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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2023**

**or**

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

**For the transition period from to**

**Commission file number: 0-09439**

# INTERNATIONAL BANCSHARES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

| **Texas**<br>(State or other Jurisdiction of<br>Incorporation or Organization) | **74-2157138**<br>(I.R.S. Employer<br>Identification No.) |
|---|---|
| **1200 San Bernardo Avenue**<br>**Laredo, Texas 78042 - 1359**<br>(Address of Principal Executive Office and Zip Code) | **(956) 722-7611**<br>(Registrant's telephone number, including area code) |

Securities Registered Pursuant to Section 12(g) of the Act:

| Title of each class: | Trading Symbol | Name of each exchange on which registered: |
|---|---|---|
| Common Stock, $1.00 par value | IBOC | The Nasdaq Stock Market |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

| Large Accelerated filer ☒ | Accelerated filer ☐ | Non-accelerated filer ☐ | Smaller reporting company ☐ |
|---|---|---|---|
| Emerging Growth Company ☐ | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☒

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☒

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2023 was $2,742,387,000 based on the closing sales price per share of the Registrant's common stock on such date as reported by The Nasdaq Stock Market.

As of February 20, 2024, there were 62,168,232 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the designated parts of this Form 10-K: (a) Annual Report to Shareholders for the fiscal year ended December 31, 2023 (in Parts I and II) and (b) Proxy Statement relating to the Company's 2024 Annual Meeting of Shareholders (in Part III).

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## Part I

*As used in this report, the words "Company," "we," "us," and "our" refer to International Bancshares Corporation, a Texas corporation, its five wholly-owned subsidiary banks, and its other subsidiaries. The information that follows may contain forward-looking statements, which involve various risks and uncertainties, including those identified in Item 1A (Risk Factors) of this Annual Report on Form 10-K, and are qualified as indicated under "Special Cautionary Notice Regarding Forward-Looking Information" in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of our 2023 Annual Report to Shareholders, which is filed as Exhibit 13 hereto and incorporated herein by reference. Our website address is www.ibc.com.*

### Item 1. *Business*

#### *General*

We are a registered multibank financial holding company providing a diversified range of commercial and retail banking services in our main banking and branch facilities located in north, south, central, and southeast Texas and the State of Oklahoma. We were organized and we operate as a bank holding company within the meaning of the Bank Holding Company Act of 1956 (BHCA). As a bank holding company, we may own one or more banks and may engage in activities closely related to banking. In this regard, we are subject to supervision and regulation by the Board of Governors of the Federal Reserve System (FRB). In addition, all five of our wholly-owned banking subsidiaries are members of and subject to regulation by the Federal Deposit Insurance Corporation (FDIC). Our principal corporate offices are located in Laredo, Texas.

Our principal assets at December 31, 2023, consisted of all the outstanding capital stock of four Texas state banking associations and one Oklahoma state banking corporation as follows:

- International Bank of Commerce, located in Laredo, Texas (IBC);
- Commerce Bank, located in Laredo, Texas (Commerce Bank);
- International Bank of Commerce, located in Brownsville, Texas (IBC Brownsville);
- International Bank of Commerce, located in Zapata, Texas (IBC Zapata); and
- International Bank of Commerce, located in Oklahoma City, Oklahoma (IBC-Oklahoma).

These five subsidiary banks are collectively referred to in this report as our "Subsidiary Banks."

Our philosophy focuses on customer service as represented by the motto, "We Do More." Our Subsidiary Banks maintain a strong commitment to their local communities by, among other things, appointing selected community members to local advisory boards. These local advisory boards help to direct the operations of the branches of each Subsidiary Bank under the supervision of the Subsidiary Bank's board of directors, assist in developing or modifying our products and services to meet local customer needs, and introduce prospective customers to our many products and services.

We also own five direct, non-banking subsidiaries:

- IBC Trading Company, an export trading company that is currently inactive;
- IBC Charitable and Community Development Corporation, a nonprofit corporation formed under the laws of the State of Texas to conduct charitable and community development activities;
- IBC Capital Corporation, a company incorporated in the State of Delaware for the purpose of holding certain investments;
- Premier Tierra Holdings, Inc., a liquidating subsidiary formed under the laws of the State of Texas; and
- Diamond Beach Holdings, LLC, a merchant banking entity formed under the laws of the State of Texas.

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We also own fifty-percent interests in Gulfstar Group I, Ltd. and Gulfstar Group II, Ltd., together with their related entities, all of which are involved in investment banking activities; a controlling interest in four merchant banking entities; and a majority ownership interest in a real-estate development partnership.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statements, are available free of charge on or through the Investors section of our website at *www.ibc.com/investors* and can be accessed via the “SEC Filings” hyperlink under the “Investors” heading as soon as reasonably practicable after being electronically filed with, or furnished to, the SEC. Those documents are also available on the SEC’s website at *www.sec.gov*. We have also posted on our website a Code of Ethics and Business Conduct, which applies to our directors, officers, and employees, and charters for our Audit Committee, Risk Committee, Compensation Committee, and Nominating Committee. Those documents can be accessed through the “Corporate Governance” hyperlink under the “Investors” heading of our website. The information found on our website is not incorporated by reference in this or any other report the Company files or furnishes to the SEC.

***Services, Human Capital, and Diversity and Inclusion***

Our Subsidiary Banks have historically focused on providing commercial banking services to small- and medium-sized businesses located in their trade areas and select international banking services. In recent years, however, our Subsidiary Banks have emphasized consumer and retail banking, including mortgage lending, as well as opening branches in retail locations and shopping malls. Today, we have 166 facilities and 256 ATMs serving 75 communities in Texas and Oklahoma.

Through the Subsidiary Banks, we are engaged in the business of accepting checking and savings deposits and the making of commercial, real estate, personal, home improvement, automobile and other installment and term loans. Some Subsidiary Banks are very active in facilitating international trade along the United States border with Mexico and elsewhere. Our international banking business includes providing letters of credit, making commercial and industrial loans and providing foreign-exchange services. Each Subsidiary Bank also offers other related services, such as credit cards, safety deposit boxes, collections, escrow services, drive-up and walk-up facilities, and other customary banking services.

Each Subsidiary Bank makes available certain securities products through third-party providers and provides banking services during traditional and nontraditional banking hours through their ATM network and retail locations in shopping malls and other convenient places. Additionally, we offer IBC Bank Online, an Internet banking product that provides customers with online access to banking information and services 24 hours a day, as well as IBC Mobile Banking, which provides users with banking access from their mobile devices 24 hours a day. No material portion of our business may be deemed seasonal.

As of December 31, 2023, we and our Subsidiary Banks employed approximately 2,062 persons full time and 230 persons part time. As of December 31, 2023, approximately 68% of our approximately 300-person officer management team have been with us for more than 15 years, and approximately 70% of those have been with us for more than 20 years.

Our mission is to develop a banking culture that builds genuine, personal relationships with our customers and the communities we serve. The most significant component of that mission is to attract, develop, and maintain employees and officers of the highest quality, who are committed to their job, conduct themselves with the highest level of professionalism, devote themselves to their community, and relentlessly pursue perfection in their performance.

While senior management is certainly expected to lead by example, our objective is to instill our mission and cultural values throughout our entire organization. We are as dedicated to each other as “one team” moving in the same direction as we are to the communities we serve. We teach and train our employees to understand the reality of our customers’ everyday business, and to provide practical solutions based on significant experience, ingenuity, continuity, balance, integrity, intelligence, and very strong work ethic and technical skills, including significant bilingual capabilities. Our team approach allows us to nurture excellence in our staff in order to develop superior valuation skills so that each of our staff members better understand the risks and returns of transactions better than our competitors. We provide extensive

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training to our employees in an effort to ensure that our customers receive superior customer service. We seek to develop superior skills at the transaction level, using a bottom-up approach to management. The use of pods, roundtables, and team huddles are fundamental to our approach.

We use compensation plans coupled with a complete evaluation program to reward and direct the development of our employees. Our compensation systems reflect the need to retain and develop a superior workforce, recognizing that unique and innovative programs need to be developed and maintained to retain highly qualified employees. We strive to provide pay, benefits, and services that help meet the varying needs of our employees. Compensation and benefits include market-competitive pay, retirement programs, broad-based bonuses, stock options, stock appreciation rights, health and welfare benefits, financial counseling, paid time off, and family leave.

We are committed to attracting, hiring, and retaining a diverse workforce that is representative of the communities in which we live and serve. As of December 31, 2023, approximately 74% of our workforce self-identified as Latino or Hispanic, and over 66% self-identified as women. We are committed to providing equal opportunities for applicants and employees in all of our employment practices, including but not limited to, hiring, promoting, transferring, and compensating without regard to sex, race, color, national origin, genetic information, citizenship status, age, religion, veteran, disability, or any other characteristic protected by law. We also conduct training programs on equal employment opportunities and diversity and inclusion in the workplace as well as training sessions that coach and develop talent in order to promote and retain a diverse workforce. Our commitment to diversity and inclusion is further underscored by our efforts to reach out to and support minority and women's organizations and educational institutions that serve significant minority or women student populations. We also participate in events to attract minorities and women and recruit them for available employment opportunities.

We are also committed to maintaining a safe and healthy work environment, free from work-related injuries and illnesses and where every team member is treated with dignity and respect, without the fear of the threat of discrimination or harassment. As stated in our Board-approved Code of Ethics and Business Conduct, we expect all of our officers, directors, and employees to practice fair dealing, honesty, and integrity in every aspect of our interactions with other IBC employees, our customers, vendors, shareholders, suppliers, competitors, and government authorities, and the communities we serve.

None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with our employees are good.

***Competition***

We are one of the largest independent financial bank holding companies in the State of Texas. Our primary market area in Texas is bordered on the east by the Galveston area, the northwest by Dallas, the southwest by Del Rio and to the southeast by Brownsville. Our primary market area also includes the State of Oklahoma. We compete for deposits and loans with other commercial banks, savings and loan associations, and credit unions in our primary market area. We have increased our market share in our primary market area in the past through strategic acquisitions.

We also compete against non-bank entities, which serve as an alternative to traditional financial institutions. The percentage of bank related services being provided by non-bank entities has increased during the last several years.

We do a large amount of business for customers domiciled in Mexico, with an emphasis in Northern Mexico. Deposits from persons and entities domiciled in Mexico comprise a large and stable portion of the deposit base of the Subsidiary Banks. These deposits comprised approximately 29%, 28% and 25% of the Subsidiary Banks total deposits for the three years ended December 31, 2023, 2022 and 2021, respectively.

Under the Financial Services Modernization Act of 1999, which is otherwise known as the Gramm-Leach-Bliley Act (GLBA), banks, securities firms and insurance companies may affiliate under an entity known as a financial holding company, which may then serve its customers' varied financial needs through a single corporate structure. The GLBA significantly changed the competitive environment in which we and our Subsidiary Banks conduct business. The financial services industry will likely become even more competitive as further technological advances enable more companies to

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provide financial services. These technological advances may reduce the necessity of depository institutions and other financial intermediaries in the transfer of funds between parties.

***Supervision and Regulation***

Banking is a complex, highly regulated industry. In addition to the generally applicable state and federal laws governing businesses and employers, we and our Subsidiary Banks are further extensively regulated by special federal and state laws governing financial institutions. These laws comprehensively regulate the operations of our Subsidiary Banks and include, among other matters:

- requirements to maintain reserves against deposits;
- restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon;
- restrictions on the amounts, terms, and conditions of loans to directors, officers, large shareholders and their affiliates;
- restrictions related to investments in activities other than banking; and
- minimum capital requirements.

Congress, state legislatures and applicable federal and state regulatory agencies are continually reviewing such statutes, regulations, and policies. Any change in such laws or policies applicable to us and our subsidiaries could have a material adverse effect on our business, financial condition or results of operations. Recent challenges to the scope of agencies' regulatory authority have increased uncertainty with respect to the implementation, scope, and timing of regulatory reforms. With few exceptions, state and federal banking laws have as their principal objective either the maintenance of the safety and soundness of the federal deposit insurance system or the protection of consumers, rather than the specific protection of our shareholders or creditors.

Further, our earnings are affected by the fiscal and monetary policies of the FRB, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. These monetary policies significantly influence the overall growth of bank loans, investments, and deposits, as well as the interest rates charged on loans or paid on time and savings deposits. The nature of future monetary policies and the effect of such policies on our future earnings and business cannot be predicted.

Interest Rate Reform Upon the Discontinuation of LIBOR

The discontinuation of the benchmark interest rate known as U.S.-dollar London Interbank Offered Rate (LIBOR) was completed on June 30, 2023. Prior to that date, we had various loans, derivative contracts, borrowings, and other financial instruments with attributes that were either directly or indirectly dependent on LIBOR. Our completion of the transition from LIBOR during the second quarter of 2023 did not have any adverse impacts on our business, financial condition, or results of operations, and each of the loan documents, financial instruments, and other agreements related to our LIBOR-based securities had fallback provisions that determined what reference rate would replace LIBOR upon its discontinuation. For example, on July 1, 2023, the interest-rate index on the capital and common securities issued by our four statutory business trusts transitioned from LIBOR to the Three-Month CME Term Secured Overnight Financing Rate with a spread adjustment of 26 basis points.

The Dodd-Frank Act

The "Dodd-Frank Wall Street Reform and Consumer Protection Act" (Dodd-Frank Act), which was enacted in 2010, represented a sweeping overhaul of many aspects of the regulation of the financial services industry. The Dodd-Frank Act created far-reaching changes across the financial regulatory landscape by addressing areas like systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, derivatives, lending

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limits, mortgage-lending practices, investment-advisor registration, and changes among the bank regulatory agencies. Some of the most notable reforms under the Dodd-Frank Act have included:

- Establishing the Consumer Financial Protection Bureau (CFPB) as the central regulator for consumer financial protection;
- Subjecting bank holding companies to the same leverage and risk-based capital requirements that apply to insured depository institutions;
- Changing the assessment base for federal deposit insurance from the amount of insured deposits to the amount of consolidated assets less tangible capital and eliminating the ceiling on the size of the Deposit Insurance Fund (DIF);
- Requiring certain financial institutions with consolidated assets of more than $10 billion, to undergo financial stress tests (which none of our Subsidiary Banks are subject to at this time due to not meeting the $10 billion asset threshold);
- Making permanent the $250,000 limit for federal deposit insurance while increasing the cash limit for Securities Investor Protection Corporation protection to $250,000;
- Repealing the federal prohibitions on the payment of interest on demand deposits;
- Amending the Electronic Fund Transfer Act to authorize the FRB to establish rules regarding interchange fees, which must be reasonable and proportional to the actual cost of a transaction to the issuer;
- Permitting interstate de novo branching without the need to acquire an existing bank;
- Imposing extensive restrictions relating to residential mortgage transactions;
- Implementing corporate-governance requirements aimed at risk management and shareholder protection;
- Establishing a whistleblower program for employees of public companies to report fraud;
- Requiring federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in short-term proprietary trading and from investing in and sponsoring certain unregistered investment companies; and
- Authorizing the FRB to examine bank holding companies and their subsidiaries and to adopt enhanced supervision and prudential standards for bank holding companies with total consolidated assets of $250 billion or more (often referred to as “systemically important financial institutions” or “SIFIs”), subject to certain modifications by the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018.

Many provisions of the Dodd-Frank Act became effective upon enactment, while others were subject to further study, SEC rulemaking and discretion afforded to federal regulators. Some provisions have only recently taken effect or will take effect in the future, making it difficult to anticipate the overall financial impact on us, our customers, or the financial industry in general. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits, as well as place limitations on certain revenues those deposits may generate. Provisions that require revisions to our capital requirements could require us to seek other sources of capital in the future.

FRB Approvals

As a registered bank holding company we are subject to supervision by, among others, the FRB. As such, we are required to file with the FRB annual reports and other information regarding our business operations and those of our Subsidiary Banks. We are also subject to periodic examination by the FRB. Under the BHCA, a bank holding company is prohibited from acquiring direct or indirect control of any company that is not a bank or bank holding company, and must engage only in the business of banking, managing, or controlling banks and furnishing services to or performing services for its subsidiary banks, except where the FRB has determined the ownership to be so closely related to banking, managing, or controlling banks as to be a proper incident thereto.

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The BHCA and the Change in Bank Control Act of 1978 require that either FRB approval must be obtained or notice must be furnished to the FRB and not disapproved prior to any person or company acquiring “control” of a bank holding company, subject to exception for certain transactions. Control is conclusively presumed to exist if any person acquires 25% or more of the voting securities of a bank holding company; control is a rebuttable presumption between 10% and 25% ownership. Ownership by affiliated persons, or persons acting in concert, is typically aggregated for these purposes. The FRB revised its control rules under the BHCA by expanding the number of presumptions used to determine whether control exists. Effective April 1, 2020, the FRB’s rule amended Regulation Y, the implementing regulation for the BHCA, to provide additional transparency regarding control determinations by implementing a tiered framework establishing factors and thresholds that are indicative of control. To date, the rule has not, as we do not anticipate that it will, have a significant detrimental effect on us given that it is generally consistent with the FRB’s historical practices in making control determinations.

As a bank holding company, we are required to obtain approval prior to merging or consolidating with any other bank holding company, acquiring all or substantially all of the assets of any bank, or acquiring ownership or control of shares of a bank or bank holding company if, after the acquisition, we would directly or indirectly own or control 5% or more of the voting shares of such bank or bank holding company. In approving acquisitions or the addition of activities, one of the issues the FRB considers is whether the acquisition or the additional activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.

Anti-Money Laundering

Combating money laundering and terrorist financing is a major focus of financial institution regulatory policy. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (PATRIOT Act), substantially expanded the responsibilities of U.S. financial institutions with respect to countering money laundering and terrorist activities. The implementing regulations impose obligations on financial institutions to maintain a risk-based anti-money laundering program that includes appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. The PATRIOT Act also requires the bank regulatory agencies to consider the record of a bank or bank holding company in combating money laundering activities in their evaluation of bank and bank holding company merger or acquisition transactions. Anti-money laundering regulations are continually evolving. In May 2018, regulatory updates were imposed that require U.S. financial institutions to ascertain and document the beneficial owners of legal entity customers opening new accounts. Those 2018 requirements were supplemented by the Anti-Money Laundering Act of 2020 (AMLA) and, as part of the AMLA, the Corporate Transparency Act (CTA).

The AMLA streamlines and modernizes certain provisions of the Currency and Foreign Transactions Reporting Act of 1970, as amended (Bank Secrecy Act), by, for example, requiring most legal entities to register their beneficial-ownership information into a national registry maintained by the Financial Crimes Enforcement Network (FinCEN); modernizing and expanding the statutory definition of “financial institution” to include antiquities dealers and entities whose services involve cryptocurrency and other non-cash currency substitutes; enhancing the type and severity of fines and penalties that violators of the AMLA, the Bank Secrecy Act, and the PATRIOT Act may face; and enhancing whistleblower protections and awards. Certain implementing regulations that FinCEN has proposed in connection with the AMLA are still being finalized.

In September 2022, FinCEN finalized its regime for beneficial-ownership reporting under the CTA, which took effect on January 1, 2024. To comply with the CTA’s reporting rule, corporations, limited liability companies, and similar entities must identify and report certain information concerning their beneficial owners, meaning the individuals who ultimately own or control them. The CTA aims to combat money laundering, securities and tax fraud, terrorism financing, human and drug trafficking, counterfeiting, and other corrupt, nefarious activities by preventing bad actors from concealing their ownership of U.S. entities to advance their illicit operations. On February 20, 2024, FinCEN’s rule for implementing the access and safeguard provisions of the CTA took effect. Under the CTA’s access rule, a reporting company’s beneficial-ownership information is deemed confidential but can be disclosed by FinCEN to six categories of recipients,

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including financial institutions that are subject to customer due diligence obligations and have received the reporting company's consent to access its beneficial-ownership information.

We have a program in place to monitor and enforce our policies on money laundering, corruption, and bribery, as well as policies that prohibit the use of Company assets to finance or otherwise aid alleged terrorist groups. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Nonresident Alien Deposits

In 2013, the IRS published a rule requiring U.S. banks to report on the interest they pay to nonresident alien individuals. The IRS shares that information with tax authorities in other countries with whom the United States has an agreement regarding the exchange of tax information.

Foreign Account Tax Compliance Act

On July 1, 2014, the Foreign Account Tax Compliance Act (FATCA) became effective. FATCA aims to curb offshore tax evasion by foreign financial institutions by requiring such institutions to identify any U.S. account holders. Moreover, FATCA requires U.S. withholding agents, including U.S. banks, to withhold a tax (30%) on U.S.-sourced income payable to foreign financial institutions that do not agree to report certain information to the IRS regarding their U.S. accounts, as well as on payments to nonfinancial foreign entities that do not provide information on their U.S. account owners to withholding agents.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals, and others. The Office of Foreign Assets Control of the U.S. Department of the Treasury (OFAC) publishes lists of specially designated countries and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States. The OFAC-administered sanctions take many forms, including restrictions on trade or investment and the blocking of certain assets related to the designated foreign countries and nationals. Blocked assets, which may include bank deposits, cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with the OFAC sanctions could have serious legal and reputational consequences.

Gramm-Leach-Bliley Act

The GLBA eliminates the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers. The GLBA provides for a new type of financial holding company structure under which affiliations among these entities may occur. Under the GLBA, a financial holding company may engage in a broad list of financial activities and any non-financial activity that the FRB determines is complementary to a financial activity and poses no substantial risk to the safety and soundness of depository institutions or the financial system. In addition, the GLBA permits certain non-banking financial and financially related activities to be conducted by financial subsidiaries of banks.

Under the GLBA, a bank holding company may become certified as a financial holding company by filing a declaration with the FRB, together with a certification that each of its subsidiary banks is well capitalized, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 (CRA). We elected and were approved by the FRB to become a financial holding company under the GLBA in 2000 and the election was made effective by the FRB as of March 13, 2000. During the second quarter of 2000, IBC established an insurance agency subsidiary and acquired two insurance agencies.

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The investments that may be made under the GLBA are substantially broader in scope than the investment activities otherwise permissible for bank holding companies and are referred to as "merchant banking investments" in "portfolio companies." The FRB and the Secretary of the Treasury have regulations governing the scope of permissible merchant banking investments. Before making a merchant banking investment, a financial holding company must either be or have a registered securities firm or a qualified insurance affiliate. The merchant banking investments may be made by the financial holding company or any of its subsidiaries, other than a depository institution or a subsidiary of a depository institution. The regulations place restrictions on the ability of a financial holding company to become involved in the routine management or operation of any portfolio company. The regulation also generally limits the ownership period of merchant banking investments to no more than ten years.

The FRB, the Office of the Comptroller of the Currency (OCC), and the FDIC have rules governing the regulatory capital treatment of equity investments in non-financial companies held by banks, bank holding companies and financial holding companies. The rules apply a graduated capital charge on covered equity investments, which would increase as the proportion of such investments to Tier 1 capital increases.

On September 8, 2016, the FRB published a report to Congress in which it recommended the repeal of the merchant banking authority granted to financial holding companies under the GLBA. Specifically, the FRB recommended that Congress repeal the statutory merchant banking authority and the grandfathering exemption for certain companies that became financial holding companies after 1999. The FRB also noted in its report that it is considering regulatory measures that would limit what it termed "safety and soundness risks of merchant banking investments." Following this report, on September 30, 2016, the FRB published a Notice of Proposed Rulemaking (NPR) proposing to, among other things, amend the risk-based capital requirements to increase the requirements associated with a subset of merchant banking investments; specifically, merchant banking investments in companies engaged in physical commodities activities. The changes proposed in the NPR were significantly narrower than the FRB's recommendations regarding merchant banking investments in its report to Congress. To date, a final rule implementing the changes put forth in the NPR has not been issued and it is uncertain what action, if any, will be taken regarding the FRB's report.

Financial Privacy and Data Protection

In accordance with the GLBA, the federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. Pursuant to these rules, financial institutions must provide disclosure of privacy policies to consumers and allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party in some instances.

Additional regulations were adopted to implement the provisions of the Fair Access to Credit Transactions Act (FACTA), which requires certain disclosures and consents to share certain information among bank affiliates. These privacy provisions affect how customer information is transmitted through diversified financial companies and conveyed to outside vendors. These privacy provisions also have the effect of increasing the length of the waiting period, after privacy disclosures are provided to new customers before information can be shared among different affiliated companies for the purpose of cross-selling products and services between those affiliated companies. On December 4, 2015, the Fixing America's Surface Transportation Act (FAST Act) was signed into law. Part of the FAST Act amended the GLBA by providing financial institutions with an exception to the general requirement that those institutions deliver annual privacy notices.

In late 2022, the CFPB issued an outline of proposed rules related to Section 1033 of Dodd-Frank, which requires the CFPB to implement regulations providing for the sharing of consumer financial information between financial institutions and consumer-authorized data recipients. In October 2023, the CFPB proposed a "Personal Financial Data Rights" rule, which aims to promote open, decentralized banking, protect consumers' financial data from misuse, and foster competition in the banking industry. If enacted as proposed, the rule would require financial institutions to make financial data regarding consumers' transactions and accounts more accessible for consumers and authorized third parties acting on their behalf; implement authorization procedures for third parties seeking to access consumer data, including requiring third parties to commit to data limitations and compliance with the GLBA Safeguards Framework; establish operational, performance, and security standards related to data access; and advance fair, open, and inclusive industry standards to facilitate an open banking system. It is not clear when a final rule will be issued.

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Nasdaq Listing Standards

Shares of our common stock are listed and trade on The Nasdaq Stock Market (Nasdaq) under the symbol “IBOC.” As such, we must comply with the quantitative and qualitative listing standards of Nasdaq. In addition to other matters, the Nasdaq listing standards address disclosure requirements and establish standards relating to board independence and other corporate governance matters.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking Act) rewrote federal law governing the interstate expansion of banks in the United States. Under the Interstate Banking Act, adequately capitalized, well-managed bank holding companies with FRB approval may acquire banks located in any other state in the United States, provided that the target bank meets the minimum age established by the state in which the target bank is located (five years in Texas). The Interstate Banking Act imposes an anti-concentration limit, which prohibits interstate acquisitions that would give a bank holding company control of more than 10% of all deposits nationwide or 30% of any one state’s deposits, or such higher or lower percentage established by the host state. The anti-concentration limit applicable in each of Texas and Oklahoma is 20% of all federally insured deposits in the state. The Interstate Banking Act further expanded interstate banking by allowing banks to establish de novo branches in any state that opted-in to the Interstate Banking Act’s branching provisions. However, the opt-in concept was eliminated by the Dodd-Frank Act, which permits de novo interstate branching if, under the laws of the state where the new branch is to be established, a state bank chartered in that state would be permitted to establish a branch.

FRB Enforcement Powers

The FRB has certain divestiture and other powers over bank holding companies and non-banking subsidiaries where their actions would constitute a serious threat to the safety, soundness, or stability of a subsidiary bank. These powers may be exercised through the issuance of cease and desist orders or other actions. In the event a Subsidiary Bank experiences either a significant loan loss or rapid growth of loans or deposits, we may be compelled by the FRB to invest additional capital in the Subsidiary Bank. Further, we would be required to guarantee performance of the capital restoration plan of any undercapitalized Subsidiary Bank.

The FRB is also empowered to assess civil money penalties against companies or individuals who violate the BHCA in amounts up to $25,000 per day, order termination of non-banking activities of non-banking subsidiaries and order termination of ownership and control of a non-banking subsidiary. Under certain circumstances the Texas Banking Commissioner may bring enforcement proceedings against a bank holding company in Texas.

Company Dividends

Our holding company is regarded as a legal entity separate and distinct from our Subsidiary Banks and is subject to regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The ability of our holding company to pay dividends is largely dependent on the amount of cash derived from dividends declared by our Subsidiary Banks. The payment of dividends by any bank or bank holding company is affected by the requirement to maintain adequate capital. Under FRB policy, bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if the prospective rate of earnings retention is consistent with the organization’s expected capital needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company’s ability to serve as a source of strength to its banking subsidiaries. The FRB has historically discouraged dividend payment ratios that are at the maximum allowable levels unless both asset quality and capital are very strong.

