is January 3, 2028.

(10) Junior Subordinated Deferrable Interest Debentures

The Company has formed eight statutory business trusts under the laws of the State of Delaware, for the purpose of issuing trust preferred securities. The eight 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 December 31, 2012 and December 31, 2011, the principal amount of debentures outstanding totaled $190,726,000. As a result of the Company's participation in the TARP Capital Purchase Program, the Company was not permitted, without the consent of the Treasury Department, to redeem any of the Debentures. This restriction ceased to exist on December 23, 2011 and the Company exited the TARP Capital Purchase Program on November 28, 2012. One half of the Trust I securities were redeemed on June 8, 2011 and the remaining one half of the Trust I securities were redeemed on July 1, 2011 with the consent of the Treasury Department.

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 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, VII, VIII, IX, X, XI and XII. If interest payments on any of the Debentures are deferred, distributions on both the Capital and Common

(10) Junior Subordinated Deferrable Interest Debentures (Continued)

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.

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 December 31, 2012 and 2011, the total $190,726,000 of the Capital Securities outstanding qualified as Tier 1 capital.

The following table illustrates key information about each of the Debentures and their interest rates at December 31, 2012:

	Junior Subordinated Deferrable Interest Debentures	Repricing Frequency	Interest Rate	Interest Rate Index(1)	Maturity Date	Optional Redemption Date(1)
	(in thousands)					
Trust VI	$ 25,774	Quarterly	3.76%	LIBOR + 3.45	November 2032	February 2008
Trust VII	10,310	Quarterly	3.56%	LIBOR + 3.25	April 2033	April 2008
Trust VIII	25,774	Quarterly	3.39%	LIBOR + 3.05	October 2033	October 2008
Trust IX	41,238	Quarterly	1.98%	LIBOR + 1.62	October 2036	October 2011
Trust X	34,021	Quarterly	1.96%	LIBOR + 1.65	February 2037	February 2012
Trust XI	32,990	Quarterly	1.98%	LIBOR + 1.62	July 2037	July 2012
Trust XII	20,619	Quarterly	1.76%	LIBOR + 1.45	September 2037	September 2012
	$190,726					

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

(11) Earnings per Share ("EPS")

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding. The computation of diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The calculation of the basic EPS and the diluted EPS for the years ended December 31, 2012, 2011, and 2010 is set forth in the following table:

	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in Thousands, Except Per Share Amounts)		
December 31, 2012:			
Basic EPS			
Net income available to common shareholders	$ 93,473	67,236,681	$1.39
Potential dilutive common shares	—	77,282	
Diluted EPS	$ 93,473	67,313,963	$1.39
December 31, 2011:			
Basic EPS			
Net income available to common shareholders	$113,869	67,506,554	$1.69
Potential dilutive common shares	—	62,914	
Diluted EPS	$113,869	67,569,468	$1.69
December 31, 2010:			
Basic EPS			
Net income available to common shareholders	$116,897	67,921,353	$1.72
Potential dilutive common shares	—	83,088	
Diluted EPS	$116,897	68,004,441	$1.72

(12) Employees' Profit Sharing Plan

The Company has a deferred profit sharing plan for full-time employees with a minimum of one year of continuous employment. The Company's annual contribution to the plan is based on a percentage, as determined by the Board of Directors, of income before income taxes, as defined, for the year. Allocation of the contribution among officers and employees' accounts is based on length of service and amount of salary earned. Profit sharing costs of $3,400,000, $3,900,000 and $4,095,000 were charged to income for the years ended December 31, 2012, 2011, and 2010, respectively.

(13) International Operations

The Company provides international banking services for its customers through its bank subsidiaries. Neither the Company nor its bank subsidiaries have facilities located outside the United States. International operations are distinguished from domestic operations based upon the domicile of the customer.

Because the resources employed by the Company are common to both international and domestic operations, it is not practical to determine net income generated exclusively from international activities.

(13) International Operations (Continued)

A summary of assets attributable to international operations at December 31, 2012 and 2011 are as follows:

	2012	2011
	(Dollars in Thousands)	
Loans:		
Commercial	$148,770	$185,287
Others	40,204	44,718
	188,974	230,005
Less allowance for probable loan losses	(1,140)	(1,359)
Net loans	$187,834	$228,646
Accrued interest receivable	$ 902	$ 1,064

At December 31, 2012, the Company had $102,882,000 in outstanding standby and commercial letters of credit to facilitate trade activities. The letters of credit are issued primarily in conjunction with credit facilities, which are available to various Mexican banks doing business with the Company.