The ability of the Subsidiary Banks to pay dividends is also restricted under Texas and Oklahoma law. A Texas bank generally may not pay a dividend reducing its capital and surplus without the prior approval of the Texas Banking Commissioner. An Oklahoma bank generally may not pay a dividend reducing its capital and surplus without the prior approval of the Oklahoma Department of Banking. The FDIC has the right to prohibit the payment of dividends by a bank where the payment is deemed to be an unsafe and unsound banking practice.

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At December 31, 2023, there was an aggregate of approximately $1,229,500,000 available for the payment of dividends to our holding company by our Subsidiary Banks under the capital rules applicable as of December 31, 2023, assuming that each of such banks continues to be classified as "well capitalized." Further, we could expend the entire $1,229,500,000 and continue to be classified as "well capitalized" under the capital rules applicable as of December 31, 2023.

Source of Strength Doctrine

FRB policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, we are expected to commit resources to support our Subsidiary Banks, including at times when we may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. In addition to the foregoing requirements, the Dodd-Frank Act's provisions authorize the FRB and other federal banking regulators to require a company that directly or indirectly controls a bank to submit reports that are designed both to assess the ability of such company to comply with its "source of strength" obligations and to enforce the company's compliance with these obligations.

The Dodd-Frank Act requires the federal banking agencies to jointly issue rules implementing the "source of strength" doctrine, but as of December 31, 2023, the FRB and other federal banking regulators have not yet issued such rules.

Deposit Insurance

All of the Subsidiary Banks are examined by the FDIC, which currently insures the deposits of each Subsidiary Bank up to the applicable limits provided by law. The FDIC may terminate deposit insurance upon a finding that an institution has engaged in unsafe and unsound practices, is in an unsafe or uninsured condition to continue operations, or has violated any applicable law, regulation, rule, or order of condition imposed by the FDIC.

The FDIC uses a risk-based assessment system that imposes premiums based upon a matrix that takes into account a bank's capital level and supervisory rating.

Our FDIC deposit insurance expense totaled $6,285,000, $6,987,000, and $4,389,000 in 2023, 2022 and 2021, respectively.

The FDIC requires insured depository institutions with at least two million deposit accounts to comply with specific recordkeeping standards and deposit insurance calculation requirements. The institutions also are required to ensure that their information technology (IT) systems are capable of calculating the amount of insured money for most depositors within 24 hours of a failure.

In October 2022, the FDIC adopted a final rule to increase the initial base deposit insurance assessment rate schedules uniformly by two basis points beginning with the first quarterly assessment period of 2023. The increased assessment is intended to improve the likelihood that the DIF ratio reaches the statutory minimum of 1.35% by September 30, 2028, the statutory deadline prescribed under the FDIC's amended restoration plan, and to support the DIF's growth to a reserve ratio of 2%, the minimum reserve ratio that the FDIC determined would be necessary to withstand a future banking crisis comparable to past crises.

In November 2023, the FDIC issued a final rule to impose a special assessment meant to recover the losses to the DIF of roughly $16.3 billion that resulted from the FDIC invoking the systemic-risk exception in order to cover all of the uninsured deposits of two banks that failed in March 2023. The assessment base for the special assessment is equal to an insured depository institution's estimated uninsured deposits reported for the quarter ended December 31, 2022, minus the first $5 billion in estimated insured deposits. The special assessment will be collected by the FDIC at an

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annual rate of approximately 13.4 basis points for an anticipated total of eight quarterly assessment periods, beginning with the first quarterly assessment period of 2024. Banks with total assets under $5 billion will not be subject to the special assessment. Under the final rule, the estimated loss pursuant to the systemic-risk determination will be periodically adjusted, and the FDIC may cease collection early, extend the collection period, and impose a final shortfall special assessment on a one-time basis. None of our Subsidiary Banks were subject to the special assessment.

Capital Adequacy

Our holding company and our Subsidiary Banks are required to meet certain minimum regulatory capital guidelines. The FRB has historically utilized a system based upon risk-based capital guidelines under a two-tier capital framework to evaluate the capital adequacy of bank holding companies. Tier 1 capital generally consists of common stockholders' equity, retained earnings, a limited amount of qualifying perpetual preferred stock, qualifying trust preferred securities and non-controlling interests in the equity accounts of consolidated subsidiaries, less goodwill and certain intangibles. Tier 2 capital generally consists of certain hybrid capital instruments and perpetual debt, mandatory convertible debt securities and a limited amount of subordinated debt, qualifying preferred stock, loan loss allowance, and unrealized holding gains on certain equity securities.

The federal authorities' risk-based capital guidelines utilize total capital to risk-weighted assets and Tier 1 capital elements. In this way, the guidelines make regulatory capital requirements more sensitive to differences in risk profiles among banking organizations, consider off-balance-sheet exposure in assessing capital adequacy and encourage the holding of liquid, low-risk assets. At least one half of the minimum total capital is required to be comprised of Core Capital or Tier 1 capital elements. Our Tier 1 capital is comprised of common shareholders' equity and permissible amounts related to the trust preferred securities. The deductible core deposit intangibles and goodwill booked in connection with all our financial institution acquisitions are deducted from the sum of core capital elements when determining our capital ratios.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets (leverage ratio) equal to 3% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of at least 4% - 5%. Our leverage ratio at December 31, 2023 was 17.46%.

The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Each of our Subsidiary Banks is subject to similar capital requirements adopted by the FDIC and had a leverage ratio in excess of 5% as of December 31, 2023.

The federal bank regulatory agencies adopted regulations that mandate a five-tier scheme of capital requirements and corresponding supervisory actions to implement the prompt corrective action provisions of the Federal Deposit Insurance Act, as amended (FDIA). The regulations include requirements for the capital categories that will serve as benchmarks for mandatory supervisory actions. Under the regulations, the highest of the five categories would be a well-capitalized institution with a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6% and a Tier 1 leverage ratio of 5%. An institution would be prohibited from declaring any dividends, making any other capital distribution, or paying a management fee if the capital ratios drop below the levels for an adequately capitalized institution, which are 8%, 4%, and 4%, respectively. The corresponding provisions of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) mandate corrective actions be taken if a bank is undercapitalized. Based on our capital ratios as of December 31, 2023, our holding company and each of the Subsidiary Banks were classified as "well capitalized" under the applicable regulations.

The risk-based standards that apply to bank holding companies and banks incorporate market and interest rate risk components. Applicable banking institutions are required to adjust their risk-based capital ratio to reflect market risk. Under the market risk capital guidelines, capital is allocated to support the amount of market risk related to a financial institution's ongoing trading activities. Financial institutions are allowed to issue qualifying unsecured subordinated debt (Tier 3 capital) to meet a part of their market risks. We do not have any Tier 3 capital and did not need Tier 3 capital to

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offset market risks. The Dodd-Frank Act directs the banking agencies to issue capital requirements for banking institutions that are countercyclical. These require a higher level of capital to be maintained in times of economic expansion and a lower level of capital during times of economic contraction.

Basel III

In July 2013, the FRB and the FDIC published the Basel III capital rules, which implemented a comprehensive capital framework for U.S. banking organizations known as “Basel III” along with certain provisions of the Dodd-Frank Act. The Basel III framework was developed by the Basel Committee on Banking Supervision, a college of central bankers and other financial regulators from the United States and other advanced economies, to strengthen international capital standards. Basel III requires bank holding companies and their subsidiary banks to maintain substantially more capital, with a greater emphasis on common equity.

The Basel III final capital framework, among other things, (i) a minimum ratio for “Common Equity Tier 1” capital (CET1), (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to pre-Basel III regulations.

Basel III also provides for a “countercyclical capital buffer,” generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum requirement, but below the conservation buffer, will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall and the institution’s “eligible retained income” (meaning, four quarter trailing income, net of distributions and tax effects not reflected in net income).

In August 2022, the Inflation Reduction Act of 2022 (IRA) was enacted. Among other things, the IRA imposes a new 1% tax on the fair market value of stock repurchased after December 31, 2022 by publicly traded U.S. corporations. With certain exceptions, the value of stock repurchased is determined net of stock issued in the year, including shares issued pursuant to compensatory arrangements.

The Basel III capital rules require most components of “Accumulated Other Comprehensive Income (Loss)” (AOCI) to be recognized in CET1, factoring in to the calculation of CET1 all net unrealized gains (losses) on available for sale securities. The Basel III definition of CET1 also establishes the expectation that the majority of CET1 should be voting shares. Basel III strengthens the risk sensitivity of the regulatory capital treatment for various risk exposures, including a category of exposure created by Basel III known as “High Volatility Commercial Real Estate,” which has a risk weight of 150% and generally includes nonresidential real estate acquisition development or construction financing.

Further, the Basel III capital rules establish calculations for risk-weighted assets using alternatives to credit ratings that are based on either the weighted average of the underlying collateral or a formula based on subordination position and delinquencies or the use of a 1,250% risk rating, which is be the default rating that a banking organization must apply to a securitization exposure if it does not meet certain requisite due diligence standards and does not demonstrate a comprehensive understanding of the exposure. Securitized structures, such as private label mortgage-backed securities, may be risk weighted based on a gross-up approach considering underlying assets, or they default to the 1,250% risk weight.

On the quality of capital side, the Basel III capital rules emphasize CET1 capital, the most loss absorbing form of capital, and implement strict eligibility criteria for regulatory capital instruments. The rules also improve the methodologies for calculating risk-weighted assets to enhance risk sensitivity. At the time that Basel III was implemented, the banking agencies made a number of changes in the final capital rules, in particular, to address concerns about regulatory burden on community banks. For example, the final rules are significantly different from the proposed rules in terms of risk weighting for residential mortgages and the regulatory capital treatment of certain unrealized gains and losses on trust preferred securities for common banking organizations.

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A key provision of the Basel III capital rules permitted banks to make a one-time irrevocable election to opt out of the Basel III requirement to recognize most items of AOCI in regulatory capital. For institutions like ours that chose to make the AOCI opt-out election, most AOCI items are not included in the calculation of CET1; institutions that do not opt out must include most AOCI items included in CET1 calculation, which affects the institution's legal lending limit calculation. If a top-tier banking organization makes the AOCI opt-out election, all consolidated banking subsidiary organizations under it must make the same election.

The Basel III capital rules require the following minimum capital ratios to be met:

- 4.5% CET1 to risk-weighted assets, plus a capital conservation buffer of at least 2.5% (resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%);
- 6.0% Tier 1 capital to risk-weighted assets, plus a capital conservation buffer (resulting in a Tier 1 capital to risk-weighted assets ratio of at least 8.5%);
- 8.0% Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5%); and
- 4.0% minimum leverage ratio, calculated as the ratio of Tier 1 capital to average assets.

The Basel III capital rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from four categories (0%, 20%, 50% and 100%), to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, resulting in higher risk weights for a variety of asset categories. Specific changes to the rules impacting our determination of risk-weighted assets include, among other things:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development, and construction loans;
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due;
- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%);
- Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction;
- Providing for a 100% risk weight for claims on securities firms; and
- Eliminating the current 50% cap on the risk weight for OTC derivatives.

In addition, the Basel III capital rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

In December 2017, the Basel Committee on Banking Supervision unveiled its final set of standards and reforms to the Basel III regulatory capital framework, commonly called "Basel III endgame" or "Basel IV." The Basel IV standards make changes to the capital framework first introduced as "Basel III" in 2010and aim to reduce excessive variability in banks' calculations of risk-weighted assets and risk-weighted capital ratios. Implementation of Basel IV began on January 1, 2023 and will continue over a five-year transition period by regulators in individual countries, including the U.S. federal bank regulatory agencies (after notice and comment).

Basel III Prompt Corrective Action

The FDIA requires the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDIA establishes the following five capital tiers: (i) "well capitalized;" (ii) "adequately capitalized;" (iii) "undercapitalized;" (iv) "significantly undercapitalized;" and (v) "critically

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undercapitalized." A depository institution's capital tier depends upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures, which reflect the standards for assessing capital adequacy under the Basel III capital rules that became effective on January 1, 2015, are the total capital ratio, the CET1 capital ratio, the Tier 1 capital ratio, and the leverage ratio. A bank will be considered:

- "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any regulatory authority to meet and maintain a specific capital level for any capital measure;
- "adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized";
- "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%;
- "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and
- "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized, and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized."

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

As of December 31, 2023, each of our Subsidiary Banks are "well capitalized" based on the aforementioned ratios pursuant to the Basel III capital rules.

Liquidity Requirements

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity

measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation.

The Basel III liquidity coverage ratio uses international liquidity standards that serve to reconcile the differences of the liquidity standards of countries. The Basel Committee is expected to address the net stable funding ratio in the future. These new standards are subject to further rulemaking and their terms may well change before implementation. The federal bank regulatory agencies also issued a proposed rule that would implement qualitative liquidity requirements, including a liquidity coverage ratio (LCR), consistent with liquidity standards adopted by the Basel Committee, for certain banking organizations with more than $250 billion in total assets or subsidiary depository institutions of internationally active banking organizations with $10 billion or more in total consolidated assets. The FRB issued a separate proposed rule at the same time to apply a modified version of the LCR to certain depository institution holding companies with assets greater than $50 billion. The final version of the rule defines banks with between $50 billion and $250 billion in assets as “modified LCR companies,” which will be subjected to less rigorous requirements regarding the high-quality liquid assets calculations.

In July 2018, following the enactment of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, the FRB stated that it would no longer require bank holding companies with less than $100 billion in total consolidated assets to comply with the modified version of the LCR. In October 2018, the federal banking regulators further proposed to revise their liquidity requirements so that banking organizations that are not globally systemic important banks, have less than $250 billion in total consolidated assets and have less than $75 billion in each of off-balance sheet exposures, nonbank assets, cross-jurisdictional activity and short-term wholesale funding would not be subject to any LCR or net stable funding ratio requirements.

FASB CECL Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amended the credit-loss accounting standards for financial assets and implemented the Current Expected Credit Losses (CECL) methodology. Among other things, the update required that the expected credit losses on financial instruments held as of the end of the period being reported be measured based on historical experience, current conditions, and reasonable and supportable forecasts. Pursuant to rules issued by the federal bank regulatory agencies in February 2019 and March 2020, banking organizations were given the option to phase in the adoption of CECL over a three-year transition period through December 31, 2022 or over a five-year transition period through December 31, 2024. The impact of the adoption of the updated accounting standards was to be recorded as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance was adopted. Rather than electing a phase-in option, we immediately recognized the capital impact upon adopting the CECL accounting standards on January 1, 2020, which resulted in an increase in our allowance for probable loan losses and a one-time cumulative-effect adjustment to retained earnings upon adoption.

State Enforcement Powers

The Banking Commissioners of Texas and Oklahoma may determine to close a Texas or Oklahoma state bank, respectively, if such Commissioner finds that the interests of depositors and creditors of the state bank are jeopardized through its current or imminent insolvency and that it is in the best interest of such depositors and creditors that the bank be closed. The Texas Department of Banking and Oklahoma State Banking Department have broad enforcement powers over our Subsidiary Banks, as applicable, including the power to impose orders, remove officers and directors, impose fines and appoint supervisors and conservators.

Depositor Preference

Because our holding company is a legal entity separate and distinct from our Subsidiary Banks, our holding company has the right to participate in the distribution of assets of any Subsidiary Bank upon the subsidiary’s liquidation or reorganization, but it will be subject to the prior claims of the subsidiary’s creditors. In the event of a liquidation or other resolution of an insured depository institution like any of our Subsidiary Banks, the claims of depositors and other

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general or subordinated creditors of the bank are entitled to a priority of payment over the claims of holders of any obligation of the bank to its shareholders, including any depository institution holding company (like us) or any shareholder or creditor thereof.

Community Reinvestment Act

Under the CRA, the FDIC is required to assess the record of each Subsidiary Bank to determine if the bank meets the credit needs of its entire community, including low- and moderate-income neighborhoods served by the bank, and to take that record into account in its evaluation of any application made by the bank for, among other things, approval of the acquisition or establishment of a branch or other deposit facility, an office relocation, a merger, or the acquisition of shares of capital stock of another financial institution. In May 2022, the federal bank regulators, including the FDIC, issued a notice of proposed rulemaking intended to revise the CRA's implementing regulations in order to advance the CRA's core purpose and adapt the CRA's regulatory framework to reflect the modern banking industry. The focus of the revised rules, according to the regulators, is to (i) expand access to credit, investment, and basic banking services in low- and moderate-income communities, (ii) adapt to increased provision and use of Internet and mobile banking products and services, (iii) provide greater clarity, consistency, and transparency, (iv) tailor CRA evaluations and data collection to bank size and type, and (v) maintain a unified approach.

In October 2023, the federal regulators adopted a joint final rule to strengthen and modernize the CRA regulations, which was consistent with the 2022 proposed rule. Under the final rule, most of the CRA changes will only affect "large" banks with assets of more than $2 billion while allowing small and mid-sized banks to elect to be evaluated based on certain of the new rules. Although updates to the CRA's implementing regulations were necessary to address the changes in the banking industry and the increase in online and mobile banking, the changes under the final rule include significant increases in data collection, testing, and evaluation metrics related to geography and assessment areas. The final rule takes effect on April 1, 2024, with staggered compliance dates of January 1, 2026 and January 1, 2027. The asset-size thresholds defined in the joint final rule will apply on January 1, 2026.

Proposed legislation was introduced in September 2022 would further revise the CRA by adding several new substantive and procedural requirements. If enacted, the legislation would broaden the types of legal violations that affect CRA scores, require banks to form community advisory committees in each market they serve (based on metropolitan statistical areas), require proof of impact for community service and charity efforts to receive CRA credit, and require large banks to collect and report even more information related to borrower demographics. The proposed legislation would also require regulators to consider a bank's partnerships with non-depository lenders and "small-dollar" first-lien mortgages as part of CRA examinations. Like the October 2023 final regulatory revisions, the legislation focuses on applying fair-lending concepts to CRA obligations and examinations. We will continue to monitor this legislation and its potential effect on the revised CRA regulations.

The FDIC prepares a written evaluation of an institution's record of meeting the credit needs of its entire community and assigns a rating. Federal banking agencies make public a rating of a bank's performance under the CRA. The Subsidiary Banks conduct an award-winning financial literacy program in their communities as part of their community outreach.

Three of our Subsidiary Banks received an "Outstanding" CRA rating, and two received a "Satisfactory" CRA rating in their most recently completed examinations. Financial institutions are evaluated under different CRA examinations procedures based upon their asset size classification, which asset thresholds are updated annually and were updated as of January 1, 2024. "Large bank" now means a bank with total assets equal to or greater than $1.564 billion for December 31 of both of the prior two calendar years, "small bank" means a bank with assets of less than $1.564 billion as of December 31 of either of the prior two calendar years, and "intermediate small bank" means a bank with assets of at least $391 million as of December 31 of both of the prior two calendar years and less than $1.564 billion as of December 31 of either of the prior two calendar years. Two of our Subsidiary Banks are considered "intermediate small banks" and IBC, IBC Brownsville and IBC Oklahoma are considered "large banks" under the new asset thresholds.

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Consumer Laws

In addition to the laws and regulations discussed herein, the Subsidiary Banks are also subject to numerous consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Subsidiary Banks must comply with the applicable provisions of these consumer finance protection laws and regulations as part of their ongoing customer relations. The Dodd-Frank Act established comprehensive new rules regulating mortgage activities and created the CFPB with direct supervisory authority to enforce certain consumer finance protection laws over banks with assets of $10 billion or more and certain nonbank entities.

The CFPB's broad authority to issue, interpret, and enforce almost all federal consumer protection laws, and its issuance of applicable disclosure forms, may impact each of the Subsidiary Banks' consumer compliance programs. The applicable consumer financial protection laws include, in part, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Procedures Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Practices Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which is part of the Dodd-Frank-Act. The CFPB also has broad authority, among other matters, to declare acts or practices to be "unfair, deceptive, or abusive," and to develop and require new consumer disclosures. The CFPB has issued and continues to issue numerous regulations under which IBC and the Subsidiary Banks will continue to incur additional expense in connection with ongoing compliance obligations. Significant recent CFPB developments that may affect operations and compliance costs include:

- positions taken by the CFPB on fair lending, including applying the disparate impact theory which could make it more difficult for lenders to charge different rates or to apply different terms to loans to different customers;

- the CFPB's final rule amending Regulation C, which implements the Home Mortgage Disclosure Act, requiring most lenders to report expanded information in order for the CFPB to more effectively monitor fair lending concerns and other information shortcomings identified by the CFPB;

- positions taken by the CFPB regarding the Electronic Fund Transfer Act and Regulation E, which require companies to obtain consumer authorizations before automatically debiting a consumer's account for pre-authorized electronic funds transfers;

- focused efforts on enforcing certain compliance obligations the CFPB deems a priority, such as automobile loan servicing, debt collection, mortgage origination and servicing, remittances, and fair lending, among others.

- the CFPB's proposed Dodd-Frank Section 1033 consumer financial data sharing rule, which will require financial institutions to provide consumers and their authorized parties access to certain consumer financial data obtained and maintained by the financial institution; and

- the CFPB's continued focus on bank fees and charges, including supervision and enforcement actions and bulletins related to overdraft and non-sufficient funds fees.

In light of the current political climate in Washington, DC and changes in CFPB leadership in recent years, we cannot predict what additional actions may be taken by the CFPB with respect to its previous regulations, rulings, and decisions and any impact on our operations. In October 2022, the United States Court of Appeals for the Fifth Circuit held that the mechanism for funding the CFPB is an unconstitutional violation of the Appropriations Clause. The CFPB petitioned the United States Supreme Court to hear its challenge to that holding, and the Supreme Court heard oral arguments in the case in October 2023. The Supreme Court's decision is expected to be delivered in spring 2024. Since the Fifth Circuit's decision, numerous legal challenges to CFPB oversight, enforcement, and action have been filed across the country, and several federal courts have stayed CFPB enforcement proceedings pending the Supreme Court's decision. The Supreme Court's decision is expected to have a profound impact on the future and scope of regulatory

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authority of the CFPB and potentially other agencies and programs that are not funded through the ordinary annual appropriations process.

Military Lending Act

In 2015, the Department of Defense issued final amendments to the rule that implements the federal Military Lending Act. Under the amended rule, the Department of Defense expanded the definition of "consumer credit" to include a much broader range of credit products, including some credit products offered by depository institutions. The rule requires lenders to provide certain protections to borrowers who are covered under the rule. For instance, lenders must cap the Military Annual Percentage Rule for covered credit products provided to covered borrowers at 36%. Lenders must also provide certain disclosures and other protections to covered borrowers. Although a lender can use any method to determine a borrower's military status, the lender can obtain a safe harbor by verifying the borrower's military status either through the Department of Defense Manpower Data Center or by using a consumer credit report that contains military status.

Electronic Banking and Cybersecurity

The Federal Financial Institutions Examination Council (FFIEC) issued guidance in 2005 entitled "Authentication in an Internet Banking Environment" (2005 Guidance), followed by a 2011 supplement thereto (2011 Supplement). Together, the 2005 Guidance and the 2011 Supplement provided a risk-management framework for financial institutions offering Internet-based products and services to their customers and established the FDIC's supervisory expectations regarding customer authentication, layered security, and other controls in an increasingly hostile online environment. In 2021, the FFIEC issued new guidance entitled "Authentication and Access to Financial Institution Services and Systems" (the 2021 Guidance), which replaced the 2005 Guidance and the 2011 Supplement. The 2021 Guidance addresses changes in the types and accessibility of online and mobile banking products and services, the increased use of new and emerging payment services, and the resulting risks associated with the cybersecurity-threat landscape. The primary objective of the 2021 Guidance is to provide effective risk management principles and practices related to identification, authentication, and access for consumer and business customers, employees, third parties, applications and devices that access and utilize digital banking services and information systems. The 2021 Guidance supports the use of multi-factor authentication in nearly every facet of banking services and highlights the importance of banks' Internet and cybersecurity risk assessment in addressing and preventing unauthorized access to accounts, services and information and other cyber-crime. In late 2022, the FFIEC published an update to its 2018 Cybersecurity Resource Guide for Financial Institutions, which includes cyber-attack and ransomware resources and guidance, and focuses on responding to cyber incidents and monitoring vendors and service providers.

In 2011, the Texas Banking Commissioner and the U.S. Secret Service formed the Bankers Electronic Crimes Task Force and issued guidance entitled "Best Practices for Banks: Reducing the Risks of Corporate Account Takeovers." This guidance sets forth nineteen best practices to reduce the risk of corporate account takeover thefts. Our Subsidiary Banks are required to comply with these guidelines and best practices.

The National Institute of Standards and Technology (NIST) released a preliminary Framework for Improving Critical Infrastructure Cybersecurity (NIST Cybersecurity Framework) in 2014, and an update to that framework in 2018. Our Subsidiary Banks are expected to incorporate the NIST Cybersecurity Framework into their infrastructures and risk-management systems, which are also governed by FFIEC guidelines. In 2016, the federal banking agencies proposed enhanced cyber-risk management standards for large interconnected entities and their service providers. The proposal established enhanced standards to increase the operational resilience of those entities and reduce the impact on the financial system in case of a cyber event experienced by any of them. The standards address cyber-risk governance, cyber-risk management, internal dependency management, external dependency management, incident response, cyber resilience, and situational awareness. The enhanced standards would be implemented in a tiered manner, imposing more stringent standards on the systems of those entities that are critical to the functioning of the financial sector. In 2021, the federal banking agencies adopted a rule governing computer security incidents and, in part, the rule requires notification by a regulated institution to its primary federal regulator in the event of certain cybersecurity-related incidents.

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In February 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. The SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking laws and regulations. In July 2023, the SEC issued a final rule that, consistent with its rule proposal from March 2022, requires disclosure of material cybersecurity incidents and annual disclosure of material information concerning cybersecurity risk management, strategy, and governance. Under the final rule, registrants are required to disclose the occurrence of and key details about a material cybersecurity incident within four business days of determining that the incident is material and must provide periodic updates as to the status of the incident in subsequent filings.

In October 2023, President Joe Biden issued an Executive Order (EO) on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence (AI), which sets new standards for AI safety and security, establishes guidelines and processes for the equitable use of AI, calls on Congress to pass bipartisan data-privacy legislation, and directs federal agencies to take various actions to advance the safety, security, and trustworthiness of AI systems and to mitigate AI risks. Several of the directives in the EO involve the financial-services industry. For example, the EO directs the Secretary of the Treasury to prepare a public report advising financial institutions on best practices for managing AI-specific cybersecurity risks, encourages the CFPB director to address how AI tools and automated systems, depending on their use, have the potential to enable unlawful discrimination and biases in the housing and consumer-finance markets or to facilitate compliance with the federal laws that prohibit those discriminatory practices, and encourages regulatory agencies to consider rulemaking to address the risks to financial stability and other risks that may result from using AI.

Increasingly, state regulators are implementing additional privacy and cybersecurity standards and regulations. Recently, several states adopted regulations requiring certain financial institutions to implement cybersecurity programs and provide detailed requirements for such programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. Effective January 1, 2020, Texas amended its data breach notification law, limiting the time frame for notifying individuals whose data has been compromised and requiring notice to the Texas Attorney General in certain circumstances. We expect state-level activity to continue in this area and will continue monitoring legislative developments in Texas and Oklahoma.

Affiliate Transactions

Our holding company and Subsidiary Banks are “affiliates” within the meaning of Section 23A of the Federal Reserve Act (FRA), which sets forth certain restrictions on (i) loans and extensions of credit between a bank subsidiary and affiliates, (ii) investments in an affiliate’s stock or other securities, and (iii) acceptance of such stock or other securities as collateral for loans. These restrictions prevent a bank holding company from borrowing from any of its bank subsidiaries unless the loans are secured by specific obligations. Further, such secured loans and investments by a bank subsidiary are limited in amount, as to a bank holding company or any other affiliate, to 10% of such bank subsidiary’s capital and surplus and, as to the bank holding company and its affiliates, to an aggregate of 20% of such bank subsidiary’s capital and surplus. Certain restrictions do not apply to 80% or more owned sister banks of bank holding companies. Each Subsidiary Bank is wholly-owned by our holding company.