Revenues directly attributable to international operations were $7,714,000, $9,870,000 and $11,423,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

(14) Income Taxes

The Company files a consolidated U.S. Federal and State income tax return. The current and deferred portions of net income tax expense included in the consolidated statements of income are presented below for the years ended December 31:

	2012	2011	2010
	(Dollars in Thousands)		
Current			
U.S.	$40,375	$61,279	$70,338
State	2,234	5,083	4,129
Foreign	33	15	22
Total current taxes	42,642	66,377	74,489
Deferred			
U.S.	7,928	(2,296)	(3,394)
State	(5)	(3)	(138)
Total deferred taxes	7,923	(2,299)	(3,532)
Total income taxes	$50,565	$64,078	$70,957

(14) Income Taxes (Continued)

Total income tax expense differs from the amount computed by applying the U.S. Federal income tax rate of 35% for 2012, 2011 and 2010 to income before income taxes. The reasons for the differences for the years ended December 31 are as follows:

	2012	2011	2010
	(Dollars in Thousands)		
Computed expected tax expense	$55,634	$66,941	$70,355
Change in taxes resulting from:			
Tax-exempt interest income	(4,381)	(3,682)	(2,813)
State tax, net of federal income taxes and tax credit	1,446	3,302	2,594
Tax refunds	—	—	(2,143)
Litigation expense	—	—	5,375
Other investment income	(2,691)	(3,083)	(3,172)
Other	557	600	761
Actual tax expense	$50,565	$64,078	$70,957

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 are reflected below:

	2012	2011
	(Dollars in Thousands)	
Deferred tax assets:		
Loans receivable, principally due to the allowance for probable loan losses	$ 24,323	$ 34,035
Other real estate owned	3,919	3,774
Impairment charges on available-for-sale securities	3,611	3,288
Accrued expenses	137	514
Other	5,549	5,189
Total deferred tax assets	37,539	46,800
Deferred tax liabilities:		
Bank premises and equipment, principally due to differences on depreciation	(21,529)	(23,313)
Net unrealized gains on available for sale investment securities	(36,156)	(47,252)
Identified intangible assets and goodwill	(18,133)	(18,430)
Other	(10,182)	(9,439)
Total deferred tax liabilities	(86,000)	(98,434)
Net deferred tax liability	$(48,461)	$(51,634)

The net deferred tax liability of $48,461,000 at December 31, 2012 and $51,634,000 at December 31, 2011 is included in other liabilities in the consolidated statements of condition.

(15) Stock Options

On April 5, 2012, the Board of Directors adopted the 2012 International Bancshares Corporation Stock Option Plan (the "2012 Plan"), subject to shareholder approval of the 2012 Plan. The Company's shareholders approved the 2012 Plan on May 21, 2012. There are 800,000 shares available for stock option grants under the 2012 Plan. The 2005 International Bancshares Corporation Stock Option Plan (the "2005 Plan") was terminated for the purpose of future stock option grants upon adoption of 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 December 31, 2012, 757,500 shares were available for future grants under the 2012 Plan.

The fair value of each option award granted under the plan is estimated on the date of grant using a Black-Scholes-Merton option valuation model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the price of the Company's stock. The Company uses historical data to estimate the expected dividend yield and employee termination rates within the valuation model. The expected term of options is derived from historical exercise behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2012	2011
Expected Life (Years)	7.63	6.13
Dividend yield	2.33%	2.58%
Interest rate	1.58%	1.39%
Volatility	47.30%	49.21%

A summary of option activity under the stock option plans for the twelve months ended December 31, 2012 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value ($)
				(in Thousands)
Options outstanding at December 31, 2011	844,721	$19.08		
Plus: Options granted	42,500	17.14		
Less:				
Options exercised	4,865	10.49		
Options expired	—	—		
Options forfeited	87,479	19.08		
Options outstanding at December 31, 2012	794,877	$19.03	3.77	$2,093
Options fully vested and exercisable at December 31, 2012	403,546	$23.60	1.78	$ 445

Stock-based compensation expense included in the consolidated statements of income for the years ended December 31, 2012, 2011 and 2010 was approximately $474,000, $387,000 and $534,000, respectively. As of December 31, 2012, there was approximately $1,157,000 of total unrecognized

(15) Stock Options (Continued)

stock-based compensation cost related to non-vested options granted under the Company plans that will be recognized over a weighted average period of 1.97 years.

Other information pertaining to option activity during the twelve month period ending December 31, 2012, 2011 and 2010 is as follows:

	Twelve Months Ended December 31,		
	2012	2011	2010
Weighted average grant date fair value of stock options granted	$ 8.71	$ 5.51	$ —
Total fair value of stock options vested	$524,000	$661,000	$551,000
Total intrinsic value of stock options exercised	$ 41,000	$ 27,000	$ 2,000

(16) Long Term Restricted Stock Units

As a participant in the Troubled Asset Relief Program Capital Purchase Program (the "CPP") until November 28, 2012, the Company was required to comply with the Interim Final Rule on TARP Standards for Compensation and Corporate Governance issued in June 2009 by the Treasury, which implements the provisions of Section 111 of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009. Pursuant to these provisions, the Company was subject to certain compensation restrictions, which include a prohibition on the payment or accrual of any bonuses (including equity-based incentive compensation) to certain officers and employees except for awards of CPP-compliant long-term restricted stock and stock units.

On December 18, 2009, the Company's board of directors (the "Board") adopted the 2009 International Bancshares Corporation Long-Term Restricted Stock Unit Plan (the "Plan") to give the Company additional flexibility in the compensation of its officers, employees, consultants and advisors in compliance with all applicable laws and restrictions.

The Plan authorizes the Company to issue Restricted Stock Units ("RSUs") to officers, employees, consultants and advisors of the Company and its subsidiaries. The Plan provides that RSUs shall be issued by a committee of the Board appointed by the Board from time to time consisting of at least two (2) members of the Board, each of whom is both a non-employee director and an outside director. On December 18, 2009, the Board adopted resolutions creating the Long-Term Restricted Stock Unit Plan Committee to administer the Plan. RSUs issued under the Plan are not equity and are payable only in cash. The Plan provides for both the issuance of CPP-compliant long-term RSUs as well as RSUs that are not CPP-compliant.

Dennis E. Nixon, the Company's President, Chairman of the Board and a director of the Company, received an award of CPP-compliant RSUs, granted as of December 19, 2012 in the amount of $425,000 for his performance in 2012. Mr. Nixon was also awarded CPP-compliant RSU's granted as of December 16, 2011, December 15, 2010 and December 18, 2009 of $400,000, $400,000 and $250,000 for his performance in 2011, 2010 and 2009, respectively. In order to meet the requirements of a CPP-compliant RSU, Mr. Nixon's RSUs do not exceed one-third of his total annual compensation.

(17) Commitments, Contingent Liabilities and Other Matters

The Company leases portions of its banking premises and equipment under operating leases. Total rental expense for the years ended December 31, 2012, 2011 and 2010 were $8,300,000, $12,200,000 and $12,800,000, respectively. Future minimum lease payments due under non-cancellable operating leases at December 31, 2012 were as follows:

Fiscal year ending:

	Total (in thousands)
2013	$ 4,580
2014	3,330
2015	2,209
2016	1,628
2017	519
Thereafter	431
Total	$12,697

It is expected that certain leases will be renewed, as these leases expire. Aggregate future minimum rentals to be received under non-cancellable sub-leases greater than one year at December 31, 2012 were $61,900,000.

Cash of approximately $84,070,000 and $73,325,000 at December 31, 2012 and 2011, respectively, was maintained to satisfy regulatory reserve requirements.

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 statements of condition and related statements of income, comprehensive income, shareholders' equity and cash flows 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.

The Company was involved in a dispute related to certain tax matters that were inherited by the Company in its 2004 acquisition of LFIN. The dispute involved claims by the former controlling shareholders of LFIN related to approximately $14 million of tax refunds received by the Company based on deductions taken in 2003 by LFIN in connection with losses on loans acquired from a failed thrift and a dispute LFIN had with the FDIC regarding the tax benefits related to the failed thrift acquisition which originated in 1988. On March 5, 2010, judgment was entered on a jury verdict rendered against the Company in the U.S. District Court for the Western District of Oklahoma (the "Court"). Other than the tax refunds that were in dispute, the Company does not have any other disputes regarding tax refunds received by the Company in connection with the LFIN acquisition. An amended judgment was entered in the case on November 19, 2010, in the amount of approximately $24.25 million and it was final and appealable. During December 2010, the Company deposited $24.4 million with the Court in lieu of a supersedeas bond and the Company commenced appealing the judgment. On January 5, 2012, the United States Court of Appeals Tenth Circuit affirmed the amended judgment. On February 28, 2012, the

(17) Commitments, Contingent Liabilities and Other Matters (Continued)

previously deposited $24.4 million was paid to the former controlling shareholders of LFIN and a Release and Satisfaction of Judgment was filed with the Court concluding the matter.

On September 22, 2011, the Company announced the approval of a restructuring plan that resulted in the closing of fifty five (55) in store branches by December 31, 2011. The branch closures are a result of reduced levels of revenue resulting from regulatory changes related to interchange fee income. The branches were closed in order to align IBC's expenses with the reduced levels of revenue, protecting the Company's financial strength while preserving IBC's free products program. This restructuring plan resulted in combined charges to the Company of $5.36 million, before tax, which were recognized in the fourth quarter. The charges are included in ''Depreciation of bank premises and equipment'' and ''Other'' in the consolidated statement of income in the Company's consolidated financial statements.