Section 23B of the FRA requires that the terms of affiliate transactions be comparable to terms of similar non-affiliate transactions. Among other things, the Dodd-Frank Act expands the limitations on affiliate transactions by expanding the definitions of “affiliate” and of “covered transactions,” which include debt obligations of an affiliate utilized as collateral. The Dodd-Frank Act also requires that the 10% of capital limit on covered transactions begin to apply to non-bank financial subsidiaries. “Covered transactions” are defined to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. While the Dodd-Frank Act’s changes to Sections 23A and 23B of the FRA became effective in 2012, the FRB has not amended Regulation W to reflect those changes. However, in March 2021, the FRB staff provided guidance (in the form of a memorandum and answers to frequently asked questions developed by the staff) indicating that Sections 23A and 23B of the FRA should be interpreted as having been amended by the Dodd-Frank Act and that the FRB is in the process of revising Regulation W to reflect the Dodd-Frank Act’s changes.

Insider Loans

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The restrictions on loans to directors, executive officers, principal shareholders, and their related interests contained in the FRA and Regulation O apply to all insured institutions and their subsidiaries and holding companies. In general, any such extensions of credit must (i) not exceed certain dollar limitations, (ii) be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (iii) not involve more than the normal risk of repayment or present other unfavorable features. Additional restrictions are imposed on extensions of credit to executive officers. Certain extensions of credit also require the approval of a bank's board of directors. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Mortgage Lending

In 2016, the CFPB amended certain mortgage rules issued in 2013. The final rule clarifies, revises, or amends provisions regarding force-placed insurance notices, policies, and procedures, early intervention, and loss-mitigation requirements under Regulation X's servicing provisions, and imposes prompt crediting and periodic statement requirements under Regulation Z's servicing provisions. The final rule also addresses compliance when a consumer is in bankruptcy and makes technical corrections to several other provisions.

Also in October 2016, the CFPB issued a final interpretive rule amending the mortgage servicing rules, most of which became effective in October 2017, and the remainder of which became effective in April 2018. The CFPB issued the interpretive rule under the Fair Debt Collection Practices Act (FDCPA) to clarify the interaction of the FDCPA and mortgage servicing rules. The interpretive rule constitutes an advisory opinion under FDCPA Section 813(e) and provides a safe harbor from liability for actions done or omitted in good faith in conformity with the opinion. The CFPB's final rules also addresses insufficiency of hazard insurance which may lead to new requirements for lender-placed insurance, and early intervention with delinquent buyers, which will be governed by new contract obligations.

On November 30, 2016, the CFPB, FRB, and OCC finalized amendments to the official interpretations that implement special appraisal requirements for "higher-risk mortgages" or "higher-priced mortgages." Under the interpretations when there is no annual percentage increase in the Consumer Price Index, the OCC, FRB and CFPB will not adjust the exemption threshold from the prior year.

On July 7, 2017, the CFPB modified the TILA-RESPA Integrated Disclosure Rule implemented in Regulations X and Z. The amendments created tolerances for the total of payments and provided guidance on sharing the integrated disclosures with various parties involved in the mortgage origination process. The TILA-RESPA Rule was amended again in 2018 to revise when a creditor may use a Closing Disclosure to reset tolerances.

On October 4, 2017, the CFPB issued an interim final rule and a proposed rule to provide mortgage servicers more flexibility and certainty around requirements to communicate with certain borrowers under the CFPB's 2016 mortgage servicing amendments. The interim final rule gives servicers more flexibility regarding when to communicate about foreclosure prevention options with borrowers who have requested a cease in communication under federal debt collection law. The interim final rule became effective on October 19, 2017, the same date that the related 2016 rule provisions become effective. The proposed rule was finalized and became effective on April 19, 2018. It imposes mortgage servicing requirements which are complex. All servicers must ensure they have comprehensive practices for responding to potential successors in interest and for confirming and communicating with them. Additionally, servicers need to determine which of the CFPB's three options to adopt for communicating with confirmed successors in interest, in a manner that ensures clarity and does not indicate an obligation to repay a mortgage. The CFPB also removed the blanket exemption from the periodic statement requirement for borrowers in bankruptcy, making it necessary to provide modified periodic statements – which will require significant system configurations and testing to ensure the new requirements are met.

The CFPB and other federal regulators, including the Federal Housing Administration, have issued several updated guidelines and proposed regulatory revisions that signal an ongoing focus on redlining and discrimination in

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mortgage lending, including revisions to the CRA and greater oversight of property appraisals, including related algorithms and machine learning tools that can be used in the appraisal process.

Powers

As a result of the FDICIA, the authority of the FDIC over state-chartered banks was expanded. The FDICIA limits state chartered banks to only those principal activities permissible for national banks, except for other activities specifically approved by the FDIC. The Texas Banking Act includes a parity provision which establishes procedures for state banks to notify the Texas Banking Commissioner if the bank intends to conduct any activity permitted for a national bank that is otherwise denied to a state bank. The Texas Banking Commissioner has 30 days to prohibit the activity. Also, the Texas Finance Code includes a "super parity" provision with procedures for state banks to notify the Texas Banking Commissioner if the bank intends to conduct any activity permitted for any depository institution in the United States. Texas Banking Commissioner has 30 days after receiving such notice to prohibit the activity. Similarly, under the Oklahoma Banking Code, Oklahoma state banks have the authority to exercise such incidental powers as may be necessary or desirable to carry on the banking business including, but not limited to, powers conferred upon national banks, unless otherwise prohibited or limited by the Oklahoma Banking Commissioner or the Oklahoma State Banking Board. Additionally, upon approval of the Oklahoma Banking Commissioner, and subject to all applicable federal and state laws, the operating subsidiaries or financial subsidiaries of an Oklahoma state bank may exercise any power and engage in any activity that is permitted for an operating subsidiary or financial subsidiary of a national bank, unless otherwise prohibited or limited by the Oklahoma Banking Commissioner or Oklahoma State Banking Board.

Incentive Compensation

In June 2010, the FRB, OCC, and FDIC issued the Interagency Guidance on Sound Incentive Compensation Policies, a comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

As part of its regular, risk-focused examination process, the FRB reviews the incentive compensation arrangements of banking organizations. These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives are included in reports of examination. Deficiencies are incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act requires the federal banking agencies and the SEC to jointly prescribe regulations or guidelines that require financial institutions with $1 billion or more in assets to disclose to the appropriate federal regulator, the structure of all incentive-based compensation arrangements sufficient to determine whether the compensation structure provides an executive officer, employee, director, or principal shareholder (collectively, "covered persons") with excessive compensation, fees, or benefits, or could lead to material financial loss to the financial institutions. In April 2011 and June 2016, the SEC and the federal banking agencies issued joint notices of proposed rulemaking that would prohibit a covered financial institution from establishing or maintaining any incentive-based compensation arrangements for covered persons that expose the financial institution to inappropriate risks by providing the covered person with excessive compensation that could lead to a material financial loss. A compensation arrangement would be considered too risky unless it appropriately balanced risk and reward, was compatible with effective risk management and controls, and was supported by effective governance. Compensation, fees, and benefits would be deemed excessive if the amounts paid were unreasonable or disproportionate to the value of the services performed by a covered person, taking into account an array

of factors. The proposal would apply to financial institutions with more than $1 billion in assets. The rule also included heightened standards for financial institutions with $50 billion or more in total consolidated assets, requiring at least 50% of incentive-based payments for designated executives to be deferred for a minimum of three years. In addition to the provisions of the 2011 proposed rule, the 2016 proposed rule specified that an incentive-based compensation arrangement would only be deemed to have appropriately balanced risk and reward if it included financial and non-financial measures of performance, was designed to allow non-financial measures of performance to override financial measures of performance, and was subject to adjustment to reflect actual losses, inappropriate risks taken, compliance deficiencies, or other measures or aspects of financial and non-financial performance. As with the 2011 proposed rule, no final rule was adopted in connection with the 2016 rule proposal.

In June 2023, the SEC included incentive-based compensation arrangements on its spring 2024 rulemaking agenda. Accordingly, a third round of proposed rulemaking on incentive-based compensation arrangements is expected to occur in the upcoming months. Once the final rule is developed, the interagency rule must be approved by all of the five federal members of the FFIEC, the SEC, and the Federal Housing Finance Agency before comments on the rule are sought.

Regulation Z was amended in 2011 to restrict incentive compensation programs with regard to residential mortgage programs. Such limitations affect mortgage brokers as well as loan officers in the subsidiary banks. Compensation may be tied to volume, but not to terms or conditions of the transaction other than the amount of credit extended. Further amendments to Regulation Z relating to mortgage loan originator compensation were adopted on January 20, 2013, by the CFPB in accordance with the Dodd-Frank Act.

In October 2022, the SEC adopted a final rule directing national securities exchanges and associations, including Nasdaq, to implement listing standards that required listed companies to adopt policies mandating the recovery or “clawback” of excess incentive-based compensation earned by a current or former executive officer during the three fiscal years preceding the date the listed company is required to prepare an accounting restatement, including to correct an error that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. Nasdaq implemented the required listing standards under Rule 5608 of its listing rules, which became effective on October 2, 2023. Nasdaq-listed companies were required to adopt a compliant policy no later than December 1, 2023. Prior to that date, we amended and restated our Compensation Clawback Policy to meet the standards set forth in Rule 5608 and to be effective as of October 2, 2023. A copy of our clawback policy is attached as Exhibit 97 hereto.

The scope and content of the U.S. regulators’ policies on executive compensation are continuing to develop and are likely to continue evolving. It cannot be determined at this time whether compliance with such policies will adversely affect our ability to hire, retain, and motivate our key employees.

Legislative and Regulatory Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and our operating environment in substantial and unpredictable ways. Such changes could have a material effect on our business, including increasing our cost of doing business, affecting our compensation structure, or limiting or expanding permissible activities. We cannot predict whether any such changes will be adopted and we cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations with respect thereto, would have upon our financial condition or results of our operations. The same uncertainty exists with respect to regulations authorized or required under the Dodd-Frank Act, but that have not yet been proposed or finalized. There is also the possibility that the Dodd-Frank Act or other federal laws may be revised by Congress in the future because certain bills have been introduced into Congress from time to time that would amend certain provisions of the Dodd-Frank Act, or other federal legislation relating to financial institutions. Similarly, it is possible that the legislatures of the State of Texas or the State of Oklahoma would amend applicable state laws relating to us or our Subsidiary Banks.

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**Item 1A.** ***Risk Factors***

**Risk Factors**

An investment in the Company's common stock involves risks. The following is a description of the material risks and uncertainties that the Company believes affect its business and an investment in its common stock. If any of the risks described below were to occur, our financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of the common stock could decline significantly and all or part of an investment could be lost.

**Risks Related to Our Business**

***Our allowance for probable loan losses may be insufficient.***

The determination of an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions. This allowance represents management's best estimate of probable losses that may exist within our existing loan portfolio. The determination of the appropriate level of the allowance for probable loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates and assumptions regarding current credit risks and future trends, all of which may undergo material changes. In addition, if future charge-offs exceed the allowance for probable loan losses, we may need to increase the allowance for probable loan losses. Any increases in the allowance for probable loan losses will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations.

Our adoption of ASU 2016-13, as amended, on January 1, 2020 impacted our methodology for estimating the allowance for credit losses. Adopting the CECL methodology pursuant to ASU 2016-03 increased our allowance for probable loan losses and resulted in a one-time cumulative-effect adjustment to retained earnings upon adoption. For additional information on the CECL methodology, see "Notes to Consolidated Financial Statements – (4) Allowance for Credit Losses" in our 2023 Annual Report to Shareholders, which is filed as Exhibit 13 hereto.

***If real estate values in our target markets decline, the loan portfolio would be impaired.***

A significant portion of our loan portfolio consists of loans secured by real estate located in the markets we serve. An adverse change in the economy affecting real estate values generally or in our target markets could significantly impair the value of collateral underlying certain of our loans and our ability to sell the collateral at a profit or at all upon foreclosure.

***We operate in a highly competitive industry and market area.***

We face substantial competition from a variety of different competitors in our market areas, many of which are larger and may have more financial resources. These competitors include national, regional, and community banks within the various markets we serve. We also face competition from many other types of financial institutions, including credit unions, finance companies, brokerage firms, insurance companies, factoring companies, and other financial intermediaries. Many of our competitors have fewer regulatory constraints and lower cost structures, which may allow them to offer better pricing on a broader range of products and services. Also, technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and related income. Technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and traditionally offered by banks. In particular, the activity of financial technology companies (fintechs) has grown significantly over recent years and is expected to continue to grow. Fintechs have and may continue to offer bank or bank-like products and a number of fintechs have applied to bank or industrial loan charters. In addition, other fintechs have partnered with existing banks to allow them to offer deposit products to their customers. The loss of revenue streams and the reduction of lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

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***External funding which we rely on, in part, to provide liquidity may not be available to us on favorable terms or at all.***

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. We rely on deposits, repurchase agreements, advances from the Federal Home Loan Bank (FHLB) of Dallas, the FHLB of Topeka and other borrowings to meet our liquidity demands. If we were unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows and liquidity, and level of regulatory-qualifying capital. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry.

***Our earnings are subject to interest rate risk.***

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions such as inflation and unemployment rates, market forces like geopolitical tensions and investor sentiment, and policy decisions made by the Federal Reserve and other governmental and regulatory agencies. Changes in monetary policy, interest rates, the yield curve, or market-risk spreads, a prolonged inverted yield curve or instability in domestic or foreign financial markets could negatively influence the interest we receive on loans and securities, as well as the amount of interest we pay on deposits and borrowings. Since March 2022, the Federal Reserve has increased interest rates a total of eleven times, with the last hike occurring in July 2023 when target interest rates reached their current range of 5.25% to 5.50%, with a benchmark rate at about 5.4%, the highest level in more than two decades. Although the Federal Reserve has held rates steady since then and indicated that rate reductions would occur sometime in 2024, the timing and extent of those rate cuts are uncertain. Volatility in interest rates may impact our net interest income and the valuation of our assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations.

***We are subject to or may become subject to extensive government regulation and supervision.***

Our operations are subject to extensive regulation by federal, state, and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. These regulations affect our lending practices, capital structure, investment practices, dividend policy, data and privacy protection policies, and growth, among other things. The statutory and regulatory framework under which we operate has changed substantially over the years, and will likely continue to do so. These changes and other changes to statutes and regulations, including changes in the interpretation or implementation of statutes, regulations, or policies, could affect our operations in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations.

***Our potential future acquisitions and branch expansion could be adversely affected by a number of factors.***

Acquisitions of other financial institutions and branch expansion have been a key element of our growth in the past. There are a number of factors that may impact our ability to continue to grow through acquisition transactions, including strong competition from other financial institutions who are active or potential acquirers of financial institutions in our existing or future markets. Acquisitions of other financial institutions and new branches must be approved by bank regulators and such approvals are dependent on many factors, including the results of regulatory examinations and CRA ratings.

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***We rely heavily on our chief executive officer.***

We have experienced substantial growth in assets and deposits, particularly since Dennis E. Nixon became our President in 1979. We do not have an employment agreement with Mr. Nixon and the loss of his services could have a material adverse effect on our business and prospects.

***Our information systems may experience an interruption or breach in security.***

We rely heavily on communications and information systems to conduct our business. Our products and services involve the gathering, storage, and transition of sensitive information regarding our customers and their accounts. While we conduct our own data processing, we are reliant on certain external vendors to provide products and services necessary to maintain our day-to-day operations. As a financial institution we are also subject to and examined for compliance with an array of data protection laws, regulations, and guidance, as well as our own internal privacy and information security policies and programs. If our information systems or infrastructure experience a significant disruption or breach, it could lead to unauthorized access to personal or confidential information of our customers in our possession and unauthorized access to our proprietary information, methodologies, and business secrets. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. In addition, if our partners, vendors, or other market participants experience a disruption or breach, it could lead to unauthorized transactions on our or our customer accounts, or unauthorized access to personal or confidential information maintained by those entities. The occurrence of any failures, interruptions, or security breaches of these information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

***Additional capital or funding to increase liquidity levels may not be available when needed or at all.***

Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside our control, and our financial performance. We have historically had access to a number of alternative sources of liquidity, but if there is an increase in volatility in the credit and liquidity markets, there is no assurance that we will be able to obtain such liquidity on terms that are favorable to us, or at all. If we were unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows and liquidity, and level of regulatory-qualifying capital.

***Our holding company relies on dividends from our Subsidiary Banks for most of our revenue.***

Our holding company receives substantially all of our revenue from dividends from our Subsidiary Banks. These dividends are the principal source of funds to pay dividends on our common stock to shareholders of our holding company, as well as interest and principal on our holding company's debt. Various federal and/or state laws and regulations limit the amount of dividends that our Subsidiary Banks may pay to our holding company. Our Subsidiary Banks' ability to pay dividends to us is subject to, among other thing, their earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to our holding company and Subsidiary Banks which limit the amount that may be paid as dividends without prior regulatory approval, including a statutory requirement that our holding company serve as a source of financial strength for our Subsidiary Banks. Although our holding company has historically declared semi-annual cash dividends on our common stock, we are not required to do so and may reduce or cease to pay common stock dividends in the future. If we reduce or cease to pay common stock dividends, the market price of our common stock could be adversely affected.

***Severe weather, natural disasters, pandemics, acts of war or terrorism and other external events could significantly impact our business.***

Severe weather, natural disasters, pandemics, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. These events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and cause us to incur additional expenses. Although we have established disaster

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recovery policies and procedures, any such event(s) in, near, or affecting the markets we serve could have a material adverse effect on our business.

***An impairment in the carrying value of our goodwill could negatively impact our earnings and capital.***

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. If we experience disruption in our business, unexpected significant declines in our operating results, or sustained market capitalization declines, it could result in goodwill impairment charges in the future, which would be recorded as charges against earnings. We performed an annual goodwill impairment assessment as of October 1, 2023. Based on our analyses, we concluded that the fair value of our reporting units exceeded the carrying value of our assets and liabilities and, therefore, goodwill was not considered impaired. Depending on the response of the financial industry to the legal, regulatory, and competitive changes related to interchange fees, overdraft services and interest on demand deposit accounts, financial institutions may need to change their policies, procedures, and operating plans in the future to compete more effectively. Such changes may require certain financial institutions to take a goodwill impairment charge to account for anticipated reduction in revenue related to such changes, which could have a material adverse effect on our financial condition and results of operation.

***We are subject to environmental liability risks as a result of certain lending activities.***

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. There is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental remediation may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

***Our controls and procedures may fail or be circumvented.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on its system of internal controls. While management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures, any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

***New lines of business or new products and services may subject us to additional risks.***

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products may not be achieved and price and profitability targets may not prove feasible. Compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

***Our accounting estimates and risk management processes rely on analytical and forecasting tools and models.***

The processes we use to estimate probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical tools and forecasting models. These tools and models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen

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circumstances. Even if these assumptions are adequate, the tools or models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. Any such failure in our analytical or forecasting tools or models could have a material adverse effect on our business, financial condition, and results of operations.

***We may be adversely affected by declining crude oil prices.***

Decreased market oil prices compress margins for many U.S., Texas, and Oklahoma-based oil producers, particularly those that utilize higher-cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. Energy production and related industries represent a large part of the economies in some of our primary markets. Furthermore, a prolonged period of low oil prices could also have a negative impact on the U.S. economy and, in particular, the economies of energy dominant states such as Texas and Oklahoma. Accordingly, a prolonged period of low oil prices could have a material adverse effect on our business, financial condition, and results of operation.

**Risks Related to the Company's Industry**

***Our success depends significantly on economic conditions in the local markets in which we operate.***

Our success depends, to a certain extent, on local, national, and international economic and political conditions and local, as well as governmental monetary policies. We are particularly affected by conditions in our primary market areas of south, central, and southeast Texas, including Austin, Dallas and Houston, the State of Oklahoma and Mexico. If economic conditions in these market areas weaken or worsen due to a decline in oil prices or other factors, or fail to improve or to continue to improve, we could experience an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, any of which could have a material adverse impact on our financial condition and results of operations.

***We depend on the accuracy and completeness of information about customers and counterparties as well as the soundness of other financial institutions.***

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of those customers, counterparties, financial institutions or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information or problems with the soundness of other financial institutions with which we interact could have a material adverse impact on our business and our financial condition and results of operations.

***If we do not adjust to rapid changes in the financial services industry, our financial performance may suffer.***

Our ability to deliver strong financial performance and returns on investment to shareholders will depend in part on our ability to expand the scope of available financial services to meet the needs and demands of our customers and our ability to stay abreast of technological innovations and evaluate those technologies that will enable us to compete on a cost-effective basis. In addition to traditional banks, our competitors also include securities dealers, brokers, mortgage bankers, investment advisors, specialty finance and insurance companies who seek to offer one-stop financial services that may include services that banks have not been able or allowed to offer to their customers in the past. The continued competitive environment in our industry is primarily a result of changes in regulation, technology, and product delivery systems, and the accelerating pace of consolidation among financial service providers. Changes in the financial industry may result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. Further, the costs of new technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that our technology will meet or continue to meet our operational needs and the needs of our customers.

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***We are subject to claims and litigation pertaining to intellectual property.***

Banking and other financial services companies, including us and our Subsidiary Banks, rely on technology companies to provide information technology products and services necessary to support our day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to our operations, and distracting to management. If legal matters related to intellectual property claims were resolved against us, we could be required to make payments in amounts that could have a material adverse effect on its business, financial condition, and results of operations.

***Our financial condition, results of operation and stock price may be negatively impacted by negative publicity risk, diminished depositor confidence in depository institutions, and the increased threat of bank-run contagion.***

A total of five FDIC-insured banks failed between March to November 2023, three of which occurred during a less than two-month period from March to May 2023. The collapse of those banks, coupled with lingering fears of an economic downturn and market instability, have eroded customer confidence in the banking system and caused widespread market volatility among publicly traded bank holding companies. The collapse of those banks, the resulting coverage by media organizations, and the rapid spread through social media of negative sentiments concerning the banking industry have caused customers to doubt the safety and soundness of financial institutions, especially regional and community banks, and created a threat of bank-run contagion. Our reputation and the confidence our customers have in our business may be damaged by adverse publicity and negative information regarding the wider financial-services industry generally. As a result, customers may choose to maintain deposits with larger financial institutions, to remove their deposits from the banking system altogether, or to invest in higher yielding, short-term fixed-income securities, which could adversely impact our liquidity, loan funding capacity, net interest margin, and results of operations. Although we have amplified our efforts to promote deposit insurance coverage with our customers, to proactively communicate with our customers in order to address any depository fears they may be experiencing as a result of the unrelated bank failures, and to implement policies for effectively managing our liquidity, deposit portfolio retention and other related matters, our financial condition, results of operation and stock price may be adversely affected by future negative events within the banking industry and negative customer or investor responses to such events.

***Recent volatility in the banking industry could prompt new legislation, regulations, and policy changes that could cause us to be subjected to additional regulatory oversight and supervision.***

Negative developments in the banking industry during the past year, culminating in the failures of five banks, have prompted responses by the FDIC, the Federal Reserve, and the U.S. Treasury Secretary to protect the depositors of those failed institutions and to attempt to reinstate diminished public confidence in depository institutions. Congress and federal banking regulators have also intervened by initiating investigations into the root causes of the failures in an attempt to both understand and hold accountable the parties and policies responsible for the rapid banking crisis. Ultimately, congressional and regulatory oversight and supervision may result in the imposition of new legislation, regulations, and policy changes aimed at tightening risk-management practices, heightening standards for managing interest rate and liquidity risks, and minimizing financial contagion. While we cannot predict with certainty what interventions and initiatives legislators and regulatory agencies may pursue, any of the changes described above could affect our operations in substantial and unpredictable ways. Such changes could be subject to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations.

***The Dodd-Frank Act, the powers of the CFPB, and the FDIC Overdraft Payment Supervisory Guidance may increase the likelihood of lawsuits against financial institutions.***

The Dodd-Frank Act provides that courts must make preemption determinations on a case-by-case basis with the respect to particular state laws and can no longer rely on blanket preemption determinations. Also, the CFPB is authorized to protect consumers from "unfair," "deceptive" and "abusive" acts and practices. Depending on the future actions of the CFPB, the likelihood of lawsuits against financial institutions related to allegedly "unfair," "deceptive" and "abusive" acts and practices could increase. Moreover, the costs related to such lawsuits would be significantly increased if the CFPB restricts the use of arbitration and/or class action waivers in consumer banking contracts.

**Risks Related to the Company's Stock**

***The trading price of our common stock may be volatile.***

The trading price of our common stock has fluctuated over time due in part to actual or anticipated variations in our earnings, changes in government regulations, policies and guidance, news reports of trends, concerns and other issues related to the financial services industry, operating and stock performance of our peer companies, new technology used or services offered by traditional and non-traditional competitors, continued low trading volume in our common stock and the impact of short-selling activity in our common stock. Moreover, general market price declines or market volatility in the future could adversely affect the trading price of our common stock.

***The holders of our junior subordinated debentures have rights that are senior to those of our shareholders.***

As of December 31, 2023, we had approximately $108 million in junior subordinated debentures outstanding that were purchased by our statutory trusts using the proceeds from the sale of trust preferred securities to third party investors. The junior subordinated debentures are senior to our shares of common stock. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us to the extent not paid or made by each trust. We must make payments on the junior subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock. While we have the right to defer interest payments on the junior subordinated debentures at any time no dividends may be paid to holders of our common stock during any such deferral, which could cause the trading price of our stock to decline.

**Item 1B.** ***Unresolved Staff Comments***

N/A

**Item 1C.** ***Cybersecurity***

Risk Management and Strategy

As a financial institution in today's digital landscape, we understand that cybersecurity and data protection are of paramount importance to our business, our customers, and our reputation. With the proliferation of online banking and the digitalization of financial services, we recognize that our policies and procedures for safeguarding sensitive customer data must be as sophisticated as the cyber threats we are defending against. Accordingly, cybersecurity is a high-priority component of our overall risk-management system and risk-control infrastructure. We have implemented robust, multi-layer security procedures and defense strategies that aim to proactively mitigate cyber risks, enable our early detection and prevention of security incidents, minimize our vulnerability to attacks, and protect us from both internal and external cybersecurity threats.

Commensurate with the risks we face and the sensitivity of the data and systems we are protecting, our Information Systems Security Program (ISSP) includes layers of administrative and technical safeguards designed to protect the confidentiality and integrity of sensitive information belonging to us and our employees, partners, and

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customers, to guard against the unauthorized access, alteration, disclosure, or destruction of that information, and to defend that information from potential, known, emerging, and evolving security risks. We have established multiple control points within our security infrastructure to reduce the risks associated with embedded technologies that could fail or be manipulated by nefarious actors, to prevent the intentional and unintentional infiltration of cybersecurity threats, and to maximize their separation from our sensitive information systems and assets. In developing our ISSP, our policies, standards, and procedures were heavily informed by and incorporated provisions from various sources of statutory and regulatory guidance as well as numerous leading industry frameworks, including the NIST Cybersecurity Framework, various NIST special publications, the Fair Information Practice Principles established by the Federal Privacy Council, the Privacy Management Framework developed by the American Institute of Certified Public Accountants, and the Center for Internet Security's Critical Security Controls.