(18) Transactions with Related Parties

In the ordinary course of business, the subsidiaries of the Company make loans to directors and executive officers of the Corporation, including their affiliates, families and companies in which they are principal owners. In the opinion of management, these loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than normal risk of collectability or present other unfavorable features. The aggregate amounts receivable from such related parties amounted to approximately $51,102,000 and $51,370,000 at December 31, 2012 and 2011, respectively.

(19) Financial Instruments with Off-Statement of Condition Risk and Concentrations of Credit Risk

In the normal course of business, the bank subsidiaries are party to financial instruments with off-statement of condition risk to meet the financing needs of their customers. These financial instruments include commitments to their customers. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated statement of condition. The contract amounts of these instruments reflect the extent of involvement the bank subsidiaries have in particular classes of financial instruments. At December 31, 2012, the following financial amounts of instruments, whose contract amounts represent credit risks, were outstanding:

Commitments to extend credit	$1,481,285,000
Credit card lines	66,243,000
Standby letters of credit	89,129,000
Commercial letters of credit	13,753,000

The Company enters into a standby letter of credit to guarantee performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved is represented by the contractual amounts of those instruments. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary so long as all performance criteria have been met. At December 31, 2012, the maximum potential amount of future payments is $89,129,000. At December 31, 2012, the fair value of these guarantees is not significant. Unsecured letters of credit totaled $28,383,000 and $27,991,000 at December 31, 2012 and 2011, respectively.

The Company enters into commercial letters of credit on behalf of its customers which authorize a third party to draw drafts on the Company up to a stipulated amount and with specific terms and

(19) Financial Instruments with Off-Statement of Condition Risk and Concentrations of Credit Risk (Continued)

conditions. A commercial letter of credit is a conditional commitment on the part of the Company to provide payment on drafts drawn in accordance with the terms of the commercial letter of credit.

The bank subsidiaries' exposure to credit loss in the event of nonperformance by the other party to the above financial instruments is represented by the contractual amounts of the instruments. The bank subsidiaries use the same credit policies in making commitments and conditional obligations as they do for on-statement of condition instruments. The bank subsidiaries control the credit risk of these transactions through credit approvals, limits and monitoring procedures. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates normally less than one year or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The bank subsidiaries evaluate each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the subsidiary banks upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include residential and commercial real estate, bank certificates of deposit, accounts receivable and inventory.

The bank subsidiaries make commercial, real estate and consumer loans to customers principally located in South, Central and Southeast Texas and the State of Oklahoma. Although the loan portfolio is diversified, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economic conditions in these areas, especially in the real estate and commercial business sectors.

(20) Capital Requirements

On December 23, 3008, as part of the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program") of the United States Department of the Treasury ("Treasury"), the Company issued to the Treasury, in exchange for aggregate consideration of $216 million, (i) 216,000 shares of the Company's fixed-rate cumulative perpetual preferred stock, Series A, par value $.01 per share (the "Senior Preferred Stock"), having a liquidation preference of $1,000 per share and (ii) a warrant to purchase 1,326,238 shares of the Company's common stock at a price per share of $24.43 and with a term of ten years (the "Warrant"). The Senior Preferred Stock paid a coupon rate of 5% of the first five years and 9% per year thereafter.

On November 28, 2012, the Company completed the repurchase of all of the 216,000 shares of the Senior Preferred Stock held by Treasury. The Company commenced the $216 million repayment during the third quarter of 2012 and completed the final payment in the fourth quarter of 2012. The Company has paid a total of $41,520,139 in preferred stock dividends to the U.S. Treasury since December of 2008, when the company received the funds under the TARP Capital Purchase Program. As of February 25, 2013, the Warrant is still held by Treasury.

Bank regulatory agencies limit the amount of dividends, which the bank subsidiaries can pay the Corporation, through IBC Subsidiary Corporation, without obtaining prior approval from such agencies. At December 31, 2012, the subsidiary banks could pay dividends of up to $520,000,000 to the Corporation without prior regulatory approval and without adversely affecting their "well capitalized" status. In addition to legal requirements, regulatory authorities also consider the adequacy of the bank subsidiaries' total capital in relation to their deposits and other factors. These capital adequacy considerations also limit

(20) Capital Requirements (Continued)

amounts available for payment of dividends. The Company historically has not allowed any subsidiary bank to pay dividends in such a manner as to impair its capital adequacy.

The Company and the bank subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-statement of condition items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table on the following page) of Total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2012, that the Company and each of the bank subsidiaries met all capital adequacy requirements to which they are subject.

As of December 31, 2012, the most recent notification from the Federal Deposit Insurance Corporation categorized all the bank subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Company and the bank subsidiaries must maintain minimum Total risk-based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the categorization of the Company or any of the bank subsidiaries as well capitalized.

(20) Capital Requirements (Continued)

The Company's and the bank subsidiaries' actual capital amounts and ratios for 2012 are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(greater than or equal to)	(greater than or equal to)	(greater than or equal to)	(greater than or equal to)
			(Dollars in Thousands)			
As of December 31, 2012:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$1,328,089	20.60%	$515,695	8.00%	N/A	N/A
International Bank of Commerce, Laredo	945,384	17.19	440,038	8.00	$550,048	10.00%
International Bank of Commerce, Brownsville	128,788	27.36	37,659	8.00	47,074	10.00
International Bank of Commerce, Zapata	54,542	33.14	13,166	8.00	16,458	10.00
Commerce Bank	60,982	34.52	14,131	8.00	17,664	10.00
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$1,266,799	19.65%	$257,848	4.00%	N/A	N/A
International Bank of Commerce, Laredo	892,888	16.23	220,019	4.00	$330,029	6.00%
International Bank of Commerce, Brownsville	123,361	26.21	18,830	4.00	28,245	6.00
International Bank of Commerce, Zapata	52,967	32.18	6,583	4.00	9,875	6.00
Commerce Bank	59,200	33.52	7,065	4.00	10,598	6.00
Tier 1 Capital (to Average Assets):						
Consolidated	$1,266,799	10.86%	$466,624	4.00%	N/A	N/A
International Bank of Commerce, Laredo	892,888	9.26	385,621	4.00	$482,026	5.00%
International Bank of Commerce, Brownsville	123,361	13.79	35,787	4.00	44,734	5.00
International Bank of Commerce, Zapata	52,967	10.64	19,918	4.00	24,897	5.00
Commerce Bank	59,200	11.27	21,004	4.00	26,255	5.00

(20) Capital Requirements (Continued)

The Company's and the bank subsidiaries' actual capital amounts and ratios for 2011 are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount (greater than or equal to)	Ratio (greater than or equal to)	Amount (greater than or equal to)	Ratio (greater than or equal to)
			(Dollars in Thousands)			
As of December 31, 2011:						
Total Capital (to Risk Weighted Assets):						
Consolidated	$1,485,833	23.99%	$495,483	8.00%	N/A	N/A
International Bank of Commerce, Laredo	1,026,163	19.64	417,943	8.00	$522,429	10.00%
International Bank of Commerce, Brownsville	123,780	25.77	38,423	8.00	48,029	10.00
International Bank of Commerce, Zapata	58,295	36.58	12,750	8.00	15,937	10.00
Commerce Bank	65,697	37.60	13,976	8.00	17,470	10.00
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$1,407,989	22.73%	$247,742	4.00%	N/A	N/A
International Bank of Commerce, Laredo	964,128	18.45	208,972	4.00	$313,458	6.00%
International Bank of Commerce, Brownsville	117,707	24.51	19,212	4.00	28,817	6.00
International Bank of Commerce, Zapata	56,336	35.35	6,375	4.00	9,562	6.00
Commerce Bank	63,462	36.33	6,988	4.00	10,482	6.00
Tier 1 Capital (to Average Assets):						
Consolidated	$1,407,989	12.74%	$441,975	4.00%	N/A	N/A
International Bank of Commerce, Laredo	964,128	10.65	362,263	4.00	$452,829	5.00%
International Bank of Commerce, Brownsville	117,707	13.52	34,835	4.00	43,544	5.00
International Bank of Commerce, Zapata	56,336	12.21	18,463	4.00	23,079	5.00
Commerce Bank	63,462	11.94	21,262	4.00	26,578	5.00

(21) Fair Value

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 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 statements of condition at their fair value as of December 31, 2012 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, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Assets:				
Available for sale securities				
Residential mortgage-backed securities	$5,265,204	$ —	$5,232,344	$32,860
States and political subdivisions	238,675	—	238,675	—
Other	21,136	21,136	—	—
	$5,525,015	$21,136	$5,471,019	$32,860

(21) Fair Value (Continued)

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value as of December 31, 2011 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, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Assets:				
Available for sale securities				
Residential mortgage-backed securities	$4,969,263	$ —	$4,929,658	$39,605
States and political subdivisions	224,761	—	224,761	—
Other	19,891	19,891	—	—
	$5,213,915	$19,891	$5,154,419	$39,605

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 for the year ended December 31, 2012, 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 9%, (iii) a loss severity rate that starts at 60% for the first year then declines by 5% for the following five years and remains at 25%

(21) Fair Value (Continued)

thereafter, 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. As actual historical information has become more widely available to investors, the Company determined that this approach to the model was appropriate and therefore, modified the model that had been used in prior periods. The change did not significantly impact the results of the model.

Assumptions used in the model for the year ended December 31, 2011, 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. Default rates used in the model were 10—11% for the first year and 7% thereafter, and loss severity rates started at 60% for the first year and are decreased by 10% for the following three years, then remain at 20% thereafter.