As part of our ISSP and strategy for managing cybersecurity risks, we have adopted the following cybersecurity policies:

- Enterprise Information Systems Security Policy, which, among other objectives, prescribes a comprehensive framework for creating a practice-based Information Security Management System; protecting the confidentiality, integrity, and availability of our data and systems; providing for the development, review, maintenance, and ability to ensure the effectiveness of minimum security controls required to protect our data and systems; and recognizing the highly-networked nature of the current computing environment to provide effective company-wide management and oversight of related cybersecurity risks;

- Corporate Account Takeover Policy, which serves to mitigate the risks of corporate account takeover crimes and to document our compliance with the Texas Department of Banking's Supervisory Memorandum 1029 on "Risk Management of Account Takeovers," dated September 30, 2019, and the FFIEC's guidance on "Authentication and Access to Financial Institution Services and Systems," dated August 11, 2021;

- Vendor Management Policy, which provides a risk-based process for identifying, measuring, monitoring, and managing third-party relationships with new and existing vendors by requiring an assessment, categorization, and ranking of the risks associated with each third-party vendor and implements a third-party risk-management process that focuses on risk assessment, due diligence in selecting third-party vendors, contract structuring and review, and ongoing oversight of the operational and financial performance of the third-party vendor's products and services;

- Service Center Physical Security for Data and Computing Equipment Policy, which provides directives for implementing appropriate physical security controls to protect the hardware, infrastructure, and systems that store and transmit our sensitive information and data from damage, unauthorized access, and loss of availability; to monitor, analyze, and properly disclose security alerts and information; and to administer other administrative and technical operational security procedures; and

- Security Incident Response Policy, which establishes the steps necessary to ensure a timely and adequate response to security incidents impacting our security systems or infrastructure.

Some of the steps we have taken and processes we have implemented to assess, identify, and manage material risks from cybersecurity threats include the following:

- Forming an IT Cybersecurity Committee (ITCC), which consists primarily of members of our management team and IT department, to develop and oversee our cybersecurity policies and infrastructure and establishing a multi-tiered reporting and governance system pursuant to which our ITCC reports to our Service Center Board, which reports to our Risk Committee, which reports to our Board;

- Implementing heightened safety measures, physical-security controls, and controlled-access requirements to protect the Service Center that houses the hardware and infrastructure used to store and transmit sensitive and confidential bank, customer, and employee information in accordance with the FFIEC IT Examination Handbook on Information Security and designating a specialized Service Center Board within the Service Center Department to oversee the protection of the Service Center's physical integrity;

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- Maintaining a clearly defined ISSP, which prescribes measures to establish and enforce our security program, addresses each component of our information security (IS) position, and advances our objectives of protecting and managing risks to our data and security systems by establishing policies, standards, controls, procedures, and guidelines that address topics such as security and privacy governance, statutory, regulatory, and contractual compliance, business and disaster recovery, change management, identification and authentication processes, expectations for continuous monitoring, asset management, third-party provider management, endpoint security, and incident responses, among others;

- Conducting an annual self-assessment using the Cyber Risk Institute (based on the NIST Cybersecurity Framework) to review our cyber risk-management strategy and framework, assess the effectiveness and legal and regulatory compliance of our organizational cybersecurity policy, and evaluate our policies and procedures for identifying risks, protecting information, detecting security threats, responding to cyber incidents, executing recovery plans, and managing levels of external dependence and resiliency;

- Conducting regular cybersecurity training for our employees regarding security awareness, the proper use and handling of sensitive information, and the protocols in place to identify, assess, and manage any cybersecurity threats and periodically testing employees' cybersecurity knowledge, policy compliance, and response rates by engaging with third-party providers to conduct internal social engineering campaigns;

- Engaging in security-incident preparedness simulations and completing disaster recovery and resilience tests designed to test and strengthen any vulnerabilities in our cybersecurity infrastructure;

- Employing robust encryption and anonymization technologies and other cybersecurity monitoring and auditing systems to fortify our cybersecurity framework, including through our Online Banking Enhanced Security Program, which requires the authorized users on a customer's account to be validated and employs multi-factor authentication (MFA), which requires each of our retail and commercial customers to authenticate their identities by entering a secure access code that our MFA system automatically generates and sends to the customer each time there is an attempted login to the customer's online banking account;

- Implementing MFA protections for our treasury customers by prohibiting their initiation of ACH transactions or wire transfers until they authenticate their identities using a security token that is generated and sent by our online-banking MFA system;

- Monitoring electronic mail and other network intrusion attempts with various tools to identify and stop intrusion and malware threats;

- Scanning and assessing vulnerabilities arising from software and hardware on our network infrastructure, ATMs, software applications, computers, copiers and other electronic assets to ensure that vulnerabilities are identified and resolved timely;

- Establishing a risk-appetite profile, which we review at least annually to regularly assess our cybersecurity infrastructure and software systems in a manner that ensures we capture their current state and identify emerging risks that would require changes in our cyber environment;

- Leveraging internal and external auditors as well as security consultants to review the procedures, systems, and controls that comprise our ISSP to evaluate their design and operational effectiveness and to address any operational deficiencies or security weaknesses; and

- Maintaining an Incident Response Plan that establishes our procedures and standards for responding to actual or potential cybersecurity threats or incidents, which we review at least annually.

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Furthermore, our IT security infrastructure and cybersecurity policies are designed to monitor and manage security risks associated with any third-party service providers, suppliers, software and hardware vendors, contractors, and consultants we collaborate with (hereinafter, collectively, Vendors) who might store, process, collect, share, create, transmit, destroy, or access any of our sensitive data. Our Vendor Management Policy establishes clearly defined requirements of engagements with Vendors and requires them to uphold similar security standards to those we internally require. Depending on their risk level, we may subject certain Vendors to heightened security requirements, such as enhanced risk assessments, ongoing monitoring, or additional contractual controls to restrict their levels of information access.

Governance

*IT Cybersecurity Committee.* As part of our cybersecurity governance framework and for purposes of establishing and maintaining our ISSP, we have established an IT Cybersecurity Committee (ITCC), which consists predominantly of members of our management team and IT department. The ITCC is subject to oversight by the Service Center Board, the Risk Committee, and the Board. The Risk Committee of the Board works directly with the ITCC to develop and implement our policies and procedures concerning cybersecurity and data protection. As stated in the Risk Committee Charter, our Risk Committee reviews management reports on the adequacy of our data-governance activities and IT security program; evaluates risks related to customer information, significant outsourcing with third parties or Vendors, and operational outsourcing arrangements; reviews, evaluates, and updates our data-governance framework, processes, and systems for identifying, assessing, and managing data risks that impact critical business operations; and reviews and evaluates our overall risk-management framework.

The ITCC meets at least quarterly to discuss its oversight of our cybersecurity policies and procedures, risk-management practices and controls, and efforts to mitigate and prevent cybersecurity risks. The ITCC may meet more frequently if required by our Incident Response Plan to facilitate timely response, monitoring, risk-management, and recovery efforts. The ITCC is also charged with periodically reporting to management, the Board, and the Risk Committee, the status and results of our compliance with our security program, results of security assessments, and effectiveness of remediation activities.

*Other Committees.* In addition to the ITCC and Risk Committees, we have established a Technology Committee, a Senior Management Committee, and a Business Continuity and Disaster Recovery (BC/DR) Committee. Each oversees aspects of our ISSP and coordinates with the ITCC to implement various cybersecurity procedures.

*Chief Information Security Officer.* In addition to establishing the ITCC and other committees, we designated a Chief Information Security Officer (CISO) to oversee all aspects of our IS policies, procedures, and controls. Our CISO reports to our Senior Management Committee, the ITCC, the Risk Committee, and the Chairman of the Board. At least annually, the CISO presents all of our IS policies to the Board. The CISO is also tasked with maintaining an effective Security Awareness Program and providing training to our management, Board, and employees on an annual basis. Additionally, the CISO meets with our Audit Committee on a quarterly basis to inform them of material cybersecurity-related regulatory updates and with our full Board on a monthly basis to discuss and provide pertinent regulatory information.

*Procedures Governing our Cybersecurity Incident Responses.* Our multi-layered, cross-functional approach to cybersecurity governance provides adequate checks and balances on the implementation of our cybersecurity protocols, enables us to effectively monitor both internal and external cyber risks, and allows for the swift escalation of any potential cybersecurity incidents to the appropriate levels of management so that assessments concerning materiality, potential disclosure, and possible responsive actions can be timely made. Our approach to cybersecurity governance is modeled in the Incident Response Team (IRT) that we have established to timely address cybersecurity incidents and minimize any disruptions to our business operations and customer activities caused by cyber threats or attacks. Designated IRT personnel are available 24 hours per day, seven days per week to respond to potential incidents. Having an integrated team for incident response facilitates information sharing, which allows organizational personnel, including developers, implementers, and operators, to leverage the team knowledge of the threat in order to implement defensive measures that

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will deter intrusions more effectively. In the event of a potential cybersecurity incident, our IRT is responsible for implementing our Security Incident Response Policy, in accordance with which the following steps occur:

- After becoming aware of a potential cybersecurity incident, our IT Service Desk reports the incident and any pertinent information to our CISO. Our IT Service Desk is the central point of contact for reporting computer incidents or intrusions.

- The CISO then conducts a preliminary analysis of the incident and determines whether activating the full IRT is warranted. Types of incidents that would generally require the activation of our IRT include but are not limited to a breach of personal information, a denial-of-service (DoS) or distributed DoS attack, excessive port scans, a firewall breach, or a virus or malware outbreak.

- If the type of incident or the threat created by the incident necessitates a full-scale response by the IRT, the CISO notifies a team of network and security engineers, security analysts, and Windows / Unix / Linux systems administrators (collectively, the IT Security and Engineering Teams).

- At the CISO's direction, the IT Security and Engineering Teams gather intel regarding the incident and take pre-planned steps to mitigate harm, address system weaknesses, and block ongoing threats. For example, our network engineers analyze network traffic for external attacks, search for signs of a firewall breach, and take action to block a suspected intruder's network traffic; our security analysts and engineers look for indications of an attack or suspicious activity by monitoring and reviewing the network activity of our business applications and the audit logs of our mission-critical servers; and our systems administrators examine system logs of our critical systems for any abnormal activity, confirm our mission-critical computers are up to date on all service packs and patches, and ensure backups have been created for our critical systems.

- The CISO reports the incident to our executive management team, Service Center Board, and ITCC.

- Our CISO, executive management team, Service Center Board, and ITCC evaluate the type and severity of the incident, review applicable legal and regulatory requirements for disclosing cybersecurity incidents, and determine whether, when, and to whom the incident must be reported.

*Procedures Governing our Third-Party Vendor Relationships.* Similar to our governance approach with respect to responding to cybersecurity incidents, we have implemented a layered, collaborative governance system to manage our third-party Vendor relationships and to implement our Vendor Management Policy. Prior to working with any Vendor, we conduct a comprehensive security screening to evaluate the Vendor's security protocols and identify any potential vulnerabilities that could compromise our sensitive data. At least annually, we also perform a security assessment of the Vendor to identify any change in the Vendor's security posture that may negatively impact the security of our information systems. Our CISO or other designated IS personnel oversees and makes a final recommendation regarding the Vendor security assessments, determines the necessity of Vendor site visits, and coordinates and provides a final report on any site visit that occurs. Our Vendor relationships are monitored by our Vendor Management Department, the day-to-day operations of which are led by our Vendor Manager. In coordination with the applicable Business Unit Manager, the Vendor Manager categorizes and ranks the risks presented by our Vendors, performs Vendor due diligence, and provides periodic reports to our Board and Risk Committee concerning Vendor risk management. Before entering into any Vendor contract, the Business Unit Manager that will be contracting for the Vendor's service or product must perform a thorough risk evaluation. In addition to working alongside the Vendor Manager to categorize and rank Vendor risks, the Business Unit Manager participates in contract review and negotiations, establishes performance-monitoring controls, and completes Vendor reviews. The CISO or other designated IS personnel may participate with the Business Unit Manager in contract negotiations as needed.

*Procedures Governing our Corporate Account Takeover Responses.* Like our approaches to responding to cybersecurity incidents and managing our Vendor relationships, our strategy for managing corporate account takeover (CATO) threats integrates organizational operations at multiple governance levels involving our Board, executive management team, members of our Senior Management of Electronic Banking Services (EBS Management Team), an Electronic Banking Services Manager (EBS Manager), and our CISO. Our Board reviews our CATO Policy for

compliance with the Texas Department of Banking standards for the risk management of CATOs and charges our EBS Management Team with the responsibility of determining necessary courses of action to ensure adherence to applicable guidance and regulations. Our EBS Management Team also ensures that our CATO Policy is understood and complied with across all of our operational divisions. Some of the responsibilities of our EBS Manager include developing, implementing, and maintaining policies and procedures to comply with our CATO Policy, coordinating the performance of period risk assessments of IBC Link, our online banking product, establishing trainings for IBC Link customers regarding security controls that mitigate CATO risks, reporting CATO incidents to executive management, and coordinating with our management team and IBC Link customers if an actual or threatened CATO attack is identified. Our CISO is responsible for ensuring appropriate security controls are implemented to prevent, detect, and respond to CATOs, establishing incident-response procedures to be employed if a CATO threat is in progress, and timely notifying our primary federal regulator of any CATO incidents that are required to be disclosed to comply with applicable laws, regulations, and CATO Policy procedures.

Notwithstanding the robust nature of our defensive measures and security processes and the multi-layered governance system that we have established to mitigate, monitor, analyze, and respond to incidents, cybersecurity threats are increasingly difficult to detect, and the risk of a data breach or cyber-attack is pervasive and severe. While we do not believe our business strategy, results of operations, or financial condition have been materially adversely affected by any cybersecurity threats or incidents, there is no assurance that we will not be materially affected by such threats or incidents in the future. We will continue to monitor cybersecurity risks, stay apprised of changes in the cyber environment, and invest in strengthening our cybersecurity infrastructure. For additional information on our risks related to cybersecurity, please see "Risk Factors—Risks Related to Our Business—*Our information systems may experience an interruption or breach in security*."

**Item 2. *Properties***

Our principal offices are located at 1200 San Bernardo Avenue, Laredo, Texas and 2418 Jacaman Road, Laredo, Texas in buildings we own and completely occupy and containing approximately 147,000 square feet. The Subsidiary Banks have main banking and branch facilities. All the facilities are customary to the banking industry. The Subsidiary Banks own most of their banking facilities and the remainder are leased. The facilities are located in the regions of Laredo, San Antonio, Austin, Dallas, Houston, Zapata, Eagle Pass, the Rio Grande Valley of Texas, the Coastal Bend area of Texas, and throughout the State of Oklahoma.

None of our Texas state chartered Subsidiary Banks, without the prior written consent of the Texas Banking Commissioner, may invest in an amount in excess of its Tier 1 capital in bank facilities, furniture, fixtures and equipment. Our Oklahoma state chartered Subsidiary Bank, without the prior written consent of the Oklahoma Banking Commissioner, may not invest in an amount in excess of its Tier 1 and Tier 2 capital in bank facilities, furniture, fixtures and equipment. None of the Subsidiary Banks exceeds such applicable limitation.

**Item 3. *Legal Proceedings***

We and our subsidiaries are involved in various legal proceedings that are in various stages of litigation. We and our subsidiaries have determined, based on discussions with our 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 our consolidated financial position or results of operations. Many of these matters are in various stages of proceedings and further developments could cause management to revise our assessment of these matters. Further information regarding legal proceedings has been provided in Note 16 of the Notes to Consolidated Financial Statements located on page 65 of the 2023 Annual Report to Shareholders, which is filed as Exhibit 13 hereto and incorporated herein by reference.

**Item 4. *Mine Safety Disclosures***

None

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**Item 4A.** ***Executive Officers of the Registrant***

Certain information is set forth in the following table concerning the executive officers of the Company, each of whom has been elected to serve until the 2023 Annual Meeting of Shareholders and until his or her successor is duly elected and qualified.

| Name | Age | Position of Office | Officer of the Company Since |
|---|---|---|---|
| Dennis E. Nixon | 81 | Chairman of the Board of the Company since 1992, President of the Company since 1979, Chief Executive Officer and Director of IBC | 1979 |
| Dalia F. Martinez | 63 | Vice President of the Company since 2021, Executive Vice President of IBC | 2021 |
| Judith I. Wawroski | 49 | Treasurer of the Company since 2017, Principal Financial Officer of the Company since 2017, Executive Vice President of IBC | 2017 |

There are no family relationships among any of the named persons. Each executive officer has held the same position or another executive position with our holding company, or our lead Subsidiary Bank IBC Laredo during the past five years.

## Part II

**Item 5.** ***Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The information set forth under the caption “Common Stock and Dividends,” “Stock Repurchase Program,” and “Equity Compensation Plan Information” located on pages 22 and 23 of our 2023 Annual Report is incorporated herein by reference.

**Item 6.** ***Selected Financial Data***

The information set forth under the caption “Selected Financial Data” located on page 1 of our 2023 Annual Report is incorporated herein by reference.

**Item 7.** ***Management’s Discussion and Analysis of Financial Condition and Results of Operations***

The information set forth under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located on pages 2 through 24 of our 2023 Annual Report is incorporated herein by reference.

**Item 7A.** ***Quantitative and Qualitative Disclosures about Market Risk***

The information set forth under the caption “Liquidity and Capital Resources” located on pages 15 through 19 of our 2023 Annual Report is incorporated herein by reference.

**Item 8.** ***Financial Statements and Supplementary Data***

The consolidated financial statements located on pages 25 through 78 of our 2023 Annual Report are incorporated herein by reference.

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The condensed quarterly income statements located on pages 79 and 80 of our 2023 Annual Report are incorporated herein by reference.

**Item 9.** ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out by our management with the participation of our Chief Executive Officer and Chief Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Accounting Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. Additionally, there were no changes in our internal control over financial reporting (as defined in Rule 13a15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as defined under Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Accounting Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2023, management assessed the effectiveness of the design and operation of our internal controls over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2023, based on those criteria.

RSM US LLP, the independent registered public accounting firm that audited our 2023 consolidated financial statements included in this Annual Report on Form 10-K, has audited the effectiveness of our internal controls over financial reporting as of December 31, 2023. Their report, which expresses an unqualified opinion, on the effectiveness of our internal controls over financial reporting as of December 31, 2023 is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

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**Report of Independent Registered Public Accounting Firm**

Shareholders and the Board of Directors
International Bancshares Corporation

**Opinion on the Internal Control Over Financial Reporting**

We have audited International Bancshares Corporation and its subsidiaries' (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of condition as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements of the Company and our report dated February 26, 2024 expressed an unqualified opinion.

**Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Austin, Texas
February 26, 2024

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**Item 9B.** ***Other Information***

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

None.

## Part III

**Item 10.** ***Directors, Executive Officers, and Corporate Governance***

There is incorporated in this Item 10 by reference to our definitive proxy statement relating to our 2024 Annual Meeting of Shareholders (i) that portion entitled "ELECTION OF DIRECTORS," (ii) that portion entitled "Audit Committee" in the portion entitled "MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS," (iii) that portion entitled "Code of Ethics," in the portion entitled "CORPORATE GOVERNANCE," and (iv) that portion entitled "DELINQUENT SECTION 16(a) REPORTS." There is also incorporated in this Item 10 by reference Item 4A of this report entitled "Executive Officers of the Registrant."

**Item 11.** ***Executive Compensation***

There is incorporated in this Item 11 by reference to our definitive proxy statement relating to our 2024 Annual Meeting of Shareholders (i) that portion entitled "EXECUTIVE COMPENSATION," and (ii) that portion entitled "Compensation Committee and Stock Option Plan Committee Interlocks and Insider Participation" in the portion entitled "MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS."

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

There are incorporated in this Item 12 by reference those portions of our definitive proxy statement relating to the Company's 2024 Annual Meeting of Shareholders entitled "PRINCIPAL SHAREHOLDERS," "SECURITY OWNERSHIP OF MANAGEMENT," and "Equity Compensation Plan Information" in the portion entitled "EXECUTIVE COMPENSATION."

**Item 13.** ***Certain Relationships and Related Transactions, and Director Independence***

There is incorporated in this Item 13 by reference to our definitive proxy statement relating to our 2024 Annual Meeting of Shareholders (i) that portion entitled "INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS" and (ii) that portion entitled "Director Independence" in the portion entitled "CORPORATE GOVERNANCE."

**Item 14.** ***Principal Accountant Fees and Services***

There is incorporated in this Item 14 by reference that portion of our definitive proxy statement relating to our 2024 Annual Meeting of Shareholders entitled "PRINCIPAL ACCOUNTANT FEES AND SERVICES."

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## Part IV

**Item 15.** ***Exhibits, Financial Statement Schedules***

(a) Documents

1. Our consolidated financial statements are incorporated into Item 8 of this report by reference from the 2023 Annual Report to Shareholders filed as Exhibit 13 hereto and they include:

   Reports of Independent Registered Public Accounting Firm (PCAOB ID: 49)

   Consolidated:
   Statements of Condition as of December 31, 2023 and 2022
   Statements of Income for the years ended December 31, 2023, 2022 and 2021
   Statements of Comprehensive Income for the years ended December 31, 2023, 2022 and 2021
   Statements of Shareholders' Equity for the years ended December 31, 2023, 2022 and 2021
   Statements of Cash Flows for the years ended December 31, 2023, 2022 and 2021
   Notes to Consolidated Financial Statements

2. All Financial Statement Schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

3. The following exhibits have previously been filed or are included in this report following the Index to Exhibits:

| | |
|---|---|
| (3a)* | —Articles of Incorporation of International Bancshares Corporation. |
| (3b)* | —Articles of Amendment to the Articles of Incorporation of International Bancshares Corporation dated May 22, 1998. |
| (3c)* | —Articles of Amendment to the Articles of Incorporation of International Bancshares Corporation dated May 21, 2002. |
| (3d)* | —Articles of Amendment to the Articles of Incorporation of International Bancshares Corporation filed with the Secretary of State of the State of Texas on May 17, 2005. |
| (3e)* | —Articles of Amendment to the Articles of Incorporation of International Bancshares Corporation filed with the Secretary of State of the State of Texas on December 22, 2008. |
| (3f)* | —Amended and Restated By-Laws of International Bancshares Corporation. |
| (3g)* | —Certificate of Amendment to Articles of Incorporation of International Bancshares Corporation filed with the Secretary of State of Texas on May 21, 2013. |
| (4) | —Description of the Registrant's Securities. |
| (10a)*+ | —The 1996 International Bancshares Corporation Stock Option Plan. |
| (10b)*+ | —2005 International Bancshares Corporation Stock Option Plan. |
| (10c)*+ | —International Bancshares Corporation 2006 Executive Incentive Compensation Plan. |
| (10d)*+ | —International Bancshares Corporation Long-Term Restricted Stock Unit Plan. |
| (10e)*+ | —2012 International Bancshares Corporation Stock Option Plan. |
| (10f)*+ | —International Bancshares Corporation 2013 Management Incentive Plan. |
| (13)** | —International Bancshares Corporation 2023 Annual Report |
| (21) | —List of Subsidiaries of International Bancshares Corporation as of February 20, 2024 |
| (23) | —Consent of Independent Registered Public Accounting Firm |
| (31a) | —Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (31b) | —Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

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| | |
|---|---|
| (32a) | —Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (32b) | —Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (97) | —International Bancshares Corporation Compensation Clawback Policy |
| 101++ | —Interactive Data File |
| 104++ | —Cover Page Interactive Data File |

| | |
|---|---|
| * | Previously filed |
| + | Executive Compensation Plans and Arrangements |
| ** | Deemed filed only with respect to those portions thereof incorporated herein by reference |
| ++ | Attached as Exhibit 101 to this report are the following documents formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Earnings for the years ended December 31, 2023, 2022 and 2021 (ii) the Condensed Consolidated Balance Sheet as of December 31, 2023 and 2022, (iii) the Condensed Consolidated Statement of Cash Flows for the years ended December 31, 2023, 2022 and 2021, and (iv) Cover Page interactive data. |

**Item 16.** ***Form 10-K Summary***

None

**Exhibit Index**

| | |
|---|---|
| Exhibit 4— | Description of Registrant's Securities |
| Exhibit 13— | International Bancshares Corporation 2023 Annual Report, Exhibit 13, page 1 |
| Exhibit 21— | List of Subsidiaries of International Bancshares Corporation as of February 20, 2024 |
| Exhibit 23— | Consent of Independent Registered Public Accounting Firm |
| Exhibit 31a— | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31b— | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32a— | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32b— | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 97— | International Bancshares Corporation Compensation Clawback Policy |
| Exhibit 101— | Interactive Inline Data File |
| Exhibit 104— | Cover Page Inline Interactive Data File |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL BANCSHARES CORPORATION
(Registrant)

By: /s/ DENNIS E. NIXON
Dennis E. Nixon
*President*

Date: February 26, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| Signatures | Title | Date |
|---|---|---|
| /s/ DENNIS E. NIXON<br>Dennis E. Nixon | President and Director (Principal Executive Officer) | February 26, 2024 |
| /s/ JUDITH I. WAWROSKI<br>Judith I. Wawroski | Treasurer (Principal Financial Officer) | February 26, 2024 |
| /s/ JAVIER DE ANDA<br>Javier de Anda | Director | February 26, 2024 |
| /s/ DOUG HOWLAND<br>Doug Howland | Director | February 26, 2024 |
| /s/ RUDOLPH M. MILES<br>Rudolph M. Miles | Director | February 26, 2024 |
| /s/ LARRY NORTON<br>Larry Norton | Director | February 26, 2024 |
| /s/ ROBERTO RESENDEZ<br>Roberto Resendez | Director | February 26, 2024 |
| /s/ ANTONIO R. SANCHEZ, JR.<br>Antonio R. Sanchez, Jr. | Director | February 26, 2024 |
| /s/ DIANA G. ZUNIGA<br>Diana G. Zuniga | Director | February 26, 2024 |

**Exhibit 4**

DESCRIPTION OF SECURITIES
REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following is a summary of International Bancshares Corporation's ("IBC", "we", "us", or "our") classes of securities registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"). We have two classes of securities registered under the Exchange Act: (i) our common stock, par value $1.00 per share (the "Common Stock"); and (ii) 216,000 shares of preferred stock designated as Series A preferred stock and 24,784,000 unissued shares of preferred stock referred to as "Blank Check" preferred stock (collectively, the "Preferred Stock").

## DESCRIPTION OF COMMON STOCK

The following description of our Common Stock is a summary and does not describe every right, term, or condition of owning our Common Stock. It is subject to and qualified in its entirety by reference to our amended articles of incorporation (the "Articles of Incorporation") and amended and restated by-laws (the "By-laws"). For a complete description, refer to the Articles of Incorporation and the By-laws and any applicable provisions of relevant law, including the applicable provisions of the Texas Business Organizations Code and federal law governing bank holding companies.

### General

Pursuant to the Articles of Incorporation, we are authorized to issue 275,000,000 shares of our Common Stock, par value $1.00 per share. Our Common Stock is listed on the NASDAQ Stock Market under the ticker symbol "IBOC." Outstanding shares of our Common Stock are validly issued, fully paid, and non-assessable. Holders of our Common Stock are not, and will not be, subject to any liability as shareholders.

### Dividends

Holders of our Common Stock are entitled to receive dividends if, as, and when declared by our board of directors out of any funds legally available for the payment of dividends. We will pay dividends on our Common Stock only if we have paid or provided for the payment of all dividends on our then outstanding series of Preferred Stock entitled to preference in the receipt of dividends, for the then current period and, in the case of any cumulative Preferred Stock, all prior periods. Our Preferred Stock also has such other preferences over our Common Stock as currently, or as may be, fixed by our board of directors. We are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Board of Governors of the Federal Reserve System, which is also referred to as the Federal Reserve Board, is authorized under applicable law and regulations to determine, under certain circumstances relating to the financial condition of a bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In addition, we are subject to Texas state laws relating to the payment of dividends.

### Voting Rights

Holders of our Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Holders of shares of Common Stock are not entitled to cumulative voting rights in the election of directors.

### Preemptive Rights

Holders of our Common Stock have no subscription, conversion, or preemptive rights to acquire any additional shares of Common Stock and the Common Stock is not redeemable.

**Liquidation Rights**

Holders of our Common Stock are also entitled, upon our liquidation, and after payment of all valid claims of creditors and the preferences of Preferred Stock outstanding at the time of liquidation, to receive pro rata distributions of our net assets.

**Classification of the Board**

Our board of directors is not classified.

## DESCRIPTION OF THE PREFERRED STOCK

The following description of the Preferred Stock is a summary and does not describe every right, term, or condition of owning the Preferred Stock. It is subject to and qualified in its entirety by reference to the pertinent sections of our Articles of Incorporation and By-Laws, including the certificate of designations creating the Preferred Stock, and any applicable provisions of relevant law, including the applicable provisions of the Texas Business Organizations Code and federal law governing bank holding companies.

**General**

Our Articles of Incorporation authorize us to issue 216,000 shares of Series A Preferred Stock and 24,784,000 shares of preferred stock typically referred to as "Blank Check" preferred stock. The Blank Check preferred stock refers to stock for which the rights and restrictions are determined by our board of directors. We currently have no Series A Preferred Stock outstanding. In limited circumstances, our Articles of Incorporation authorize our board of directors to issue new shares of Common Stock or Preferred Stock without further shareholder action.

**Dividend Rights**

The issuance of Preferred Stock may be viewed as having adverse effects upon the dividend rights of holders of our Common Stock.

**Preemptive and Conversion Rights**

Holders of our Common Stock do not have any preemptive rights with respect to any newly issued Preferred Stock Our board of directors could adversely affect the voting power of holders of our Common Stock by issuing shares of Preferred Stock with certain voting, conversion, and/or redemption rights.

**Certain Anti-Takeover Matters**

In the event of a proposed merger, tender offer, or other attempt to gain control of the Company, which the board of directors does not believe to be in the best interests of its shareholders, the board of directors can issue Preferred Stock which could make any such takeover attempt more difficult to complete. Blank Check Preferred Stock may also be used in connection with the issuance of a shareholder rights plan, sometimes called a poison pill. Our board of directors has not approved any plan to issue Preferred Stock for this purpose. Our board of directors does not intend to issue any Preferred Stock except on terms that the board deems to be in the best interests of IBC and its shareholders.

## DESCRIPTION OF THE ANTI-TAKEOVER PROVISIONS

**General**

The provisions of our Articles of Incorporation and By-Laws, which we summarize below, may have an anti-takeover effect and may delay, defer, or prevent a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the Common Stock.

**Advance Notice Procedure for Shareholder Proposals.**

Our By-laws establish an advance notice procedure for the nomination of candidates for election as directors as well as for shareholder proposals to be considered at annual meetings of shareholders. In general, notice of intent to nominate a director must contain specific information concerning the person to be nominated and must be delivered to or mailed and received at our principal executive offices as follows:

With respect to an election to be held at a special meeting of shareholders for the election of directors, not earlier than the 90th day prior to the special meeting and not later than the close of business on the later of the 60th day prior to the special meeting or the 10th day following the day on which public disclosure is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. Shareholders may not nominate persons for election to the board of directors at any special meeting of shareholders unless the business to be transacted at the special meeting, as set forth in the notice of the special meeting, includes the election of directors.

Notice of shareholders' intent to raise business at an annual meeting, including a nomination of candidate for election as director, must be delivered to or mailed and received at our principal executive offices not later than 60 days nor more than 90 days prior to the first anniversary of the date of the preceding year's annual meeting. Proposals from shareholders which are intended to be included in the proxy statement relating to an annual meeting of shareholders must comply with Rule 14a-8 under the Exchange Act, which requires that the proposal be received not less than 120 calendar days before the date of IBC's proxy statement released to shareholders in connection with the previous year's annual meeting. These procedures may operate to limit the ability of shareholders to bring business before a shareholders meeting, including with respect to the nomination of directors or considering any transaction that could result in a change of control.

**Limitation of Liability of Directors.**

Our Articles of Incorporation and By-laws provide for indemnification of our directors to the fullest extent permitted by applicable law. Article 2.02-1 of the Texas Business Organizations Code provides that a Texas corporation may indemnify its directors and officers against expenses, judgments, fines, and amounts paid in settlement actually and reasonably incurred by them in connection with any suit or proceeding, whether civil, criminal, administrative or investigative if, in connection with the matters in issue, they acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interests of the corporation and, in connection with any criminal suit or proceeding, if in connection with the matters in issue, they had no reasonable cause to believe their conduct was unlawful. These provisions may have the practical effect in certain cases of eliminating the ability of our shareholders to collect monetary damages from directors and executive officers. We believe that the provisions in our Articles of Incorporation and By-laws are necessary to attract and retain qualified persons as directors and executive officers.

**Regulatory Restrictions on Ownership**

The Bank Holding Company Act requires any "bank holding company," as defined in the Bank Holding Company Act, to obtain the approval of the Federal Reserve Board prior to the acquisition of 5% or more of our Common Stock. Any person, other than a bank holding company, is required to obtain prior approval of the Federal Reserve Board to acquire 10% or more of our Common Stock under the Change in Bank Control Act. Any holder of 25% or more of our Common Stock, or a holder of 5% or more if such holder otherwise exercises a "controlling influence" over us, may be subject to regulation as a bank holding company under the Bank Holding Company Act.

**Exhibit 13**

*As used in this report, the words "Company," "we," "us," and "our" refer to International Bancshares Corporation, a Texas corporation, its five wholly owned subsidiary banks ("Subsidiary Banks"), and its other subsidiaries. The information that follows may contain forward-looking statements, which involve various risks and uncertainties, including those identified in Item 1A (Risk Factors) of our Annual Report on Form 10-K for the year ended December 31, 2023, and are qualified as indicated under "Cautionary Notice Regarding Forward-Looking Information" in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of this report. Our website address is www.ibc.com.*

## INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

**(Consolidated)**

The following consolidated selected financial data is derived from our audited financial statements as of and for the five years ended December 31, 2023. 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, | | | | |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| | (Dollars in Thousands, Except Per Share Data) | | | | |
| **STATEMENT OF CONDITION** | | | | | |
| Assets | $ 15,066,189 | $ 15,501,476 | $ 16,046,236 | $ 14,029,467 | $ 12,112,894 |
| Investment securities available-for-sale | 4,822,341 | 4,417,796 | 4,213,920 | 3,080,768 | 3,378,923 |
| Net loans | 7,901,892 | 7,304,631 | 7,098,777 | 7,432,695 | 6,834,668 |
| Deposits | 11,824,554 | 12,660,007 | 12,617,877 | 10,721,860 | 8,826,034 |
| Other borrowed funds | 10,745 | 10,944 | 436,138 | 436,327 | 626,511 |
| Junior subordinated deferrable interest debentures | 108,868 | 134,642 | 134,642 | 134,642 | 134,642 |
| Shareholders' equity | 2,447,774 | 2,044,759 | 2,308,481 | 2,177,998 | 2,118,053 |
| **INCOME STATEMENT** | | | | | |
| Interest income | $ 800,162 | $ 525,781 | $ 398,103 | $ 427,008 | $ 492,401 |
| Interest expense | 136,661 | 38,156 | 26,831 | 39,119 | 58,629 |
| Net interest income | 663,501 | 487,625 | 371,272 | 387,889 | 433,772 |
| Provision for probable loan losses | 34,576 | 21,651 | 7,955 | 45,379 | 18,843 |
| Non-interest income | 169,941 | 187,134 | 222,326 | 150,579 | 154,826 |
| Non-interest expense | 275,354 | 270,469 | 263,316 | 281,331 | 309,801 |
| Income before income taxes | 523,512 | 382,639 | 322,327 | 211,758 | 259,954 |
| Income taxes | 111,744 | 82,407 | 68,405 | 44,439 | 54,850 |
| Net income | 411,768 | 300,232 | 253,922 | 167,319 | 205,104 |
| Net income available to common shareholders | $ 411,768 | $ 300,232 | $ 253,922 | $ 167,319 | $ 205,104 |
| Per common share: | | | | | |
| Basic | $ 6.63 | $ 4.79 | $ 4.01 | $ 2.63 | $ 3.13 |
| Diluted | $ 6.62 | $ 4.78 | $ 4.00 | $ 2.62 | $ 3.12 |

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

Management's Discussion and Analysis of Financial Condition and Results of Operations represents an explanation of significant changes in our financial position and results of our operations on a consolidated basis for the three-year period ended December 31, 2023. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2023, 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 those sections. Although we believe 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 we project, forecast, estimate, or budget 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 us, our customers, and such customers' ability to transact profitable business with us, including the ability of our 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 unavailability of funding from the FHLB, the Fed or other sources in the future could adversely impact our growth strategy, prospects, and performance.
- Changes in consumer spending, borrowing, and saving habits.
- Changes in interest rates and market prices, including changes in federal regulations on the payment of interest on demand deposits.
- Changes in our ability to retain or access deposits due to changes in public confidence in the banking system and the potential threat of bank-run contagion fueled by, among other factors, economic instability, inflationary pressures, the public's increased exposure to social media, and the rapid speed at which communication and coordination via social media can occur.
- Changes in the capital markets we utilize, including changes in the interest rate environment that may reduce margins.
- Changes in state and/or federal laws and regulations, including, the impact of the Consumer Financial Protection Bureau ("CFPB") as a regulator of financial institutions, changes in the accounting, tax, and regulatory treatment of trust-preferred securities, as well as changes in banking, tax, securities, insurance, employment, environmental, and immigration laws and regulations and the risk of litigation that may follow.
- Changes in U.S.—Mexico trade, including reductions in border crossings and commerce, integration, and implementation of the United States-Mexico-Canada Agreement and the possible imposition of tariffs on imported goods.
- Political instability in the United States or Mexico.

- General instability of economic and political conditions in the United States, including inflationary pressures, increased interest rates, economic slowdown or recession, and escalating geopolitical tensions.
- The reduction of deposits from nonresident alien individuals due to the Internal Revenue Service rules requiring U.S. financial institutions to report deposit interest payments made to such individuals.
- The loss of senior management or operating personnel.
- The timing, impact, and other uncertainties of the potential future acquisitions, as well as our ability to maintain our current branch network and enter new markets to capitalize on growth opportunities.
- Changes in estimates of future reserve requirements based upon periodic review thereof under relevant regulatory and accounting requirements.
- Additions to our allowance for credit loss as a result of changes in local, national, or international conditions which adversely affect our customers.
- 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 we interact.
- Political instability in the United States or Mexico.
- Technological changes or system failures or breaches of our network security, as well as other cybersecurity risks, could subject us to increased operating costs, litigation, and other liabilities.
- Acts of war or terrorism.
- Natural disasters or other adverse external events such as pandemics or epidemics.
- Reduced earnings resulting from the write-down of the carrying value of securities held in our securities available-for-sale portfolios.
- The effect of changes in accounting policies and practices by the Public Company Accounting Oversight Board (“PCAOB”), the Financial Accounting Standards Board (“FASB”) and other accounting standards setters.
- The costs and effects of regulatory developments or regulatory or other governmental inquiries and the results of regulatory examinations or reviews and obtaining regulatory approvals.
- The effect of any supervisory and enforcement efforts by the CFPB related to its unfair, deceptive, or abusive acts or practices (“UDAAP”) authority concerning fees charged by financial institutions and Regulation E, which prohibits financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, as well as the effect of any other regulatory or legal developments that limit overdraft services.
- Monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board (“FRB”).
- The reduction of income and possible increase in required capital levels related to the adoption of legislation and the implementing rules and regulations, including those that establish debit card interchange fee standards and prohibit network exclusivity arrangements and routing restrictions.
- The increase in required capital levels related to the implementation of capital and liquidity rules of the federal banking agencies that address or are impacted by the Basel III capital and liquidity standards.
- The enhanced due diligence burden imposed on banks related to the banks’ inability to rely on credit ratings under the Dodd-Frank Act.
- Our failure or circumvention of our 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. We make 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**

We are headquartered in Laredo, Texas, with 166 facilities and 256 ATMs, providing banking services for commercial, consumer, and international customers of north, south, central and southeast Texas and the State of Oklahoma. We are one of the largest independent commercial bank holding companies headquartered in Texas. We, through our Subsidiary Banks, are in the business of gathering funds from various sources and investing those funds in order to earn a return. We, either directly or through a Subsidiary Bank, own one insurance agency, a liquidating subsidiary; a fifty-percent interest in an investment banking unit that owns a broker/dealer; a controlling interest in four merchant banking entities; and a majority ownership interest in a real-estate development partnership. Our primary earnings come from the spread between the interest earned on interest-bearing assets and the interest paid on interest-bearing liabilities. In addition, we generate income from fees on products offered to commercial, consumer, and international customers. The sales team of each of our Subsidiary Banks aims to match the right mix of products and services to each customer to best serve the customer's needs. That process entails spending time with customers to assess their needs and servicing the sales arising from those discussions on a long-term basis. Our Subsidiary Banks have various compensation plans, including incentive-based compensation, for fairly compensating employees. Our Subsidiary Banks also have a robust process in place to review sales that support the incentive-based compensation plan to monitor the quality of the sales and identify any significant irregularities, a process that has been in place for many years.

One of our primary goals 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 one of our critical objectives. A key measure of the performance of a banking institution is the return on average common equity ("ROE"). Our ROE for the year ended December 31, 2023 was 15.41% as compared to 12.52% for the year ended December 31, 2022.

We are highly active in facilitating trade along the United States border with Mexico. We do a significant amount of business with customers domiciled in Mexico and deposits from persons and entities domiciled in Mexico comprise a large and stable portion of the deposit base of our Subsidiary Banks. We also serve the growing Hispanic population through our facilities located throughout north, south, central, and southeast Texas and the State of Oklahoma.

Expense control is an essential element of our long-term profitability. It has been a constant focus of ours for many years and is especially critical during periods of economic uncertainty. As a result, we have achieved a decrease of approximately 11.1% or $34.4 million, before tax, in non-interest expense over the four-year period ended December 31, 2023, primarily driven by decreases in our employee compensation and benefit plan expenses, professional fees, and other general operating expenses with the ultimate goal of ensuring that we align our workforce and operating expenses with our revenue streams.

Future economic conditions remain uncertain and the impact of those conditions on our business also remains uncertain. Our business depends on the willingness and ability of our customers to conduct banking and other financial transactions. Our revenue streams, including service charges on deposits and banking and non-banking service charges and fees (ATM and interchange income), have been impacted and may continue to be impacted in the future if economic conditions do not improve. Expense control has been a long-time focus and essential element to our long-term profitability. We have kept that focus in mind as we continue to look at operations, create efficiencies, and institute cost-control protocols at all levels. We will continue to closely monitor our efficiency ratio, a measure of non-interest expense to net interest income plus non-interest income and our overhead burden ratio, a ratio of our operating expenses against total assets. We use these measures in determining if we are accomplishing our long-term goals of controlling our costs in order to provide superior returns to our shareholders.

**Results of Operations**

**Summary**

**Consolidated Statements of Condition Information**

| | December 31, 2023 | December 31, 2022 | Percent Increase (Decrease) |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| Assets | $ 15,066,189 | $ 15,501,476 | (2.8)% |
| Net loans | 7,901,892 | 7,304,631 | 8.2 |
| Deposits | 11,824,554 | 12,660,007 | (6.6) |
| Securities sold under repurchase agreements | 530,416 | 431,191 | 23.0 |
| Other borrowed funds | 10,745 | 10,944 | (1.8) |
| Junior subordinated deferrable interest debentures | 108,868 | 134,642 | (19.1) |
| Shareholders' equity | 2,447,774 | 2,044,759 | 19.7 |

**Consolidated Statements of Income Information**

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Percent Increase (Decrease) 2023 vs. 2022 | Year Ended December 31, 2021 | Percent Increase (Decrease) 2022 vs. 2021 |
|---|---|---|---|---|---|
| | (Dollars in Thousands, Except Per Share Data) | | | | |
| Interest income | $ 800,162 | $ 525,781 | 52.2 % | $ 398,103 | 32.1 % |
| Interest expense | 136,661 | 38,156 | 258.2 | 26,831 | 42.2 |
| Net interest income | 663,501 | 487,625 | 36.1 | 371,272 | 31.3 |
| Provision for probable loan losses | 34,576 | 21,651 | 59.7 | 7,955 | 172.2 |
| Non-interest income | 169,941 | 187,134 | (9.2) | 222,326 | (15.8) |
| Non-interest expense | 275,354 | 270,469 | 1.8 | 263,316 | 2.7 |
| Net income | 411,768 | 300,232 | 37.1 | 253,922 | 18.2 |
| Per common share: | | | | | |
| Basic | $ 6.63 | $ 4.79 | 38.4 % | $ 4.01 | 19.5 % |
| Diluted | 6.62 | 4.78 | 38.5 | 4.00 | 19.5 |

**Net Income**

Net income for the year ended December 31, 2023 increased by 37.1% compared to the same period of 2022. Net income for the year ended December 31, 2023 was positively impacted by an increase in net interest income, which is primarily attributable to an increase in the size of our investment portfolio, the interest earned on funds held at the Federal Reserve Bank, and an increase in loan interest income, of which the latter two have increased consistently with FRB actions to raise interest rates in 2022 and 2023. Net income for the period has also been impacted by increases in interest expense, primarily driven by an increase in interest paid on deposits. We closely monitor rates paid on deposits to remain competitive in the current economic environment and retain deposits. The increase in those revenue streams coupled with the cost control initiatives to streamline operations and increase efficiency in recent years have been the primary drivers in achieving these results. Net income for the year ended December 31, 2022 compared to the same period of 2021 was also positively impacted by the same factors that impacted the twelve months ended December 31, 2023. Non-interest income for the year ended December 31, 2022 was also positively impacted by gains on the sale of some properties from our branch network as we continue to monitor and evaluate our retail branch footprint and align with customer activity.

**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 our 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. Tax-exempt yields have not been adjusted to a tax-equivalent basis.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2023 Average Rate/Cost | 2022 Average Rate/Cost | 2021 Average Rate/Cost |
| *Assets* | | | |
| Interest earning assets: | | | |
| Loan, net of unearned discounts: | | | |
| Domestic | 8.13 % | 5.69 % | 4.85 % |
| Foreign | 5.57 | 3.49 | 3.31 |
| Investment securities: | | | |
| Taxable | 2.56 | 1.66 | 0.95 |
| Tax-exempt | 3.86 | 3.60 | 3.38 |
| Other | 4.80 | 1.63 | 0.13 |
| Total interest-earning assets | 5.77 % | 3.62 % | 2.94 % |
| *Liabilities* | | | |
| Interest bearing liabilities: | | | |
| Savings and interest bearing demand deposits | 1.34 % | 0.27 % | 0.10 % |
| Time deposits: | | | |
| Domestic | 2.35 | 0.64 | 0.71 |
| Foreign | 2.37 | 0.40 | 0.37 |
| Securities sold under repurchase agreements | 3.15 | 0.52 | 0.15 |
| Other borrowings | 2.61 | 1.75 | 1.75 |
| Junior subordinated deferrable interest debentures | 7.01 | 3.74 | 2.07 |
| Total interest bearing liabilities | 1.86 % | 0.49 % | 0.36 % |

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 increased 59.4% from 3.62% in 2022 to 5.77% in 2023, and the rates paid on average interest-bearing liabilities increased 279.6% from 0.49% in 2022 to 1.86% in 2023. The yield on average interest-earning assets increased 23.1% from 2.94% in 2021 to 3.62% in 2022, and the rates paid on average interest-bearing liabilities increased 36.1% from 0.36% in 2021 to 0.49% in 2022.

The following table analyzes the changes in net interest income during 2023, 2022, and 2021 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:

| | 2023 compared to 2022 Net increase (decrease) due to | | | 2022 compared to 2021 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 | $ 31,220 | 183,260 | $ 214,480 | $ (16,540) | $ 58,771 | $ 42,231 |
| Foreign | 321 | 3,070 | 3,391 | 488 | 243 | 731 |
| Investment securities: | | | | | | |
| Taxable | 10,926 | 46,237 | 57,163 | 8,385 | 32,272 | 40,657 |
| Tax-exempt | 3,297 | 421 | 3,718 | 903 | 155 | 1,058 |
| Other | (31,924) | 27,553 | (4,371) | 479 | 42,522 | 43,001 |
| Total interest income | $ 13,840 | $ 260,541 | $ 274,381 | $ (6,285) | $ 133,963 | $ 127,678 |
| Interest incurred on: | | | | | | |
| Savings and interest bearing demand deposits | $ (489) | 48,140 | $ 47,651 | $ 353 | $ 8,223 | $ 8,576 |
| Time deposits: | | | | | | |
| Domestic | (226) | 16,860 | 16,634 | (404) | (677) | (1,081) |
| Foreign | 499 | 24,868 | 25,367 | 205 | 378 | 583 |
| Securities sold under repurchase agreements | (40) | 12,305 | 12,265 | 98 | 1,776 | 1,874 |
| Other borrowings | (6,591) | 93 | (6,498) | (865) | (8) | (873) |
| Junior subordinated deferrable interest debentures | (703) | 3,789 | 3,086 | — | 2,246 | 2,246 |
| Total interest expense | $ (7,550) | $ 106,055 | $ 98,505 | $ (613) | $ 11,938 | $ 11,325 |
| Net interest income | $ 21,390 | $ 154,486 | $ 175,876 | $ (5,672) | $ 122,025 | $ 116,353 |

(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.

The increase in net interest income for the years ended December 31, 2023 and December 31, 2022 is primarily attributable to an increase in the size of our investment portfolio, the interest earned on funds held at the Federal Reserve Bank, and an increase in loan interest income, of which the latter two have increased in line with FRB actions to raise interest rates in 2022 and 2023. As part of our strategy to manage interest rate risk, we strive 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. Our management can quickly change our 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 we employ to supplement gap analysis include simulation analysis to quantify interest rate risk exposure. The gap analysis prepared by management is reviewed by our Investment Committee at least twice a year. The Investment Committee is comprised of certain members of the board of directors and senior managers of the various Subsidiary Banks. Management currently believes that we are properly positioned for interest rate changes; however, if management determines at any time that we are not properly positioned, we will strive to adjust the interest rate sensitive assets and liabilities in order to manage the effect of interest rate changes.

**Allowance for Credit Losses**

The ACL increased 24.7% to $157,069,000 at December 31, 2023 from $125,972,000 at December 31, 2022. The provision for credit losses charged to expense increased $12,925,000 to $34,576,000 for the year ended December 31, 2023 from $21,651,000 for the same period in 2022.

The following table summarizes loan balances at the end of each year and average loans outstanding during the year and the following ratios: nonaccrual loans to total loans, nonaccrual loans to the ACL, charge-offs to average loans, by loan type, and total charge-off to average total loans:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| Allowance for credit losses to total loans outstanding | 1.95 % | 1.70 % | 1.53 % |
| Allowance for credit losses | $ 157,069 | $ 125,972 | $ 110,374 |
| Loans, net of unearned discounts | $ 8,058,961 | $ 7,430,603 | $ 7,209,151 |
| Nonaccrual loans to total loans outstanding | 0.59 % | 0.70 % | 0.03 % |
| Nonaccrual loans | $ 47,170 | $ 51,648 | $ 1,921 |
| Loans, net of unearned discounts | $ 8,058,961 | $ 7,430,603 | $ 7,209,151 |
| Allowance for credit losses to nonaccrual loans | 332.98 % | 243.90 % | 5,745.65 % |
| Allowance for credit losses | $ 157,069 | $ 125,972 | $ 110,374 |
| Nonaccrual loans | $ 47,170 | $ 51,648 | $ 1,921 |
| Net charge-offs during the period to average loans outstanding: | | | |
| Commercial | 0.64 % | 0.61 % | 0.48 % |
| Net charge-offs during the period | $ 9,664 | $ 9,050 | $ 8,083 |
| Average amount outstanding | $ 1,498,990 | $ 1,472,338 | $ 1,669,233 |
| Commercial real estate: other construction and land development | — % | — % | — % |
| Net charge-offs during the period | $ — | $ 2 | $ 2 |
| Average amount outstanding | $ 2,143,245 | $ 1,802,210 | $ 1,700,220 |
| Commercial real estate: farmland and commercial | — % | — % | 0.01 % |
| Net charge-offs during the period | $ — | $ 16 | $ 364 |
| Average amount outstanding | $ 2,604,677 | $ 2,541,380 | $ 2,573,151 |
| Commercial real estate: multifamily | — % | — % | — % |
| Net charge-offs during the period | $ — | $ — | $ — |
| Average amount outstanding | $ 318,307 | $ 252,685 | $ 401,551 |
| Residential: first lien | 0.01 % | 0.04 % | 0.09 % |
| Net charge-offs during the period | $ 43 | $ 160 | $ 373 |
| Average amount outstanding | $ 492,305 | $ 448,816 | $ 433,262 |
| Residential: junior lien | 0.07 % | 0.01 % | — % |
| Net charge-offs during the period | $ 298 | $ 28 | $ 25 |
| Average amount outstanding | $ 423,690 | $ 420,062 | $ 501,451 |
| Consumer | 0.42 % | 0.55 % | 0.44 % |
| Net charge-offs during the period | $ 179 | $ 223 | $ 176 |
| Average amount outstanding | $ 42,917 | $ 40,399 | $ 39,890 |
| Foreign | — % | — % | — % |
| Net charge-offs during the period | $ — | $ — | $ 1 |
| Average amount outstanding | $ 149,478 | $ 138,262 | $ 123,524 |
| Total loans | 0.13 % | 0.13 % | 0.12 % |
| Net charge-offs during the period | $ 10,184 | $ 9,479 | $ 9,024 |
| Average amount outstanding | $ 7,673,609 | $ 7,116,152 | $ 7,442,282 |

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

The ACL has been allocated based on the amount management has deemed to be reasonably necessary to provide for the credit 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | 2021 | |
| | Allowance | Percent of total | Allowance | Percent of total | Allowance | Percent of total |
| | (Dollars in Thousands) | | | | | |
| Commercial | $ 35,550 | 20.2 % | $ 26,728 | 20.2 % | $ 23,178 | 20.8 % |
| Commercial real estate: other construction and land development | 55,291 | 26.0 | 44,684 | 26.7 | 35,390 | 23.1 |
| Commercial real estate: farmland & commercial | 42,703 | 34.7 | 36,474 | 34.6 | 35,654 | 37.6 |
| Commercial real estate: multifamily | 5,088 | 4.7 | 3,794 | 4.1 | 3,291 | 4.0 |
| Residential : first lien | 5,812 | 5.9 | 4,759 | 5.7 | 4,073 | 5.6 |
| Residential: junior lien | 11,024 | 5.7 | 8,284 | 5.9 | 7,754 | 6.4 |
| Consumer | 318 | 0.6 | 281 | 0.6 | 272 | 0.6 |
| Foreign | 1,283 | 2.2 | 968 | 2.2 | 762 | 1.9 |
| | $ 157,069 | 100.0 % | $ 125,972 | 100.0 % | $ 110,374 | 100.0 % |

The ACL primarily consists of the aggregate ACL's of the Subsidiary Banks. The ACL's are established through charges to operations in the form of provisions for credit losses.

The Subsidiary Banks 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 so indicate. Generally, unsecured consumer loans are charged-off when 90 days past due.

The ACL is a reserve established through a provision for credit losses charged to expense, which represents management's best estimate of credit losses within the existing portfolio of loans based on our internal ACL calculation. While our management 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 credit 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 ACL can be made only on a subjective basis. Our management believes that the ACL at December 31, 2023 was adequate to absorb expected losses from loans and other financial instruments in the portfolio at that date. See Critical Accounting Policies on page 19.

**Non-Interest Income**

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Percent Increase (Decrease) 2023 vs. 2022 | Year Ended December 31, 2021 | Percent Increase (Decrease) 2022 vs. 2021 |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Service charges on deposit accounts | $ 73,933 | $ 72,781 | 1.6 % | $ 66,205 | 9.9 % |
| Other service charges, commissions and fees | | | | | |
| Banking | 57,923 | 55,253 | 4.8 | 54,280 | 1.8 |
| Non-banking | 9,546 | 8,568 | 11.4 | 8,007 | 7.0 |
| Investment securities transactions, net | (3) | — | (100.0) | (16) | (100.0) |
| Other investments, net | 9,601 | 17,538 | (45.3) | 68,807 | (74.5) |
| Other income | 18,941 | 32,994 | (42.6) | 25,043 | 31.7 |
| Total non-interest income | $ 169,941 | $ 187,134 | (9.2)% | $ 222,326 | (15.8)% |

Total non-interest income for the year ended December 31, 2023 decreased by 9.2% compared to the same period of 2022. The decrease is primarily attributed to losses recorded on merchant banking investments. Total non-interest income for the year ended December 31, 2022 decreased by 15.8% compared to 2021. Non-interest income was positively impacted due to an increase in service charges on deposit accounts as customer activity continues to increase from previously depressed levels resulting from the COVID-19 pandemic. Other income was positively impacted by gains on the sale of some properties from our branch network as we continue to monitor and evaluate our retail branch footprint and align with customer activity. The decrease in other investment income for the year ended December 31, 2022 compared to the same period of 2021 was primarily attributable to the sale of an equity interest in a merchant banking investment held by one of our non-bank subsidiaries in the second quarter of 2021.