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

Balance at December 31, 2011	$39,605
Principal paydowns	(5,829)
Total unrealized gains (losses) included in:	
Other comprehensive income	123
Impairment realized in earnings	(1,039)
Balance at December 31, 2012	$32,860

Certain assets and liabilities are measured at fair value on a nonrecurring basis. They 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).

The following table represents assets measured at fair value on a non-recurring basis as of and for the period ended December 31, 2012 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using (in thousands)			
	Assets/Liabilities Measured at Fair Value Year ended December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Provision During Period
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$11,981	$—	$—	$11,981	$295
Other real estate owned	18,749	—	—	18,749	—

(21) Fair Value (Continued)

The following table represents assets measured at fair value on a non-recurring basis as of and for the year ended December 31, 2011 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using (in thousands)			
	Assets/Liabilities Measured at Fair Value Year ended December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Provision During Period
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$81,723	$—	$—	$81,723	$15,457
Other real estate owned	34,631	—	—	34,631	9,509

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 ASC 310, "Receivables". The fair value of impaired loans is based on the fair value of the collateral, as determined through an external appraisal process, discounted based on internal criteria. Impaired loans are primarily comprised of collateral-dependent commercial loans. Impaired loans are remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for probable loan losses based upon the fair value of the underlying collateral.

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 twelve months ended December 31, 2012 and December 31, 2011, the Company recorded $10,450,000 and $1,100,000, respectively, in charges to the allowance for probable loan losses in connection with loans transferred to other real estate owned. For the twelve months ended December 31, 2012 and December 31, 2011, the Company recorded net charges to operations of $0 and $9,509,000, respectively, related to write downs in fair value in connection with other real estate owned.

The fair value estimates, methods, and assumptions for the Company's financial instruments at December 31, 2012 and December 31, 2011 are outlined below.

Cash and Due From Banks and Federal Funds Sold

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.

(21) Fair Value (Continued)

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 2.

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 2 of the fair value hierarchy. At December 31, 2012, and December 31, 2011, the carrying amount of fixed rate performing loans was $1,189,585,000 and $1,273,989,000, respectively, and the estimated fair value was $1,126,228,000 and $1,200,837,000, 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 December 31, 2012 and December 31, 2011. The fair value of time 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 2 of the fair value hierarchy. At December 31, 2012 and December 31, 2011, the carrying amount of time deposits was $2,954,312,000 and $3,311,381,000, respectively, and the estimated fair value was $2,962,190,000 and $3,323,680,000, 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

(21) Fair Value (Continued)

December 31, 2012 and December 31, 2011. The fair value of the long-term instruments is based on established market spreads using option adjusted spreads methodology. Long-term repurchase agreements are within level 2 of the fair value hierarchy. At December 31, 2012 and December 31, 2011, the carrying amount of long-term repurchase agreements was $800,000,000 and $1,000,000,000, respectively, and the estimated fair value was $932,007,000 and $1,161,849,000, 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 December 31, 2012 and December 31, 2011. As of December 31, 2011, the Company had fixed rate junior subordinated deferrable interest debentures that converted from fixed to floating rate at various dates in 2012. The fair value of the fixed rate junior subordinated deferrable interest debentures is based on established market spreads to similar debt instruments with similar characteristics to the debentures. The fixed rate junior subordinated deferrable debentures were within Level 2 of the fair value hierarchy. At December 31, 2011, the carrying amount of fixed rate junior subordinated deferrable interest debentures was $87,630,000 and the estimated fair value was $43,403,000.

Other Borrowed Funds

The company currently has short and long-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 December 31, 2012 and December 31, 2011. The fair value of the long-term borrowings is based on established market spreads for similar types of borrowings. The long-term borrowings are included in Level 2 of the fair value hierarchy. At December 31, 2012 and December 31, 2011, the carrying amount of the long-term FHLB borrowings was $6,527,000 and $6,661,000, respectively, and the estimated fair value was $7,073,000 and $6,998,000, 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.

(21) Fair Value (Continued)

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.