**Non-Interest Expense**

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Percent Increase (Decrease) 2023 vs. 2022 | Year Ended December 31, 2021 | Percent Increase (Decrease) 2022 vs. 2021 |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Employee compensation and benefits | $ 134,441 | $ 127,722 | 5.3 % | $ 123,480 | 3.4 % |
| Occupancy | 25,832 | 25,654 | 0.7 | 26,176 | (2.0) |
| Depreciation of bank premises and equipment | 21,944 | 21,821 | 0.6 | 25,028 | (12.8) |
| Professional fees | 14,000 | 11,292 | 24.0 | 7,890 | 43.1 |
| Deposit insurance assessments | 6,285 | 6,987 | (10.0) | 4,389 | 59.2 |
| Net expense, other real estate owned | (3,983) | 122 | (3,364.8) | 5,073 | (97.6) |
| Advertising | 5,010 | 4,588 | 9.2 | 4,037 | 13.6 |
| Software and software maintenance | 20,046 | 15,271 | 31.3 | 17,794 | (14.2) |
| Other | 51,779 | 57,012 | (9.2) | 49,449 | 15.3 |
| Total non-interest expense | $ 275,354 | $ 270,469 | 1.8 % | $ 263,316 | 2.7 % |

Non-interest expense for the year ended December 31, 2023 increased by 1.8% compared to the same period of 2022. The increase in non-interest expense is primarily attributed to an increase in our employee compensation and

benefits cost as we continue to review and adjust our compensation and benefits programs to recognize performance and retain our workforce and an increase in software and software maintenance costs. Non-interest expense was positively impacted by a net gain recognized on the operations and sales of certain of our other real estate owned. Non-interest expense for the year ended December 31, 2022 increased by 2.7% compared to the same period of 2021. The increase is primarily attributable to an increase in our employee compensation and benefits costs. We continue to monitor and manage our controllable non-interest expenses through a variety of measures with the ultimate goal of ensuring we align non-interest expenses with our operations and revenue streams.

**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 tables set forth the average yield, by contractual maturities of debt investment securities, at December 31, 2023, 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 Yield | Adjusted Yield | Adjusted Yield | Adjusted Yield |
| | (Dollars in Thousands) | | | |
| Residential mortgage-backed securities | 3.85 % | 2.65 % | 2.41 % | 2.88 % |
| Obligations of states and political subdivisions | — | — | 4.13 | 4.14 |
| Total | 3.85 % | 2.65 % | 2.43 % | 2.92 % |

| | Held to Maturity Maturing | | | |
|---|---|---|---|---|
| | Within one year | After one but within five years | After five but within ten years | After ten years |
| | Adjusted Yield | Adjusted Yield | Adjusted Yield | Adjusted Yield |
| | (Dollars in Thousands) | | | |
| Other securities | 2.07 % | 4.49 % | — % | — % |
| Total | 2.07 % | 4.49 % | — % | — % |

Residential mortgage-backed securities are securities primarily issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”), Federal National Mortgage Association (“Fannie Mae”), and the Government National Mortgage Association (“Ginnie Mae”). Investments in residential mortgage-backed securities issued by Ginnie Mae are fully guaranteed by the U.S. government. Investments in residential mortgage-backed securities issued by Freddie Mac and Fannie Mae are not fully guaranteed by the U.S. government; however, we believe 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 following table shows the amounts of loans outstanding as of December 31, 2023, 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 but within fifteen years | After fifteen years | Total |
| | (Dollars in Thousands) | | | | |
| Commercial | $ 669,593 | $ 756,861 | $ 201,776 | $ — | $ 1,628,230 |
| Commercial real estate: other construction & land development | 906,367 | 1,021,585 | 163,245 | 425 | 2,091,622 |
| Commercial real estate: farmland & commercial | 527,255 | 2,118,232 | 147,958 | 108 | 2,793,553 |
| Commercial real estate: multifamily | 194,845 | 177,797 | 7,230 | 967 | 380,839 |
| Residential: first lien | 18,878 | 114,678 | 55,759 | 288,717 | 478,032 |
| Residential: junior lien | 22,433 | 14,146 | 327,348 | 96,942 | 460,869 |
| Consumer | 27,392 | 17,482 | 212 | 35 | 45,121 |
| Foreign | 92,272 | 43,619 | 6,228 | 38,576 | 180,695 |
| Total | $ 2,459,035 | $ 4,264,400 | $ 909,756 | $ 425,770 | $ 8,058,961 |

| | Interest sensitivity | |
|---|---|---|
| | Fixed Rate | Variable Rate |
| | (Dollars in Thousands) | |
| Amount due after one year: | | |
| Commercial | $ 204,909 | $ 753,728 |
| Commercial real estate: other construction & land development | 4,803 | 1,180,452 |
| Commercial real estate: farmland & commercial | 164,031 | 2,102,267 |
| Commercial real estate: multifamily | 1,929 | 184,065 |
| Residential: first lien | 193,411 | 265,743 |
| Residential: junior lien | 431,323 | 7,113 |
| Consumer | 17,723 | 6 |
| Foreign | 14,632 | 73,791 |
| Total | $ 1,032,761 | $ 4,567,165 |

**International Operations**

On December 31, 2023, we had $180,695,000 (1.2% of total assets) in loans outstanding to borrowers domiciled in foreign countries, which included primarily borrowers domiciled in Mexico. The loan policies of our Subsidiary Banks 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 as of December 31, 2023 and 2022 is presented below.

| | For the year ended December 31, | |
|---|---|---|
| | 2023 | 2022 |
| | Amount of Loans | Amount of Loans |
| | (Dollars in Thousands) | |
| Secured by certificates of deposit in United States banks | $ 95,570 | $ 90,887 |
| Secured by United States real estate | 51,215 | 36,048 |
| Secured by other United States collateral (securities, gold, silver, etc.) | 7,806 | 6,125 |
| Unsecured | 17,185 | 21,108 |
| Other (principally Mexico real estate) | 8,919 | 5,807 |
| | $ 180,695 | $ 159,975 |

**Deposits**

The following table illustrates the average amounts of deposits for the twelve months ended December 31, 2023 and December 31, 2022. Included in the table is our estimate of the amount of total uninsured deposits as of December 31, 2023 and December 31, 2022.

| | 2023 Average Balance | 2022 Average Balance |
|---|---|---|
| | (Dollars in Thousands) | |
| Deposits: | | |
| Demand—non-interest bearing | | |
| Domestic | $ 4,316,548 | $ 4,831,516 |
| Foreign | 983,317 | 1,141,946 |
| Total demand non-interest bearing | 5,299,865 | 5,973,462 |
| Savings and interest bearing demand | | |
| Domestic | 3,269,907 | 3,510,099 |
| Foreign | 1,217,285 | 1,156,949 |
| Total savings and interest bearing demand | 4,487,192 | 4,667,048 |
| Time certificates of deposit | | |
| Domestic | 985,189 | 1,020,388 |
| Foreign | 1,262,762 | 1,139,209 |
| Total time, certificates of deposit | 2,247,951 | 2,159,597 |
| Total deposits | $ 12,035,008 | $ 12,800,107 |
| | | |
| Uninsured Deposits: | $ 3,998,626 | $ 4,718,606 |

Scheduled maturities of time deposits in amounts of $250,000 or more at December 31, 2023 and an estimate of uninsured time deposits, were as follows:

| | | |
|---|---|---|
| Due within 3 months or less | $ | 576,507 |
| Due after 3 months and within 6 months | | 345,608 |
| Due after 6 months and within 12 months | | 238,869 |
| Due after 12 months | | 41,186 |
| | $ | 1,202,170 |
| | | |
| Portion of time deposits that are uninsured | $ | 749,169 |

We offer a variety of deposit accounts having a wide range of interest rates and terms. We rely primarily on our high-quality customer service, sales programs, customer referrals, and advertising to attract and retain these deposits. Deposits provide the primary source of funding for our 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, 2023 were $11,824,554,000, a decrease of 6.6% from $12,660,007,000 at December 31, 2022. Deposits decreased as a result of increased general activities by customers, increased competition for deposits by the federal government, and aggressive competitors' pricing. We have closely monitored the rates paid on deposits by competitors and have made changes to our pricing accordingly in order to remain competitive in an effort to retain deposits. Because of our significant levels of liquidity, we actively monitor deposit accounts, and in some cases determine that it is our best interest to allow some deposits to runoff because the rates being offered by our competitors are beyond levels we are willing to pay at this point in time. Those actions are carefully considered by our executive leadership team in order to manage our deposit base and the cost of our deposits. Our five separately chartered Subsidiary Banks within our holding company structure also allows us to work with customers to maximize their FDIC deposit insurance levels.

**Other Borrowed Funds**

Other borrowed funds include FHLB borrowings which are long-term borrowings issued by the FHLB of Dallas or the FHLB of Topeka at the market price offered at the time of funding. These borrowings are secured by residential mortgage-backed investment securities and a portion of our loan portfolio. At December 31, 2023, other borrowed funds totaled $10,745,000, a decrease of 1.8% from $10,944,000 at December 31, 2022.

**Return on Equity and Assets**

Certain key ratios for the years ended December 31, 2023, 2022, and 2021 follow [1]:

| | Years ended December 31, | | |
|---|---|---|---|
| | **2023** | **2022** | **2021** |
| Percentage of net income to: | | | |
| Average shareholders' equity | 15.41 % | 12.52 % | 11.28 % |
| Average total assets | 2.64 | 1.83 | 1.68 |
| Percentage of average shareholders' equity to average total assets | 17.13 | 14.63 | 14.88 |
| Percentage of cash dividends per share to net income per share | 19.00 | 24.84 | 28.70 |

[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 our Subsidiary Banks 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. Our Subsidiary Banks derive their liquidity largely from deposits of individuals and business entities. Other important funding sources for our Subsidiary Banks during 2023 and 2022 were 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. Our Subsidiary Banks have had a long-standing relationship with the FHLB and keep open, unused, lines of credit in order to fund liquidity needs. In the event that the FHLB indebtedness is not renewed, the repayment of the outstanding indebtedness would more than likely be repaid through proceeds generated from the sales of unpledged available-for-sale securities. Our Subsidiary Banks also have an active account and significant collateral pledged to the Federal Reserve Bank’s Discount Window, which can also be relied upon to fund liquidity needs. We maintain a sizable, high quality investment portfolio to provide significant liquidity. These securities can be sold or sold under agreements to repurchase, to provide immediate liquidity. As in the past, we will continue to monitor the volatility and cost of funds in an attempt to match maturities of rate-sensitive assets and liabilities and respond accordingly to anticipated fluctuations in interest rates over reasonable periods of time.

**Asset/Liability Management**

Our funds management policy has as its primary focus the measurement and management of the Subsidiary 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, 2023, 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 below, we are asset sensitive through all of the time periods illustrated. 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, 2023 | Rate/Maturity<br>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 | $ 217,326 | $ 545,965 | $ 3,905,625 | $ 162,242 | $ 4,831,158 |
| Loans, net of non-accruals | 6,678,670 | 195,740 | 383,329 | 754,052 | 8,011,791 |
| Total earning assets | $ 6,895,996 | $ 741,705 | $ 4,288,954 | $ 916,294 | $ 12,842,949 |
| Cumulative earning assets | $ 6,895,996 | $ 7,637,701 | $ 11,926,655 | $ 12,842,949 | |
| Rate sensitive liabilities | | | | | |
| Time deposits | $ 1,120,951 | $ 1,180,964 | $ 123,259 | $ 3 | $ 2,425,177 |
| Other interest bearing deposits | 4,368,532 | — | — | — | 4,368,532 |
| Securities sold under repurchase agreements | 529,346 | 1,070 | — | — | 530,416 |
| Other borrowed funds | — | — | — | 10,745 | 10,745 |
| Junior subordinated deferrable interest debentures | 108,868 | — | — | — | 108,868 |
| Total interest bearing liabilities | $ 6,127,697 | $ 1,182,034 | $ 123,259 | $ 10,748 | $ 7,443,738 |
| Cumulative sensitive liabilities | $ 6,127,697 | $ 7,309,731 | $ 7,432,990 | $ 7,443,738 | |
| Repricing gap | $ 768,299 | $ (440,329) | $ 4,165,695 | $ 905,546 | $ 5,399,211 |
| Cumulative repricing gap | 768,299 | 327,970 | 4,493,665 | 5,399,211 | |
| Ratio of interest-sensitive assets to liabilities | 1.13 | 0.63 | 34.80 | 85.25 | 1.73 |
| Ratio of cumulative, interest-sensitive assets to liabilities | 1.13 | 1.04 | 1.60 | 1.73 | |

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. We and many other institutions rely primarily upon income simulation analysis in measuring and managing exposure to interest rate risk.

We have established guidelines for acceptable volatility of projected net interest income on the income simulation analysis and the guidelines are reviewed at least annually. As of December 31, 2023, in decreasing rate scenarios of -100,

-200, -300 and -400 basis points and in rising rate scenarios of +100, +200, +300 and +400 basis points, the guidelines established by management require that the net interest income not vary by more than minus 30%, 30%, 30%, and 40%, respectively, for the first 12-month period projected. At December 31, 2023, the most recent income simulations show that a rate shift of -100, -200, -300, -400, +100, +200, +300 and +400 basis points in interest rates up will vary projected net interest income for the coming 12-month period by -7.78%, -14.54%, -20.92%, -26.70% +6.48%, +13.14%, +19.80% and +26.51%, respectively. 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. We believe that we are properly positioned for a potential interest rate increase or decrease.

All the measurements of risk described above are made based upon our business mix and interest rate exposures at the particular point in time. The exposure changes continuously as a result of our ongoing business and our risk management initiatives. While management believes these measures provide a meaningful representation of our 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.

Our principal sources of liquidity and funding dividends from subsidiaries and borrowed funds, with such funds being used to finance our cash flow requirements. We closely monitor the dividend restrictions and availability from our Subsidiary Banks as disclosed in Note 20 of the Notes to Consolidated Financial Statements. At December 31, 2023, the aggregate amount legally available to be distributed to us from our Subsidiary Banks as dividends was approximately $1,229,500,000, assuming that each Subsidiary Bank continues to be classified as "well capitalized" under the applicable regulations in effect at December 31, 2023. The restricted capital (capital and surplus) of our Subsidiary Banks was approximately $1,377,321,000 as of December 31, 2023. The undivided profits of our Subsidiary Banks were approximately $1,710,438,000 as of December 31, 2023.

At December 31, 2023, we had outstanding $10,745,000 in other borrowed funds and $108,868,000 in junior subordinated deferrable interest debentures. In addition to borrowed funds and dividends, we have a number of other available alternatives to finance the growth of our Subsidiary Banks as well as future growth and expansion.

**Capital**

We maintain an adequate level of capital as a margin of safety for our depositors and shareholders. At December 31, 2023, shareholders' equity was $2,447,774,000 compared to $2,044,759,000 at December 31, 2022, an increase of $403,015,000, or 19.7%. Shareholders' equity increased primarily due to an increase in retained earnings and a decrease in accumulated other comprehensive loss as a result of market interest conditions and the impact of those conditions on the value of our investment portfolio. The accumulated other comprehensive loss is not included in the calculation of regulatory capital ratios.

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

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). All banks are required to have Tier 1 capital of at least 4 % of risk-weighted assets and total capital of 8% 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 8% and a Tier 1 leverage ratio of 5%. We had risk-weighted Tier 1 capital ratios of 22.39% and 21.04% and risk-weighted total capital ratios of 23.65% and 22.22% as of December 31, 2023 and 2022, respectively, which are well above the minimum regulatory requirements and exceed the well-capitalized ratios (see Note 19 of our Notes to Consolidated Financial Statements).

In July 2013, the FDIC and other regulatory bodies established a new, comprehensive capital framework for U.S. banking organizations, consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the Basel III capital reforms and various related capital provisions of the Dodd-Frank Act. Consistent with the Basel international framework, the rules include a minimum ratio of Common Equity Tier 1 (“CET1”) capital to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 capital to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. Regarding the quality of capital, the rules emphasize CET1 capital and implements strict eligibility criteria for regulatory capital instruments. The rules also improve the methodology for calculating risk-weighted assets to enhance risk sensitivity. We believe that as of December 31, 2023, we meet all fully phased-in capital adequacy requirements.

In November 2017, the OCC, the FRB and the FDIC finalized a proposed rule that extends the current treatment under the regulatory capital rules for certain regulatory capital deductions and risk weights and certain minority-interest requirements, as they apply to banking organizations that are not subject to the advanced approaches capital rules. Effective January 1, 2018, the rule also pauses the full transition to the Basel III treatment of mortgage servicing assets, certain deferred tax assets, investments in the capital of unconsolidated financial institutions and minority interests. The agencies are also considering whether to make adjustments to the capital rules in response to CECL (the FASB Standard relating to current expected credit loss) and its potential impact on regulatory capital. Pursuant to rules issued by the federal bank regulatory agencies in February 2019 and March 2020, banking organizations were given options to phase in the adoption of CECL over a three-year transition period through December 31, 2022 or over a five-year transition period through December 31, 2024. Rather than electing to make one of the phase-in options, we immediately recognized the capital impact upon adopting the CECL accounting standards on January 1, 2020, which resulted in an increase in our allowance for probable loan losses and a one-time cumulative-effect adjustment to retained earnings upon adoption.

In December 2017, the Basel Committee on Banking Supervision unveiled its final set of standards and reforms to the Basel III regulatory capital framework, commonly called “Basel III Endgame” or “Basel IV.” The Basel IV standards make changes to the capital framework first introduced as “Basel III” in 2010 and aim to reduce excessive variability in banks’ calculations of risk-weighted assets and risk-weighted capital ratios. Implementation of Basel IV began on January 1, 2023 and will continue over a five-year transition period by regulators in individual countries, including the U.S. federal bank regulatory agencies (after notice and comment).

**Junior Subordinated Deferrable Interest Debentures**

We currently have four statutory business trusts under the laws of the State of Delaware, for the purpose of issuing trust preferred securities. These statutory business trusts (the “Trusts”) each issued capital and common securities (Capital and Common Securities”) and invested the proceeds thereof in an equivalent amount of junior subordinated debentures (the “Debentures”) that we issued. As of December 31, 2023 and December 31, 2022, the principal amount of debentures outstanding totaled $108,868,000 and $134,642,000, respectively.

The Debentures are subordinated and junior in right of payment to all of our present and future senior indebtedness (as defined in the respective indentures) 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. We have fully and unconditionally guaranteed the obligations of each of the Trusts with respect to the Capital and Common Securities. We have 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 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 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, 2023 and December 31, 2022, the total $108,868,000 and $134,642,000, respectively, 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, 2023:

| | Junior Subordinated Deferrable Interest Debentures (in thousands) | Repricing Frequency | Interest Rate | Interest Rate Index(1) | Maturity Date | Optional Redemption Date(2) |
|---|---|---|---|---|---|---|
| Trust IX | 41,238 | Quarterly | 7.28 % | SOFR + 1.62 | October 2036 | October 2011 |
| Trust X | 21,021 | Quarterly | 7.29 % | SOFR + 1.65 | February 2037 | February 2012 |
| Trust XI | 25,990 | Quarterly | 7.28 % | SOFR + 1.62 | July 2037 | July 2012 |
| Trust XII | 20,619 | Quarterly | 7.09 % | SOFR + 1.45 | September 2037 | September 2012 |
| | $ 108,868 | | | | | |

(1) On July 1, 2023, the interest rate index on the Capital and Common Securities transitioned from U.S.-dollar London Interbank Offered Rate ("LIBOR") to the Three-Month CME Term Secured Overnight Financing Rate ("SOFR") with a 26 basis point spread adjustment
(2) The Capital Securities may be redeemed in whole or in part on any interest payment date after the Optional Redemption Date.

**Critical Accounting Policies**

We have established various accounting policies which govern the application of accounting principles in the preparation of our 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.

We consider our estimated ACL as a policy critical to the sound operations of our Subsidiary Banks. The ACL is deducted from the amortized cost of an instrument to present the net amount expected to be collected on the financial asset. Our ACL primarily consists of the aggregate ACL estimates of our Subsidiary Banks. The estimates are established through charges to operations in the form of charges to provisions for credit loss expense. Loan losses or recoveries are charged or credited directly to the ACL. The ACL of each Subsidiary Bank is maintained at a level considered appropriate by management, based on estimated current expected credit losses in the current loan portfolio, including information about past events, current conditions, and reasonable and supportable forecasts.

The estimation of the ACL is based on a loss-rate methodology that measures lifetime losses on loan pools that have similar risk characteristics. Loans that do not have similar risk characteristics are evaluated on an individual basis. The segmentation of the loan portfolio into pools requires a balancing process between capturing similar risk characteristics and containing sufficient loss history to provide meaningful results. Our segmentation starts at the general loan category with further sub-segmentation based on collateral types that may be of meaningful size and/or may contain sufficient differences in risk characteristics based on management's judgement that would warrant further segmentation. The general loan categories along with primary risk characteristics used in our calculation are as follows:

*Commercial and industrial loans.* This category includes loans extended to a diverse array of businesses for working capital or equipment purchases. These loans are mostly secured by the collateral pledged by the borrower that is directly related to the business activities of the company such as equipment, accounts receivable and inventory. The borrower's abilities to generate revenues from equipment purchases, collect accounts receivable, and to turn inventory into sales are risk factors in the repayment of the loan. A small portion of this loan category is related to loans secured by oil and gas production and loans secured by aircraft.

*Construction and land development loans.* This category includes the development of land from unimproved land to lot development for both residential and commercial use and vertical construction across residential and commercial real estate classes. These loans carry risk of repayment when projects incur cost overruns, have an increase in the price of construction materials, encounter zoning, entitlement, 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 mortgage rate risk and the practice by the mortgage industry of more restrictive underwriting standards, which inhibits the buyer from obtaining long term financing creating excessive housing and lot inventory in the market.

*Commercial real estate loans.* This category includes loans secured by farmland, multifamily properties, owner-occupied commercial properties, and non-owner-occupied commercial properties. Owner-occupied commercial properties include warehouses often along the border for import/export operations, office space where the borrower is the primary tenant, restaurants and other single-tenant retail spaces. Non-owner-occupied commercial properties include hotels, retail centers, office and professional buildings, and leased warehouses. These loans carry 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 the market experiences an exit of a specific business type that is significant to the local economy, such as a manufacturing plant.

*1-4 family mortgages.* This category includes both first and second lien mortgages for the purpose of home purchases or refinancing of existing mortgage loans. A small portion of this loan category is related to home equity lines of credits, lots purchases, and home construction. Loan repayments may be affected by unemployment or underemployment and deteriorating market values of real estate.

*Consumer loans.* This category includes deposit secured, vehicle secured, and unsecured loans, including overdrafts, made to individuals. Repayment is primarily affected by unemployment or underemployment.

The loan pools are further broken down using a risk-based segmentation based on internal classifications for commercial loans and past due status for consumer mortgage loans. Non-mortgage consumer loans are evaluated as one segment. On a weekly basis, commercial loan past due reports are reviewed by the credit quality committee to determine if a loan has any potential problems and if a loan should be placed on our internal Watch List report. Additionally, our credit department reviews the majority of our loans for proper internal classification purposes regardless of whether they are past due and segregates any loans with potential problems for further review. The credit department will discuss the potential problem loans with the servicing loan officers to determine any relevant issues that were not discovered in the evaluation. Also, an analysis of loans that is provided through examinations by regulatory authorities is considered in the review process. After the above analysis is completed, we will determine if a loan should be placed on an internal Watch List report because of issues related to the analysis of the credit, credit documents, collateral, and/or payment history.

Our internal Watch List report is segregated into the following categories: (i) Pass, (ii) Economic Monitoring, (iii) Special Review, (iv) Watch List—Pass, or (v) Watch List—Substandard, and (vi) Watch List—Doubtful. The loans placed in the Special Review category and lower rated credits reflect our opinion that the loans reflect potential weakness which require monitoring on a more frequent basis. Credits in those categories are reviewed and discussed on a regular basis, no less frequently than quarterly, 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 category and lower rated credits reflect our opinion that the credit contains weaknesses which represent a greater degree of risk, which warrant "extra attention." Credits in this category 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 category 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 we may sustain some future loss if such weaknesses are not corrected. The loans placed in the Watch List—Doubtful category have shown defined weaknesses and it is likely, based on current information and events, that we will be unable to collect all principal and/or interest amounts contractually due. Watch List—Doubtful loans are placed on non-accrual when they are moved to that category.

For the purposes of the ACL, in order to maintain segments with sufficient history for meaningful results, the credits in the Pass and Economic Monitoring categories are aggregated, the credits in the Special Review and Watch List—Pass credits are aggregated, and the credits in the Watch List—Substandard category remain in their own segment. For loans that are classified as Watch List—Doubtful, management evaluates these credits in accordance with ASC 310-10, "Receivables," and, if deemed necessary, a specific reserve is allocated to the loan. The specific reserve allocated under ASC 310-10, is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the net realizable value of the fair value of the collateral if the loan is collateral dependent. Substantially all of our loans evaluated as Watch List—Doubtful under ASC 310-10 are measured using the fair value of collateral method. In rare cases, we may use other methods to determine the specific reserve of a loan under ASC 310-10 if such loan is not collateral dependent.

Within each collectively evaluated pool, the robustness of the lifetime historical loss-rate is evaluated and, if needed, is supplemented with peer loss rates through a model risk adjustment. Certain qualitative loss factors are then evaluated to incorporate management's two-year reasonable and supportable forecast period followed by a reversion to the pool's average lifetime loss-rate. Those qualitative loss factors are: (i) trends in portfolio volume and composition, (ii) volume and trends in classified loans, delinquencies, non-accruals and troubled loan modifications, (iii) concentration risk, (iv) trends in underlying collateral value, (v) changes in policies, procedures, and strategies, and (vi) economic conditions. Qualitative factors also include potential losses stemming from operational risk factors arising from fraud, natural disasters, pandemics, geopolitical events and large loans. The large loan operational risk factor was added beginning in the second quarter of 2023. Because of the magnitude of large loans, they pose a higher risk of default. Recognizing this risk and establishing an operational risk factor to capture that risk, is prudent action in the current economic environment. Large loans are usually part of a larger relationship with collateral that is pledged across the relationship. Defaulting on a larger loan may therefore jeopardize an entire collateral relationship. The current economic environment has created challenges for borrowers to service their debt. Increasing cap rates, elevated office vacancies, an upward trend in apartment vacancies and significant increases in interest rates are all contributing to the elevated risk in large loans. Should any of the factors considered by management in evaluating the adequacy of the ACL change, our estimate could also change, which could affect the level of future credit loss expense.

We have elected to not measure an ACL for accrued interest receivable given our timely approach in identifying and writing off uncollectible accrued interest. An ACL for off-balance sheet exposure is derived from a projected usage rate of any unfunded commitment multiplied by the historical loss rate, plus model risk adjustment, if any, of the on-balance sheet loan pools.

Our management continually reviews the ACL of the Subsidiary Banks using the amounts determined from the estimates established on specific doubtful loans, the estimate established on quantitative historical loss percentages, and the estimate based on qualitative current conditions and reasonable and supportable two-year forecasted data. Our methodology reverts to the average lifetime loss-rate beyond the forecast period when we can no longer develop reasonable and supportable forecasts. Should any of the factors considered by management in evaluating the adequacy of the estimate for current expected credit losses change, our estimate of current expected credit losses could also change, which could affect the level of future credit loss expense. While the calculation of our ACL utilizes management's best judgment and all information reasonably available, the adequacy of the ACL is dependent on a variety of factors beyond our control, including, among other things, the performance of the entire loan portfolio, the economy, government actions, changes in interest rates and the view of regulatory authorities towards loan classifications.

**Recent Accounting Standards Issued**

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

**Common Stock and Dividends**

We have issued and outstanding 62,168,232 shares of $1.00 par value common stock held by approximately 1,763 holders of record at February 20, 2024. The book value of the common stock at December 31, 2023 was $41.96 per share compared with $34.93 per share at December 31, 2022.

Our 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 our common stock during 2023 and 2022, as quoted on the NASDAQ National Market for each of the quarters in the two-year period ended December 31, 2023. 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 our common stock was $51.24 per share at February 20, 2024.

| | | High | Low |
|---|---|---|---|
| 2023: | First quarter | $ 49.50 | $ 40.80 |
| | Second quarter | 48.94 | 39.10 |
| | Third quarter | 50.00 | 41.96 |
| | Fourth quarter | 54.72 | 42.25 |
| | | **High** | **Low** |
| 2022: | First quarter | $ 45.99 | $ 38.92 |
| | Second quarter | 44.02 | 38.00 |
| | Third quarter | 46.03 | 38.58 |
| | Fourth quarter | 53.71 | 42.58 |

We paid cash dividends of $.63 per share on February 28, and August 23, 2023, respectively, to record holders of our common stock on February 15, and August 11, 2023, respectively. We paid cash dividends of $.60 per share on February 28, and August 29, 2022, respectively, to record holders of our common stock on February 15, and August 16, 2022, respectively.

Our principal source of funds to pay cash dividends on our common stock is cash dividends from our Subsidiary Banks. For a discussion of the limitations, please see Note 19 of our Notes to Consolidated Financial Statements.

**Stock Repurchase Program**

In April 2009, 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 12 months. Annually since then, including on February 21, 2023, the Board of Directors extended and increased the repurchase program to purchase up to $124 million of common stock during the 12-month period commencing on March 15, 2023. On February 20, 2024, our Board of Directors authorized the renewal and increase of the repurchase program to purchase up to $150 million of common stock during the 12-month period commencing on March 15, 2024 upon the expiration of our current repurchase program on that date. Shares of common stock may be purchased from time to time on the open market or through privately negotiated transactions. Shares purchased in this program will be held in treasury for reissue for various corporate purposes, including employee compensation plans. During the fourth quarter of 2023, the Board of Directors adopted a Rule 10b-18 trading plan and a Rule 10b5-1 trading plan and intends to adopt additional Rule 10b-18 and Rule 10b5-1 trading plans, which will allow us to purchase shares of our common stock during certain open and blackout periods when we ordinarily would not be in the market due to trading restrictions in our insider trading policy. During the terms of both a Rule 10b-18 and a Rule 10b5-1 trading plan, purchases of common stock are automatic to the extent the conditions of the plan's trading instructions are met. Shares purchased under these trading plans will be held in treasury for reissue for various corporate

purposes, including employee stock compensation plans. As of February 20, 2024, a total of 13,706,581 shares had been repurchased under all programs at a cost of $414,926,000. We are not obligated to purchase shares under our stock repurchase program outside of the Rule 10b-18 and Rule 10b5-1 trading plans.

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, 2023.

| | 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, 2023 | — | $ — | — | $ 119,558,000 |
| November 1 – November 30, 2023 | 518 | 45.03 | — | 119,535,000 |
| December 1 – December 31, 2023 | 1,987 | 50.81 | — | 119,434,000 |
| Total | 2,505 | $ 49.62 | — | |

(1) The repurchase program was increased and extended on February 21, 2023 and allows for the repurchase of up to an additional $124,000,000 of treasury stock through March 15, 2024.

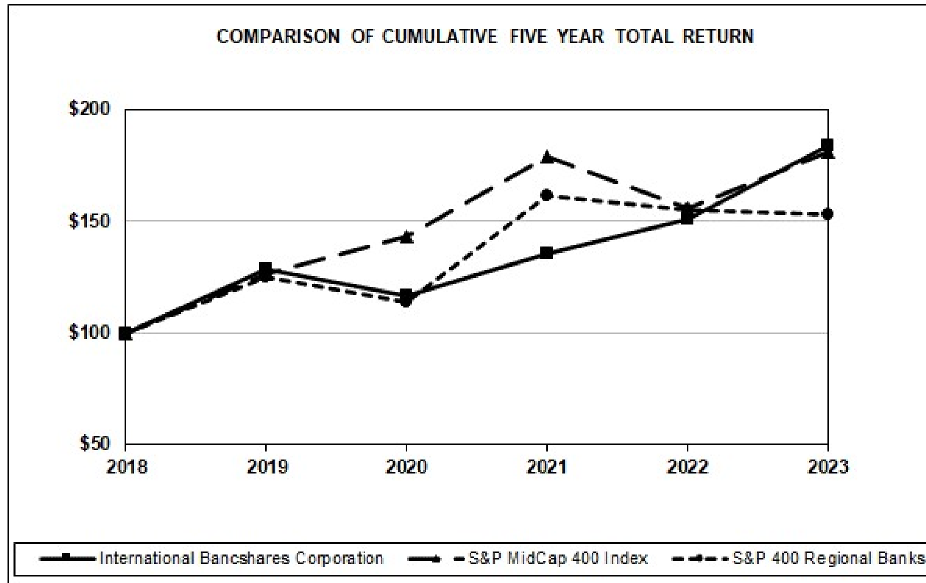
**Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2023, with respect to our 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 | 383,865 | $ 30.65 | — |
| Total | 383,865 | $ 30.65 | — |

**Stock Performance**

**COMPARISON OF CUMULATIVE FIVE-YEAR TOTAL RETURN**




**Total Return To Shareholders**
**(Includes reinvestment of dividends)**

| Company / Index | Base Period 2018 | INDEXED RETURNS December 31, 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| **International Bancshares Corporation** | **100** | 128.67 | 116.44 | 135.66 | 150.50 | 183.56 |
| **S&P 400 Index** | **100** | 126.20 | 143.44 | 178.95 | 155.58 | 181.15 |
| **S&P 400 Banks** | **100** | 124.61 | 113.89 | 161.36 | 154.69 | 153.23 |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors
of International Bancshares Corporation and its Subsidiaries

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of condition of International Bancshares Corporation and its Subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 26, 2024 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Allowance for Credit Losses**

As described in Note 4 of the consolidated financial statements, the Company established an allowance for credit losses totaling $157,069,000 as of December 31, 2023. The allowance for credit losses is derived from 1) a loss-rate methodology that measures lifetime losses on loan pools that have similar risk characteristics; and 2) estimated losses on individually evaluated loans that do not have similar risk characteristics. The segmentation of the loan portfolio into pools requires a balancing process between capturing similar risk characteristics and sufficient loss history to provide relevant results. Loan pools are further broken down using a risk-based segmentation based on internal

classifications of credit quality. Within each loan pool, the lifetime historical loss-rate is evaluated and, if needed, is supplemented with peer loss rates through a model risk adjustment. Certain qualitative factors are applied at the loan pool level to incorporate management's two-year forecast period followed by a reversion to the pool's average lifetime loss-rate. Those qualitative factors include: (i) trends in portfolio volume and composition, (ii) volume and trends in classified loans, delinquencies, non-accruals and troubled loan modifications (TLM's), (iii) concentration risk, (iv) trends in underlying collateral value, (v) changes in policies, procedures, and strategies, (vi) economic conditions, and (vii) operational and other risk factors to capture potential losses arising from fraud, natural disasters, pandemics, geopolitical events and large loans.

We identified the qualitative factor component of the allowance for credit losses as a critical audit matter. Auditing management's estimate of the qualitative factors required a high degree of auditor judgment due to the nature of the adjustments and the subjectivity in judgments applied by management in forming them.

Our audit procedures related to the Company's qualitative factors included, the following, among others:

- We obtained an understanding of the relevant controls related to the allowance for credit losses, including the qualitative factors, and tested such controls for design and operating effectiveness, including controls related to management's review of the qualitative factors and approval of the allowance for credit losses calculation.

- We evaluated the appropriateness and consistency of management's methods and assumptions used to determine qualitative factors by (1) evaluating management's identification and quantification of qualitative factors; (2) testing the completeness and accuracy of data and information used in calculating the components of the qualitative factors; (3) evaluating the reasonableness, directional consistency, and magnitude of the quantification of the qualitative factors; and (4) reviewing subsequent events and considering their impact on judgments applied in forming the qualitative factor component of the allowance for credit losses as of the consolidated balance sheet date.

/s/ RSM US LLP

We have served as the Company's auditor since 2007.

Austin, Texas
February 26, 2024

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition

December 31, 2023 and 2022

(Dollars in Thousands, Except Per Share Amounts)

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 651,058 | $ 2,087,724 |
| Investment securities: | | |
| Held to maturity debt securities (Market value of $3,400 on December 31, 2023 and $3,400 on December 31, 2022) | 3,400 | 3,400 |
| Available for sale debt securities (Amortized cost of $5,330,814 on December 31, 2023 and $5,018,996 on December 31, 2022) | 4,822,341 | 4,417,796 |
| Equity securities with readily determinable fair values | 5,417 | 5,358 |
| Total investment securities | 4,831,158 | 4,426,554 |
| Loans | 8,058,961 | 7,430,603 |
| Less allowance for credit losses | (157,069) | (125,972) |
| Net loans | 7,901,892 | 7,304,631 |
| Bank premises and equipment, net | 437,094 | 431,612 |
| Accrued interest receivable | 65,302 | 45,787 |
| Other investments | 343,452 | 358,910 |
| Cash surrender value of life insurance policies | 303,486 | 300,589 |
| Goodwill | 282,532 | 282,532 |
| Other assets | 250,215 | 263,137 |
| Total assets | $ 15,066,189 | $ 15,501,476 |

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition Continued

December 31, 2023 and 2022

(Dollars in Thousands, Except Per Share Amounts)

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Demand—non-interest bearing | $ 5,030,845 | $ 5,846,055 |
| Savings and interest bearing demand | 4,368,532 | 4,745,768 |
| Time | 2,425,177 | 2,068,184 |
| Total deposits | 11,824,554 | 12,660,007 |
| Securities sold under repurchase agreements | 530,416 | 431,191 |
| Other borrowed funds | 10,745 | 10,944 |
| Junior subordinated deferrable interest debentures | 108,868 | 134,642 |
| Other liabilities | 143,832 | 219,933 |
| Total liabilities | 12,618,415 | 13,456,717 |
| Shareholders' equity: | | |
| Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 96,466,900 shares on December 31, 2023 and 96,420,456 shares on December 31, 2022 | 96,467 | 96,420 |
| Surplus | 155,511 | 154,061 |
| Retained earnings | 3,029,088 | 2,695,567 |
| Accumulated other comprehensive loss | (397,889) | (470,497) |
| | 2,883,177 | 2,475,551 |
| Less cost of shares in treasury, 34,391,184 shares on December 31, 2023 and 34,278,617 on December 31, 2022 | (435,403) | (430,792) |
| Total shareholders' equity | 2,447,774 | 2,044,759 |
| Total liabilities and shareholders' equity | $ 15,066,189 | $ 15,501,476 |

**See accompanying notes to consolidated financial statements.**

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Income**

**Years ended December 31, 2023, 2022 and 2021**

**(Dollars in Thousands, Except Per Share Amounts)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Interest income: | | | |
| Loans, including fees | $ 620,048 | $ 402,177 | $ 359,215 |
| Investment securities: | | | |
| Taxable | 132,151 | 74,988 | 34,331 |
| Tax-exempt | 6,259 | 2,541 | 1,483 |
| Other interest income | 41,704 | 46,075 | 3,074 |
| Total interest income | 800,162 | 525,781 | 398,103 |
| Interest expense: | | | |
| Savings deposits | 60,337 | 12,686 | 4,110 |
| Time deposits | 53,158 | 11,157 | 11,655 |
| Securities sold under repurchase agreements | 14,760 | 2,495 | 621 |
| Other borrowings | 283 | 6,781 | 7,654 |
| Junior subordinated deferrable interest debentures | 8,123 | 5,037 | 2,791 |
| Total interest expense | 136,661 | 38,156 | 26,831 |
| Net interest income | 663,501 | 487,625 | 371,272 |
| Credit loss expense | 34,576 | 21,651 | 7,955 |
| Net interest income after provision for credit losses | 628,925 | 465,974 | 363,317 |
| Non-interest income: | | | |
| Service charges on deposit accounts | 73,933 | 72,781 | 66,205 |
| Other service charges, commissions and fees | | | |
| Banking | 57,923 | 55,253 | 54,280 |
| Non-banking | 9,546 | 8,568 | 8,007 |
| Investment securities transactions, net | (3) | — | (16) |
| Other investments income, net | 9,601 | 17,538 | 68,807 |
| Other income | 18,941 | 32,994 | 25,043 |
| Total non-interest income | $ 169,941 | $ 187,134 | $ 222,326 |

**See accompanying notes to consolidated financial statements.**

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Income, continued**

**Years ended December 31, 2023, 2022 and 2021**

**(Dollars in Thousands, Except Per Share Amounts)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Non-interest expense: | | | |
| Employee compensation and benefits | $ 134,441 | $ 127,722 | $ 123,480 |
| Occupancy | 25,832 | 25,654 | 26,176 |
| Depreciation of bank premises and equipment | 21,944 | 21,821 | 25,028 |
| Professional fees | 14,000 | 11,292 | 7,890 |
| Deposit insurance assessments | 6,285 | 6,987 | 4,389 |
| Net operations, other real estate owned | (3,983) | 122 | 5,073 |
| Advertising | 5,010 | 4,588 | 4,037 |
| Software and software maintenance | 20,046 | 15,271 | 17,794 |
| Other | 51,779 | 57,012 | 49,449 |
| Total non-interest expense | 275,354 | 270,469 | 263,316 |
| Income before income taxes | 523,512 | 382,639 | 322,327 |
| Provision for income taxes | 111,744 | 82,407 | 68,405 |
| Net income | $ 411,768 | $ 300,232 | $ 253,922 |
| Basic earnings per common share: | | | |
| Weighted average number of shares outstanding | 62,082,827 | 62,658,414 | 63,352,737 |
| Net income per common share | $ 6.63 | $ 4.79 | $ 4.01 |
| Fully diluted earnings per common share: | | | |
| Weighted average number of shares outstanding | 62,221,601 | 62,810,234 | 63,486,366 |
| Net income per common share | $ 6.62 | $ 4.78 | $ 4.00 |

**See accompanying notes to consolidated financial statements.**

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**Years ended December 31, 2023, 2022 and 2021**

**(Dollars in Thousands)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net income | $ 411,768 | $ 300,232 | $ 253,922 |
| Other comprehensive loss, net of tax: | | | |
| Net change in unrealized holding losses on securities available for sale arising during period (net of tax effects of $19,300, $(116,568), and $(14,040)) | 72,606 | (438,517) | (52,818) |
| Reclassification adjustment for losses on securities available for sale included in net income (net of tax effects of $1, $0, and $3) | 2 | — | 13 |
| | 72,608 | (438,517) | (52,805) |
| Comprehensive income (loss) | $ 484,376 | $ (138,285) | $ 201,117 |

**See accompanying notes to consolidated financial statements.**

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Shareholders' Equity**

**Years ended December 31, 2023, 2022 and 2021**

**(in Thousands, except per share amounts)**

| | Preferred Stock | Number of Shares | Common Stock | Surplus | Retained Earnings | Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | $ — | 96,241 | $ 96,241 | $ 149,334 | $ 2,289,626 | $ 20,825 | $ (378,028) | $ 2,177,998 |
| Net Income | — | — | — | — | 253,922 | — | — | 253,922 |
| Dividends: | | | | | | | | |
| Cash ($1.15 per share) | — | — | — | — | (72,838) | — | — | (72,838) |
| Purchase of treasury (17,984 shares) | — | — | — | — | — | — | (716) | (716) |
| Exercise of stock options | — | 110 | 110 | 2,304 | — | — | — | 2,414 |
| Stock compensation expense recognized in earnings | — | — | — | 506 | — | — | — | 506 |
| Other comprehensive loss, net of tax: | | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustment | — | — | — | — | — | (52,805) | — | (52,805) |
| Balance at December 31, 2021 | — | 96,351 | $ 96,351 | $ 152,144 | $ 2,470,710 | $ (31,980) | $ (378,744) | $ 2,308,481 |
| Net Income | — | — | — | — | 300,232 | — | — | 300,232 |
| Dividends: | | | | | | | | |
| Cash ($1.20 per share) | — | — | — | — | (75,375) | — | — | (75,375) |
| Purchase of treasury (1,299,344 shares) | — | — | — | — | — | — | (52,048) | (52,048) |
| Exercise of stock options | — | 69 | 69 | 1,468 | — | — | — | 1,537 |
| Stock compensation expense recognized in earnings | — | — | — | 449 | — | — | — | 449 |
| Other comprehensive loss, net of tax: | | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments | — | — | — | — | — | (438,517) | — | (438,517) |
| Balance at December 31, 2022 | — | 96,420 | $ 96,420 | $ 154,061 | $ 2,695,567 | $ (470,497) | $ (430,792) | $ 2,044,759 |
| Net Income | — | — | — | — | 411,768 | — | — | 411,768 |
| Dividends: | | | | | | | | |
| Cash ($1.26 per share) | — | — | — | — | (78,247) | — | — | (78,247) |
| Purchase of treasury (112,567 shares) | — | — | — | — | — | — | (4,611) | (4,611) |
| Exercise of stock options | — | 47 | 47 | 1,120 | — | — | — | 1,167 |
| Stock compensation expense recognized in earnings | — | — | — | 330 | — | — | — | 330 |
| Other comprehensive loss, net of tax: | | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments | — | — | — | — | — | 72,608 | — | 72,608 |
| Balance at December 31, 2023 | — | 96,467 | $ 96,467 | $ 155,511 | $ 3,029,088 | $ (397,889) | $ (435,403) | $ 2,447,774 |

**See accompanying notes to consolidated financial statements.**

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**Years ended December 31, 2023, 2022 and 2021**

**(Dollars in Thousands)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $ 411,768 | $ 300,232 | $ 253,922 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for credit loss | 34,576 | 21,651 | 7,955 |
| Specific reserve, other real estate owned | 2,538 | 1,627 | 2,655 |
| Depreciation of bank premises and equipment | 21,944 | 21,821 | 25,028 |
| Gain on sale of bank premises and equipment | (198) | (3,110) | 601 |
| Gain on sale of other real estate owned | (7,370) | (2,096) | (170) |
| Accretion of investment securities discounts | (1,913) | (1,785) | (702) |
| Amortization of investment securities premiums | 6,901 | 13,907 | 36,380 |
| Investment securities transactions, net | 3 | — | 16 |
| Unrealized (gain) loss on equity securities with readily determinable fair values | (59) | 721 | 123 |
| Proceeds from settlements of claims | — | — | 2,870 |
| Stock based compensation expense | 330 | 449 | 506 |
| Earnings from affiliates and other investments | (983) | (15,894) | (68,034) |
| Deferred tax expense | 22,950 | 10,619 | 3,542 |
| (Increase) decrease in accrued interest receivable | (19,515) | (15,194) | 7,288 |
| (Increase) decrease in other assets | (7,297) | 12,975 | 25,220 |
| Increase (decrease) in other liabilities | 10,757 | 42,018 | (5,519) |
| Net cash provided by operating activities | 474,432 | 387,941 | 291,681 |
| Investing activities: | | | |
| Proceeds from maturities of securities | 51,167 | 2,200 | 1,200 |
| Proceeds from sales and calls of available for sale securities | 2,045 | 800 | 5,890 |
| Purchases of available for sale securities | (1,079,215) | (1,455,249) | (2,856,135) |
| Principal collected on mortgage backed securities | 629,194 | 756,092 | 1,612,679 |
| Net (increase) decrease in loans | (632,976) | (228,340) | 309,575 |
| Purchases of other investments | (31,256) | (79,669) | (61,783) |
| Distributions from other investments | 12,175 | 8,886 | 63,356 |
| Purchases of bank premises and equipment | (27,497) | (19,213) | (10,390) |
| Proceeds from sales of bank premises and equipment | 269 | 13,496 | 11,446 |
| Proceeds from sales of other real estate owned | 8,888 | 8,969 | 8,273 |
| Net cash used in investing activities | (1,067,206) | (992,028) | (915,889) |

**See accompanying notes to consolidated financial statements.**

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows (Continued)**

**Years ended December 31, 2023, 2022 and 2021**

**(Dollars in Thousands)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Financing activities: | | | |
| Net (decrease) increase in non-interest bearing demand deposits | $ (815,210) | $ 7,529 | $ 1,122,712 |
| Net (decrease) increase in savings and interest bearing demand deposits | (377,236) | 155,220 | 738,043 |
| Net increase (decrease) in time deposits | 356,993 | (120,619) | 35,262 |
| Net increase (decrease) in securities sold under repurchase agreements | 99,225 | (8,481) | 11,524 |
| Net decrease in other borrowed funds | (199) | (425,194) | (189) |
| Redemption of long-term debt | (25,774) | — | — |
| Purchase of treasury stock | (4,611) | (52,048) | (716) |
| Proceeds from stock transactions | 1,167 | 1,537 | 2,414 |
| Payments of cash dividends | (78,247) | (75,375) | (72,838) |
| Net cash (used in) provided by financing activities | (843,892) | (517,431) | 1,836,212 |
| (Decrease) increase in cash and cash equivalents | (1,436,666) | (1,121,518) | 1,212,004 |
| Cash and cash equivalents at beginning of period | 2,087,724 | 3,209,242 | 1,997,238 |
| Cash and cash equivalents at end of period | $ 651,058 | $ 2,087,724 | $ 3,209,242 |
| Supplemental cash flow information: | | | |
| Interest paid | $ 117,936 | $ 36,355 | $ 29,007 |
| Income taxes paid | 69,799 | 22,118 | 47,394 |
| Non-cash investing and financing activities: | | | |
| Purchases of available-for-sale securities not yet settled | $ — | $ 80,000 | $ — |
| Net transfers from loans to other real estate owned | 600 | 835 | 16,388 |
| Net transfers from bank premises and equipment to other assets | — | 2,476 | — |

**See accompanying notes to consolidated financial statements.**

## INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

**(1) Summary of Significant Accounting Policies**

Our accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP") 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*

Our consolidated financial statements include the accounts of the International Bancshares Corporation, its wholly owned Subsidiary Banks and its wholly owned non-bank subsidiaries, IBC Trading Company, Premier Tierra Holdings, Inc., IBC Charitable and Community Development Corporation, IBC Capital Corporation and Diamond Beach Holdings, LLC. All significant inter-company balances and transactions have been eliminated in consolidation.

We, through our Subsidiary Banks, are 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. Our primary markets are north, south, central, and southeast Texas and the state of Oklahoma. Each of our Subsidiary Banks is highly active in facilitating international trade along the United States border with Mexico and elsewhere. Although our loan portfolio is diversified, the ability of our debtors to honor their contracts is primarily dependent upon the economic conditions in our trade area. In addition, the investment portfolio is directly impacted by fluctuations in market interest rates. We are subject to the regulations of certain federal agencies as well as the Texas Department of Banking and the Oklahoma 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.

We own one insurance-related subsidiary, IBC Insurance Agency, Inc., a wholly owned subsidiary of our Subsidiary Bank, International Bank of Commerce, Laredo. The insurance-related subsidiary does not conduct underwriting activities.

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 credit losses ("ACL").

*Subsequent Events*

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

*Investment Securities*

We classify debt 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 (loss) and in shareholders' equity as accumulated other comprehensive income (loss) until realized. Unrealized gains and losses related to equity securities with readily determinable fair values are included in net income. Available-for-sale and held-to-maturity debt securities in an unrealized loss position are evaluated for the underlying cause of the loss. In the event that the deterioration in value is attributable to credit related reasons, then the amount of credit-related impairment would be recorded as a charge to our ACL with subsequent changes in the amount of impairment, up or down, also recorded through our ACL. The exception to this process will occur if we intend to sell an impaired available-

for-sale debt security or if we will more likely than not be required to sell a credit impaired available-for-sale debt security prior to the value recovering to the security's amortized cost. In those situations, the entire credit-related impairment amount would be required to be recognized in earnings. We have evaluated the debt securities classified as available-for-sale and held-to-maturity at December 31, 2023 and have determined that no debt securities in an unrealized loss position are arising from credit related reasons and have therefore not recorded any allowances for debt securities in our ACL for the periods. We did not maintain any trading securities during the three-year period ended December 31, 2023.

Mortgage-backed securities held at December 31, 2023 and 2022 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 Freddie Mac, Fannie Mae, 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, we believe 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 (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) our intent to hold and our determination of whether we will more likely than not be required to sell the security prior to a recovery in fair value. If we determine that (i) we intend to sell the security or (ii) it is more likely than not that we 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 our amortized cost of the security. If we determine that we (i) do not intend to sell the security and (ii) we 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 (i) the amount of impairment related to credit loss and (ii) 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.

*Equity Securities*

Equity securities with readily determinable fair values at December 31, 2023 and December 31, 2022 consist primarily of Community Reinvestment Act funds. Unrealized gains and losses on the equity securities are recognized in net income.

*Provision and Allowance for Credit Losses*

Our ACL is based on an expected credit loss model that recognizes credit losses over the life of a financial asset. Expected credit losses capture historical information, current conditions, and reasonable and supportable forecasts of future conditions. The ACL is deducted from the amortized cost of an instrument to present the net amount expected to be collected on the financial asset. Our ACL primarily consists of the aggregate ACL estimates of our Subsidiary Banks. The estimates are established through charges to operations in the form of charges to provisions for credit loss expense. Loan losses or recoveries are charged or credited directly to the ACL. The ACL of each Subsidiary Bank is maintained at a level considered appropriate by management, based on estimated current expected credit losses in the current loan portfolio, including information about past events, current conditions, and reasonable and supportable forecasts.

Our management continually reviews the ACL of the Subsidiary Banks using the amounts determined from the estimates established on specific doubtful loans, the estimate established on quantitative historical loss percentages, and

the estimate based on qualitative current conditions and reasonable and supportable two-year forecasted data. Our methodology reverts to the average lifetime loss-rate beyond the forecast period when we can no longer develop reasonable and supportable forecasts. Should any of the factors considered by management in evaluating the adequacy of the estimate for current expected credit losses change, our estimate of current expected credit losses could also change, which could affect the level of future credit loss expense. While the calculation of our ACL utilizes management's best judgment and all information reasonably available, the adequacy of the ACL is dependent on a variety of factors beyond our control, including, among other things, the performance of the entire loan portfolio, the economy, government actions, changes in interest rates, and the view of regulatory authorities towards loan classifications. We believe that the allowance for probable loan losses is adequate.

The Subsidiary Banks 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.

*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 accreted or amortized over the life of the loan using the interest method. We originate 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.