(22) International Bancshares Corporation (Parent Company Only) Financial Information

Statements of Condition (Parent Company Only)

December 31, 2012 and 2011 (Dollars in Thousands)

	2012	2011
ASSETS		
Cash	$ 1,539	$ 13,668
Other investments	63,044	70,318
Notes receivable	409	495
Investment in subsidiaries	1,573,679	1,712,336
Other assets	617	1,567
Total assets	$1,639,288	$1,798,384
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Junior subordinated deferrable interest debentures	$ 190,726	$ 190,726
Due to IBC Trading	21	21
Other liabilities	12,833	7,472
Total liabilities	203,580	198,219
Shareholders' equity:		
Preferred shares	—	210,548
Common shares	95,725	95,720
Surplus	163,287	162,767
Retained earnings	1,369,543	1,302,964
Accumulated other comprehensive income	65,662	84,959
	1,694,217	1,856,958
Less cost of shares in treasury	(258,509)	(256,793)
Total shareholders' equity	1,435,708	1,600,165
Total liabilities and shareholders' equity	$1,639,288	$1,798,384

(23) International Bancshares Corporation (Parent Company Only) Financial Information

Statements of Income (Parent Company Only)

Years ended December 31, 2012, 2011 and 2010 (Dollars in Thousands)

	2012	2011	2010
Income:			
Dividends from subsidiaries	$ 229,250	$ 54,800	$ 51,720
Interest income on notes receivable	27	19	5
Interest income on other investments	6,759	7,517	10,090
Other interest income	18	69	546
Other	686	41	(742)
Total income	236,740	62,446	61,619
Expenses:			
Interest expense (Debentures)	6,595	11,073	12,201
Other	3,867	6,543	3,408
Total expenses	10,462	17,616	15,609
Income before federal income taxes and equity in undistributed net income of subsidiaries	226,278	44,830	46,010
Income tax benefit	(738)	(3,513)	(2,090)
Income before equity in undistributed net income of subsidiaries	227,016	48,343	48,100
Equity in (distributed) undistributed net income of subsidiaries	(119,181)	78,806	81,923
Net income	107,835	127,149	130,023
Preferred stock dividends and discount accretion	14,362	13,280	13,126
Net income available to common shareholders	$ 93,473	$113,869	$116,897

(24) International Bancshares Corporation (Parent Company Only) Financial Information

Statements of Cash Flows (Parent Company Only)

Years ended December 31, 2012, 2011 and 2010 (Dollars in Thousands)

	2012	2011	2010
Operating activities:			
Net income	$ 107,835	$127,149	$130,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Accretion of junior subordinated interest deferrable debentures	—	9	35
Investment securities transactions, net	—	2	1,135
Accretion of investment securities discounts	—	—	(232)
Stock compensation expense	474	387	534
Increase (decrease) in other liabilities	6,711	(3,234)	4,976
Equity in distributed (undistributed) net income of subsidiaries	119,181	(78,806)	(81,923)
Net cash provided by operating activities	234,201	45,507	54,548
Investing activities:			
Principal collected on mortgage-backed securities	1,985	1,355	3,324
Net decrease (increase) in notes receivable	86	(245)	(150)
Decrease (increase) in other assets and other investments	6,418	(4,193)	(8,311)
Net cash provided by (used in) investing activities	8,489	(3,083)	(5,137)
Financing activities:			
Repayment of trust preferred securities	—	(10,400)	—
Redemption of preferred shares	(216,000)		
Proceeds from stock transactions	51	113	484
Payments of cash dividends—common	(26,894)	(25,648)	(24,444)
Payments of cash dividends—preferred	(10,260)	(10,800)	(10,800)
Purchase of treasury stock	(1,716)	(6,435)	(6,949)
Net cash used in financing activities	(254,819)	(53,170)	(41,709)
(Decrease) increase in cash	(12,129)	(10,746)	7,702
Cash at beginning of year	13,668	24,414	16,712
Cash at end of year	$ 1,539	$ 13,668	$ 24,414

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES
Condensed Quarterly Income Statements
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2012				
Interest income	$92,399	$ 93,775	$93,683	$95,782
Interest expense	16,374	17,420	20,040	20,665
Net interest income	76,025	76,355	73,643	75,117
Provision for probable loan losses	11,218	5,349	6,107	5,285
Non-interest income	42,588	74,007	40,819	43,177
Non-interest expense	68,694	106,444	72,091	68,143
Income before income taxes	38,701	38,569	36,264	44,866
Income taxes	12,981	12,691	11,714	13,179
Net income	25,720	25,878	24,550	31,687
Preferred Stock Dividends	3,819	3,845	3,355	3,343
Net income available to common shareholders	$21,901	$ 22,033	$21,195	$28,344
Per common share:				
Basic				
Net income	$ .32	$ .33	$ .32	$ .42
Diluted				
Net income	$ .32	$ .33	$ .31	$ .42

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES
Condensed Quarterly Income Statements
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2011				
Interest income	$99,519	$103,623	$107,844	$107,138
Interest expense	21,481	23,079	24,433	25,305
Net interest income	78,038	80,544	83,411	81,833
Provision for probable loan losses	9,485	5,670	(1,917)	4,080
Non-interest income	54,052	51,211	47,864	48,366
Non-interest expense	77,077	80,290	83,942	75,465
Income before income taxes	45,528	45,795	49,250	50,654
Income taxes	15,155	15,164	16,626	17,133
Net income	$30,373	$ 30,631	$ 32,624	$ 33,521
Preferred Stock Dividends	3,336	3,324	3,315	3,305
Net income available to common shareholders	$27,037	$ 27,307	$ 29,309	$ 30,216
Per common share:				
Basic				
Net income	$ .40	$ .41	$ .43	$ .45
Diluted				
Net income	$ .40	$ .40	$ .43	$ .45

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES
Condensed Average Statements of Condition
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

Distribution of Assets, Liabilities and Shareholders' Equity

The following table sets forth a comparative summary of average interest earning assets and average interest bearing liabilities and related interest yields for the years ended December 31, 2012, 2011, and 2010:

	2012			2011			2010		
	Average Balance	Interest	Average Rate/Cost	Average Balance	Interest	Average Rate/Cost	Average Balance	Interest	Average Rate/Cost
				(Dollars in Thousands)					
Assets									
Interest earning assets:									
Loan, net of unearned discounts:									
Domestic	$ 4,730,903	$260,874	5.51%	$ 5,022,584	$282,644	5.63%	$ 5,294,744	$302,779	5.72%
Foreign	201,825	7,714	3.82	239,017	9,870	4.13	247,486	11,423	4.62
Investment securities:									
Taxable	4,877,210	94,885	1.95	4,731,408	113,650	2.40	4,095,542	135,106	3.30
Tax-exempt	210,320	11,663	5.55	190,933	10,091	5.29	144,199	7,240	5.02
Other	200,109	503	.25	120,777	1,869	1.55	99,671	2,221	2.23
Total interest-earning assets	10,220,367	375,639	3.68%	10,304,719	418,124	4.06	9,881,642	458,769	4.64%
Non-interest earning assets:									
Cash and due from banks	410,726			319,466			285,894		
Bank premises and equipment, net	441,981			456,840			475,460		
Other assets	861,145			751,654			715,278		
Less allowance for probable loan losses	(77,103)			(83,919)			(90,900)		
Total	$11,857,116			$11,748,760			$11,267,374		
Liabilities and Shareholders' Equity									
Interest bearing liabilities:									
Savings and interest bearing demand deposits	$ 2,806,657	5,288	.19%	$ 2,625,958	$ 7,783	.30%	$ 2,389,699	$ 9,383	.39%
Time deposits:									
Domestic	1,673,590	13,208	.79	1,730,016	17,767	1.03	1,804,106	26,255	1.46
Foreign	1,608,219	10,766	.67	1,646,619	13,789	.84	1,673,426	20,712	1.24
Securities sold under repurchase agreements	1,276,841	37,645	2.95	1,415,775	42,263	2.99	1,479,764	44,216	2.99
Other borrowings	419,509	998	.24	740,281	1,623	.22	656,459	1,269	.19
Junior subordinated interest deferrable debentures	190,726	6,595	3.46	195,540	11,073	5.66	201,099	12,201	6.07
Total interest bearing liabilities	7,975,542	74,500	.93%	8,354,189	94,298	1.13%	8,204,553	114,036	1.39%
Non-interest bearing liabilities:									
Demand Deposits	2,072,539			1,817,781			1,639,119		
Other liabilities	305,214			117,295			44,431		
Shareholders' equity	1,503,821			1,459,495			1,379,271		
Total	$11,857,116			$11,748,760			$11,267,374		
Net interest income		$301,139			$323,826			$344,733	
Net yield on interest earning assets			2.95%			3.14%			3.49%

INTERNATIONAL BANCSHARES CORPORATION
OFFICERS AND DIRECTORS

OFFICERS

DENNIS E. NIXON
Chairman of the Board and President

R. DAVID GUERRA
Vice President

EDWARD J. FARIAS
Vice President

IMELDA NAVARRO
Treasurer

WILLIAM J. CUELLAR
Auditor

MARISA V. SANTOS
Secretary

HILDA V. TORRES
Assistant Secretary

DIRECTORS

DENNIS E. NIXON
President, International Bank of Commerce

IRVING GREENBLUM
International Investments/Real Estate

R. DAVID GUERRA
President
International Bank of Commerce
Branch in McAllen, TX

DANIEL B. HASTINGS, JR.
Licensed U. S. Custom Broker
President
Daniel B. Hastings, Inc.

DOUG HOWLAND
Owner
Construction & Construction Materials Company
Investments

IMELDA NAVARRO
Senior Executive Vice President
International Bank of Commerce

SIOMA NEIMAN
International Entrepreneur

PEGGY NEWMAN
Investments

LARRY NORTON
President
Norton Stores, Inc.

LEONARDO SALINAS
Investments

ANTONIO R. SANCHEZ, JR.
Chairman of the Board
Sanchez Oil & Gas Corporation
Investments

We do more
Hacemos más