*Doubtful Loans*

Doubtful loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. Doubtful loans are measured based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral dependent. Substantially all our doubtful loans are measured at the fair value of the collateral. In limited cases, we may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

*Troubled Loan Modifications*

We adopted the provisions of Accounting Standards Update No. 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures (“ASU 2022-02”) on January 1, 2023. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings (“TDR”) in existing guidance and enhances disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. We occasionally provide modifications to borrowers experiencing financial difficulties. Modifications may include certain concessions that we evaluate under ASU 2022-02 to determine the need for disclosure. Concessions to borrowers experiencing financial difficulties that would require disclosure include principal forgiveness, term extension, an other-than-insignificant payment delay, an interest rate reduction or a combination of these concessions, collectively referred to as troubled loan modifications. In accordance with the provisions of ASU 2022-02, we ceased recognition of TDR loans after adopting ASU 2022-02 on January 1, 2023. Prior to the adoption of ASU 2022-02, TDR loans were those loans where, for reasons related to a borrower’s difficulty to repay a loan, we granted a concession to the borrower that we would not have normally considered in the normal course of business. Short term-deferrals were not considered a TDR. The terms that may have been modified included a reduction in the original stated interest rate, an extension of the original maturity of the loan, a renewal of the loan at an interest rate below current market rates, a reduction in the principal amount of debt outstanding, a reduction in accrued interest or deferral of interest payments. A loan classified as a TDR is classified as a doubtful loan and included in the doubtful loan totals. A TDR loan may be returned to accrual status when the loan is brought current, has performed in accordance with the restructured terms for a reasonable period of time, is at the current market rate, and the ultimate collectability of the outstanding principal and interest is no longer questionable. However, although those loans may be placed back on accrual status, they will continue to be classified as doubtful. Consistent with regulatory guidance, a TDR loan that is subsequently modified, but has shown sustained performance and classification as a TDR, will be removed from TDR status provided that the modified terms were market-based at the time of modification.

*Non-Accrual Loans*

The non-accrual loan policy of our Subsidiary Banks 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 Subsidiary Bank 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 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 and Repossessed Assets*

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 ACL, if necessary. Any subsequent write-downs are charged against other non-interest expense through a valuation allowance. Other real estate owned totaled approximately $26,728,000 and $30,144,000 at December 31, 2023 and 2022, respectively. Other real estate owned is included in other assets. Repossessed assets consist primarily of non-real estate assets acquired by foreclosure. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the asset to be repossessed by a charge to the ACL, if necessary. Repossessed assets are included in other assets on the consolidated financial statements and totaled approximately $236,000 and $4,637,000 at December 31, 2023 and 2022, respectively.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

*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. We primarily own all the property we occupy, with the exception of certain branches operating in grocery store or retail shopping centers and certain ATM locations, which are all under operating leases as classified under guidance prior to the issuance of ASU 2016-02, “Leases (Topic 842).”

*Other Investments*

Other investments include equity investments in non-financial companies, 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.

*Revenue Recognition*

Our revenue is primarily comprised of net interest income on financial assets and liabilities, which are excluded from the scope of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” The remaining non-interest revenue streams were identified and then analyzed under the provisions of the update, to: (i) identify the contract, (ii) identify the performance obligation, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when the performance obligation was satisfied. Our non-interest revenue contracts with customers are primarily short term and our performance obligation is satisfied at a single point in time, typically within a single period. No changes to our existing methods for recognizing revenue were made as a result of the accounting standards update.

*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. We file a consolidated federal income tax return with our 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.

We evaluate uncertain tax positions at the end of each reporting period. We 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, 2023 and 2022, respectively, after evaluating all uncertain tax positions, we have recorded no liability for unrecognized tax benefits at the end of the reporting period. We 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, 2023, 2022, and 2021, we recognized no interest expense or penalties related to uncertain tax positions.

We file consolidated tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2020.

*Stock Options and Stock Appreciation Rights*

Compensation expense for stock-based 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 and stock appreciation rights granted was estimated using a Black-Scholes-Merton pricing model. These models were developed for use in estimating the fair value of publicly traded options and stock appreciation rights that have no vesting restrictions and are fully transferable. Additionally, these models require the input of highly subjective assumptions. Because our employee stock options and stock appreciation rights have characteristics significantly different from those of publicly traded options and appreciation rights, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the Black-Scholes-Merton pricing models do not necessarily provide a reliable single measure of the fair value of our stock options and stock appreciation rights.

*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, 2023, after completing goodwill testing, we have 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. Our identified intangible assets relate to core deposits and contract rights. As of December 31, 2023, we have 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.

*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, we consider all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Also, we report transactions related to deposits and loans to customers on a net basis.

*Accounting for Transfers and Servicing of Financial Assets*

We account 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, we recognize the financial and servicing assets we control and liabilities we have incurred, derecognize financial assets when control has been surrendered and derecognize liabilities when extinguished. We have retained mortgage servicing rights in connection with the sale of mortgage loans. Because we 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*

We operate as one segment. The operating information used by our chief executive officer for purposes of assessing performance and making operating decisions is the consolidated financial statements presented in this report. We have five active operating subsidiaries, namely, the Subsidiary Banks. We apply the provisions of ASC Topic 280, "Segment Reporting," in determining our reportable segments and related disclosures.

*Comprehensive Income (Loss)*

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

*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 shareholders' equity.

*New Accounting Standards*

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, to ASC 740, "Income Taxes." The update amends existing guidance with the intention of simplifying the accounting for income taxes. Specifically, the update removes some exceptions in existing guidance around intraperiod tax allocations, recognition of deferred tax liabilities for certain changes in investments in foreign subsidiaries and to the general methodology for calculating taxes on interim periods when year to date losses exceed the anticipated loss for the year. Additionally, the update clarifies and provides more guidance with respect to the classification of franchise or similar taxes, requirements to evaluate when a step up in the tax basis of goodwill should be considered, eliminates the requirement that a consolidated entity allocate a portion of current and deferred tax expense to a legal entity that is not subject to tax, requires that an entity reflect the effect of changes in tax laws and tax rates in the effective tax rate computed in the interim period that includes the enactment date and makes minor changes for taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. The update is effective for fiscal years beginning after December 15, 2020. The adoption of the update did not have a significant impact on our consolidated financial statements.

In March 2022, the FASB issued Accounting Standards Update No. 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in existing guidance and enhances disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current period gross write-offs by year of origination for financing receivables and net

investments in leases. We adopted the provisions of ASU 2022-02 on January 1, 2023 and it did not have a significant impact on our consolidated financial statements.

In March 2023, the FASB issued Accounting Standards Update No. 2023-02, Investments in Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. ASU 2023-02 modifies existing guidance to allow for use of the proportional amortization method for all tax equity investments, regardless of the tax credit program from which the income tax credits are received if certain conditions are met. ASU 2023-02 also requires specific disclosures of all investments that generate income tax credits and other income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method in annual and interim periods. The provisions of ASU 2023-02 are effective for fiscal years beginning after December 15, 2023 and we do not anticipate that the adoption of ASU 2023-02 will have a significant impact on our consolidated financial statements.

In October 2023, the FASB issued Accounting Standards Update No. 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. ASU 2023-06 modifies the disclosure and presentation requirements of various topics to align disclosures with SEC Release No. 33-10532, Disclosure Update and Simplification, which was issued in August 2018. ASU 2023-06 also provides clarifications or technical corrections of certain current disclosure requirements. The provisions of ASU 2023-06 are effective on the date in which the SEC removal of the related disclosure from Regulation S-X or Regulation S-K, with early adoption prohibited. The adoption of ASU 2023-06 is not expected to have a significant impact on our consolidated financial statements.

In November 2023, the FASB issued Accounting Standards Update No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. ASU 2023-07 expands segment disclosure requirements for public entities, primarily through enhanced disclosures about significant segment expenses and other segment items on an annual and interim basis. ASU 2023-07 also requires full segment disclosures, currently only required in annual periods, to be included in interim periods as well. ASU 2023-078 is effective for fiscal years beginning after December 15, 2024. The adoption of ASU 2023-07 is not expected to have a significant impact on our consolidated financial statements.

In December 2023, the FASB issued Accounting Standards Update No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, an Amendment. ASU 2023-09 is intended to enhance transparency and decisions usefulness of income tax disclosures. ASU 2023-09 requires that public entities disclose specific categories in the annual rate reconciliation and provides additional guidance for reconciling items that meet a quantitative threshold. Explanation of individual reconciling items is also required. ASU 2023-09 also requires certain disclosures regarding income taxes paid, including disaggregation of taxes paid (net of refunds) by federal, state and foreign taxes, including disaggregation by individual jurisdictions in which taxes paid (net of refunds), exceed a quantitative threshold. The provisions of ASU 2023-09 are effective for annual periods beginning after December 15, 2024. The adoption of ASU 2023-09 is not expected to have a significant impact on our consolidated financial statements.

**(2) Investment Securities, Equity Securities with Readily Determinable Fair Values and Other Investments**

Available-for-sale and held-to-maturity debt securities in an unrealized loss position are evaluated for the underlying cause of the loss. In the event that the deterioration in value is attributable to credit related reasons, then the amount of credit-related impairment would be recorded as a charge to our ACL with subsequent changes in the amount of impairment, up or down, also recorded through our ACL. The exception to this process will occur if we intend to sell an impaired available-for-sale debt security or if we will more likely than not be required to sell a credit impaired available-for-sale debt security prior to the value recovering to the security's amortized cost. In those situations, the entire credit-related impairment amount would be required to be recognized in earnings. We have evaluated the debt securities classified as available-for-sale and held-to-maturity at December 31, 2023 and December 31, 2022, and have determined that no debt securities in an unrealized loss position are arising from credit related reasons, and have therefore not recorded any

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

allowances for debt securities in our ACL for the period. Unrealized gains and losses related to equity securities with readily determinable fair values are included in net income.

The amortized cost and estimated fair value by type of investment security at December 31, 2023 are as follows:

| | Held to Maturity | | | | |
|---|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Carrying value |
| | (Dollars in Thousands) | | | | |
| Other securities | $ 3,400 | $ — | $ — | $ 3,400 | $ 3,400 |
| Total investment securities | $ 3,400 | $ — | $ — | $ 3,400 | $ 3,400 |

| | Available for Sale Debt Securities | | | | |
|---|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Carrying value[(1)] |
| | (Dollars in Thousands) | | | | |
| Residential mortgage-backed securities | $ 5,169,813 | $ 9,541 | $ (519,255) | $ 4,660,099 | $ 4,660,099 |
| Obligations of states and political subdivisions | 161,001 | 1,602 | (361) | 162,242 | 162,242 |
| Total investment securities | $ 5,330,814 | $ 11,143 | $ (519,616) | $ 4,822,341 | $ 4,822,341 |

(1) Included in the carrying value of residential mortgage- backed securities are $959,421 of mortgage-backed securities issued by Ginnie Mae and $3,700,678 of mortgage-backed securities issued by Fannie Mae and Freddie Mac

The amortized cost and estimated fair value of investment securities at December 31, 2023, 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 | $ 2,075 | $ 2,075 | $ — | $ — |
| Due after one year through five years | 1,325 | 1,325 | — | — |
| Due after five years through ten years | — | — | 440 | 440 |
| Due after ten years | — | — | 160,561 | 161,802 |
| Residential mortgage-backed securities | — | — | 5,169,813 | 4,660,099 |
| Total investment securities | $ 3,400 | $ 3,400 | $ 5,330,814 | $ 4,822,341 |

The amortized cost and estimated fair value by type of investment security at December 31, 2022 are as follows:

| | Held to Maturity | | | | |
|---|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Carrying value |
| | (Dollars in Thousands) | | | | |
| Other securities | $ 3,400 | $ — | $ — | $ 3,400 | $ 3,400 |
| Total investment securities | $ 3,400 | $ — | $ — | $ 3,400 | $ 3,400 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

| | Available for Sale | | | | |
|---|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses (Dollars in Thousands) | Estimated fair value | Carrying value[1] |
| U.S. Treasury securities | $ 49,752 | $ — | $ (359) | $ 49,393 | $ 49,393 |
| Residential mortgage-backed securities | 4,805,735 | 3,145 | (599,668) | 4,209,212 | 4,209,212 |
| Obligations of states and political subdivisions | 163,509 | 927 | (5,245) | 159,191 | 159,191 |
| Total investment securities | $ 5,018,996 | $ 4,072 | $ (605,272) | $ 4,417,796 | $ 4,417,796 |

(1) Included in the carrying value of residential mortgage- backed securities are $681,121 of mortgage-backed securities issued by Ginnie Mae, $3,528,091 of mortgage-backed securities issued by Fannie Mae and Freddie Mac

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, we believe 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 amortized cost and fair value of available for sale investment securities pledged to qualify for fiduciary powers, to secure public monies as required by law, repurchase agreements and short-term fixed borrowings was $1,836,634,000 and $1,598,853,000, respectively, at December 31, 2023.

Proceeds from the sale and call of securities available-for-sale were $2,045,000, $800,000, and $5,890,000 during 2023, 2022 and 2021, respectively, which amounts included $0, $0 and $0 of mortgage-backed securities. Gross gains of $0, $0 and $0, and gross losses of $3,000, $0 and $16,000 were realized on the sales and calls in 2023, 2022 and 2021, respectively.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 were as follows:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value (Dollars in Thousands) | Unrealized Losses | Fair Value | Unrealized Losses |
| Available for sale: | | | | | | |
| Residential mortgage-backed securities | $ 577,448 | $ (8,267) | $ 3,456,349 | $ (510,988) | $ 4,033,797 | $ (519,255) |
| Obligations of states and political subdivisions | 651 | (1) | 64,373 | (360) | 65,024 | (361) |
| | $ 578,099 | $ (8,268) | $ 3,520,722 | $ (511,348) | $ 4,098,821 | $ (519,616) |

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, 2022 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: | | | | | | |
| U.S. Treasury securities | $ 49,394 | $ (359) | $ — | $ — | $ 49,394 | $ (359) |
| Residential mortgage-backed securities | 1,357,905 | (87,815) | 2,566,975 | (511,853) | 3,924,880 | (599,668) |
| Obligations of states and political subdivisions | 118,772 | (5,245) | — | — | 118,772 | (5,245) |
| | $ 1,526,071 | $ (93,419) | $ 2,566,975 | $ (511,853) | $ 4,093,046 | $ (605,272) |

The unrealized losses on investments in residential mortgage-backed securities are primarily caused by changes in market interest rates. We have no intent to sell and more likely than not be required to sell before a market price recovery or maturity of the securities; therefore, it is our conclusion that the investments in residential mortgage-backed securities issued by Freddie Mac, Fannie Mae, and Ginnie Mae are not considered other-than-temporarily impaired.

Equity securities with readily determinable fair values consist primarily of Community Reinvestment Act funds. At December 31, 2023 and December 31, 2022, the balance in equity securities with readily determinable fair values recorded at fair value were $5,417,000 and $5,358,000, respectively. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities for the twelve months ended December 31, 2023, 2022, and 2021:

| | Year Ended December 31, 2023 (Dollars in Thousands) |
|---|---|
| Net gains recognized during the period on equity securities | $ 59 |
| Less: Net gains and (losses) recognized during the period on equity securities sold during the period | — |
| Unrealized gains recognized during the reporting period on equity securities still held at the reporting date | $ 59 |

| | Year Ended December 31, 2022 (Dollars in Thousands) |
|---|---|
| Net losses recognized during the period on equity securities | $ (721) |
| Less: Net gains and (losses) recognized during the period on equity securities sold during the period | — |
| Unrealized losses recognized during the reporting period on equity securities still held at the reporting date | $ (721) |

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

| | | Year Ended December 31, 2021 (Dollars in Thousands) |
|---|---|---|
| Net losses recognized during the period on equity securities | $ | (123) |
| Less: Net gains and (losses) recognized during the period on equity securities sold during the period | | — |
| Unrealized losses recognized during the reporting period on equity securities still held at the reporting date | $ | (123) |

Other investments include equity and merchant banking investments held by our subsidiary banks and non-banking entities. We hold ownership interests in limited partnerships for the purpose of investing in low-income housing tax credit ("LIHTC") projects. The partnerships may acquire, construct, or rehabilitate housing for low- and moderate-income individuals. We realize a return primarily from federal tax credits and other federal tax deductions associated with the underlying projects. We are a limited partner in the partnerships, and not required to consolidate the entities in our consolidated financial statements. Investments in LIHTC projects totaled $200,245,000 at December 31, 2023 and $214,549,000 at December 31, 2022 and are included in other investments on the consolidated financial statements. Unfunded commitments to LIHTC projects totaled $34,126,000 at December 31, 2023 and $41,191,000 at December 31, 2022 and are included in other liabilities on the consolidated financial statements.

**(3) Loans**

A summary of loans, by loan type at December 31, 2023 and 2022 is as follows:

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| | | (Dollars in Thousands) | | |
| Commercial, financial and agricultural | $ | 4,802,622 | $ | 4,373,373 |
| Real estate - mortgage | | 938,901 | | 865,994 |
| Real estate - construction | | 2,091,622 | | 1,989,669 |
| Consumer | | 45,121 | | 41,592 |
| Foreign | | 180,695 | | 159,975 |
| Total loans | $ | 8,058,961 | $ | 7,430,603 |

**(4) Allowance for Credit Losses**

We adopted the provisions of ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments on January 1, 2020 on a modified retrospective basis. Results and information regarding our ACL included in this Note are calculated and presented in accordance with that accounting standards update. Results and information prior to January 1, 2020 were calculated and presented in accordance with previously applicable U.S. GAAP.

ASU 2016-13 replaces the long-standing incurred-loss model with a current expected credit loss model ("CECL") that recognizes credit losses over the life of a financial asset. Using the CECL methodology, expected credit losses capture historical information, current conditions, and reasonable and supportable forecasts of future conditions. The ACL is deducted from the amortized cost of an instrument to present the net amount expected to be collected on the financial asset. Our ACL primarily consists of the aggregate ACL estimates of our Subsidiary Banks. The estimates are established through charges to operations in the form of charges to provisions for credit loss expense. Loan losses or recoveries are charged or credited directly to the ACL. The ACL of each Subsidiary Bank is maintained at a level considered appropriate by management, based on estimated current expected credit losses in the current loan portfolio, including information about past events, current conditions, and reasonable and supportable forecasts.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The estimation of the ACL is based on a loss-rate methodology that measures lifetime losses on loan pools that have similar risk characteristics. Loans that do not have similar risk characteristics are evaluated on an individual basis. The segmentation of the loan portfolio into pools requires a balancing process between capturing similar risk characteristics and containing sufficient loss history to provide meaningful results. Our segmentation starts at the general loan category with further sub-segmentation based on collateral types that may be of meaningful size and/or may contain sufficient differences in risk characteristics based on management's judgement that would warrant further segmentation. The general loan categories along with primary risk characteristics used in our calculation are as follows:

*Commercial and industrial loans.* This category includes loans extended to a diverse array of businesses for working capital or equipment purchases. These loans are mostly secured by the collateral pledged by the borrower that is directly related to the business activities of the company such as equipment, accounts receivable, and inventory. The borrower's abilities to generate revenues from equipment purchases, collect accounts receivable, and to turn inventory into sales are risk factors in the repayment of the loan. A small portion of this loan category is related to loans secured by oil and gas production and loans secured by aircraft.

*Construction and land development loans.* This category includes the development of land from unimproved land to lot development for both residential and commercial use and vertical construction across residential and commercial real estate classes. These loans carry risk of repayment when projects incur cost overruns, have an increase in the price of construction materials, encounter zoning, entitlement 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 mortgage rate risk and the practice by the mortgage industry of more restrictive underwriting standards, which inhibits the buyer from obtaining long term financing creating excessive housing and lot inventory in the market.

*Commercial real estate loans.* This category includes loans secured by farmland, multifamily properties, owner-occupied commercial properties, and non-owner-occupied commercial properties. Owner-occupied commercial properties include warehouses often along the border for import/export operations, office space where the borrower is the primary tenant, restaurants and other single-tenant retail spaces. Non-owner-occupied commercial properties include hotels, retail centers, office and professional buildings, and leased warehouses. These loans carry 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 the market experiences an exit of a specific business type that is significant to the local economy, such as a manufacturing plant.

*1-4 family mortgages.* This category includes both first and second lien mortgages for the purpose of home purchases or refinancing of existing mortgage loans. A small portion of this loan category is related to home equity lines of credits, lots purchases, and home construction. Loan repayments may be affected by unemployment or underemployment and deteriorating market values of real estate.

*Consumer loans.* This category includes deposit secured, vehicle secured, and unsecured loans, including overdrafts, made to individuals. Repayment is primarily affected by unemployment or underemployment.

The loan pools are further broken down using a risk-based segmentation based on internal classifications for commercial loans and past due status for consumer mortgage loans. Non-mortgage consumer loans are evaluated as one segment. On a weekly basis, commercial loan past due reports are reviewed by the credit quality committee to determine if a loan has any potential problems and if a loan should be placed on our internal Watch List report. Additionally, our credit department reviews the majority of our loans for proper internal classification purposes regardless of whether they are past due and segregates any loans with potential problems for further review. The credit department will discuss the potential problem loans with the servicing loan officers to determine any relevant issues that were not discovered in the evaluation. Also, an analysis of loans that is provided through examinations by regulatory authorities is considered in the review process. After the above analysis is completed, we will determine if a loan should be placed on an internal Watch List report because of issues related to the analysis of the credit, credit documents, collateral, and/or payment history.

Our internal Watch List report is segregated into the following categories: (i) Pass, (ii) Economic Monitoring, (iii) Special Review, (iv) Watch List—Pass, or (v) Watch List—Substandard, and (vi) Watch List—Doubtful. The loans placed in the Special Review category and lower rated credits reflect our opinion that the loans reflect potential weakness which require monitoring on a more frequent basis. Credits in those categories are reviewed and discussed on a regular basis, no less frequently than quarterly, 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 category and lower rated credits reflect our opinion that the credit contains weaknesses which represent a greater degree of risk, which warrant "extra attention." Credits in this category 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 category 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 we may sustain some future loss if such weaknesses are not corrected. The loans placed in the Watch List—Doubtful category have shown defined weaknesses and it is likely, based on current information and events, that we will be unable to collect all principal and/or interest amounts contractually due. Watch List—Doubtful loans are placed on non-accrual when they are moved to that category.

For the purposes of the ACL, in order to maintain segments with sufficient history for meaningful results, the credits in the Pass and Economic Monitoring categories are aggregated, the credits in the Special Review and Watch List—Pass credits are aggregated, and the credits in the Watch List—Substandard category remain in their own segment. For loans that are classified as Watch List—Doubtful, management evaluates these credits in accordance with ASC 310-10, "Receivables," and, if deemed necessary, a specific reserve is allocated to the loan. The specific reserve allocated under ASC 310-10 is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the net realizable value of the fair value of the collateral if the loan is collateral dependent. Substantially all of our loans evaluated as Watch List—Doubtful under ASC 310-10 are measured using the fair value of collateral method. In rare cases, we may use other methods to determine the specific reserve of a loan under ASC 310-10 if such loan is not collateral dependent.

Within each collectively evaluated pool, the robustness of the lifetime historical loss-rate is evaluated and, if needed, is supplemented with peer loss rates through a model risk adjustment. Certain qualitative loss factors are then evaluated to incorporate management's two-year reasonable and supportable forecast period followed by a reversion to the pool's average lifetime loss-rate. Those qualitative loss factors are: (i) trends in portfolio volume and composition, (ii) volume and trends in classified loans, delinquencies, non-accruals and troubled loan modifications, (iii) concentration risk, (iv) trends in underlying collateral value, (v) changes in policies, procedures, and strategies, and (vi) economic conditions. Qualitative factors also include potential losses stemming from operational risk factors arising from fraud, natural disasters, pandemics, geopolitical events and large loans. The large loan operational risk factor was added beginning in the second quarter of 2023. Because of the magnitude of large loans, they pose a higher risk of default. Recognizing this risk and establishing an operational risk factor to capture that risk, is prudent action in the current economic environment. Large loans are usually part of a larger relationship with collateral that is pledged across the relationship. Defaulting on a larger loan may therefore jeopardize an entire collateral relationship. The current economic environment has created challenges for borrowers to service their debt. Increasing cap rates, elevated office vacancies, an upward trend in apartment vacancies and significant increases in interest rates are all contributing to the elevated risk in large loans. Should any of the factors considered by management in evaluating the adequacy of the ACL change, our estimate could also change, which could affect the level of future credit loss expense.

We have elected to not measure an ACL for accrued interest receivable given our timely approach in identifying and writing off uncollectible accrued interest. An ACL for off-balance sheet exposure is derived from a projected usage rate of any unfunded commitment multiplied by the historical loss rate, plus model risk adjustment, if any, of the on-balance sheet loan pools.

Our management continually reviews the ACL of the Subsidiary Banks using the amounts determined from the estimates established on specific doubtful loans, the estimate established on quantitative historical loss percentages, and the estimate based on qualitative current conditions and reasonable and supportable two-year forecasted data. Our methodology reverts to the average lifetime loss-rate beyond the forecast period when we can no longer develop reasonable

and supportable forecasts. Should any of the factors considered by management in evaluating the adequacy of the estimate for current expected credit losses change, our estimate of current expected credit losses could also change, which could affect the level of future credit loss expense. While the calculation of our ACL utilizes management's best judgment and all information reasonably available, the adequacy of the ACL is dependent on a variety of factors beyond our control, including, among other things, the performance of the entire loan portfolio, the economy, government actions, changes in interest rates, and the view of regulatory authorities towards loan classifications.

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

| | December 31, 2023 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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, 2022 | $ 26,728 | $ 44,684 | $ 36,474 | $ 3,794 | $ 4,759 | $ 8,284 | $ 281 | $ 968 | $ 125,972 |
| Losses charged to allowance | (9,664) | — | — | — | (43) | (298) | (179) | — | (10,184) |
| Recoveries credited to allowance | 5,433 | 837 | 143 | — | 16 | 260 | 16 | — | 6,705 |
| Net losses charged to allowance | (4,231) | 837 | 143 | — | (27) | (38) | (163) | — | (3,479) |
| Provision (credit) charged to operations | 13,053 | 9,770 | 6,086 | 1,294 | 1,080 | 2,778 | 200 | 315 | 34,576 |
| Balance at December 31, 2023 | $ 35,550 | $ 55,291 | $ 42,703 | $ 5,088 | $ 5,812 | $ 11,024 | $ 318 | $ 1,283 | $ 157,069 |

| | December 31, 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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, 2021 | $ 23,178 | $ 35,390 | $ 35,654 | $ 3,291 | $ 4,073 | $ 7,754 | $ 272 | $ 762 | $ 110,374 |
| Losses charged to allowance | (9,050) | (2) | (16) | — | (160) | (28) | (223) | — | (9,479) |
| Recoveries credited to allowance | 2,894 | 123 | 27 | — | 240 | 104 | 38 | — | 3,426 |
| Net losses charged to allowance | (6,156) | 121 | 11 | — | 80 | 76 | (185) | — | (6,053) |
| Provision (credit) charged to operations | 9,706 | 9,173 | 809 | 503 | 606 | 454 | 194 | 206 | 21,651 |
| Balance at December 31, 2022 | $ 26,728 | $ 44,684 | $ 36,474 | $ 3,794 | $ 4,759 | $ 8,284 | $ 281 | $ 968 | $ 125,972 |

| | December 31, 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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, 2020 | $ 21,908 | $ 37,612 | $ 30,000 | $ 5,051 | $ 3,874 | $ 9,570 | $ 291 | $ 753 | $ 109,059 |
| Losses charged to allowance | (8,083) | (2) | (364) | — | (373) | (25) | (176) | (1) | (9,024) |
| Recoveries credited to allowance | 1,943 | — | 171 | — | 60 | 164 | 46 | — | 2,384 |
| Net losses charged to allowance | (6,140) | (2) | (193) | — | (313) | 139 | (130) | (1) | (6,640) |
| Provision (credit) charged to operations | 7,410 | (2,220) | 5,847 | (1,760) | 512 | (1,955) | 111 | 10 | 7,955 |
| Balance at December 31, 2021 | $ 23,178 | $ 35,390 | $ 35,654 | $ 3,291 | $ 4,073 | $ 7,754 | $ 272 | $ 762 | $ 110,374 |

The allowance for credit losses is a reserve established through a provision for credit losses charged to expense, which represents management's best estimate of probable loan losses when evaluating loans (i) individually or (ii) collectively. The credit loss charged to expense has increased for the twelve months ended December 31, 2023 compared to the same periods of 2022 and 2021 in order to provide some protection from potential losses in our loan portfolio given

the high level of uncertainty in the economy and a potential economic recession on the horizon. We have increased the severity of some of the qualitative loss factors in certain pools of the portfolio to encompass the economic uncertainty, resulting in an increase in the required ACL. The pool specific qualitative loss factors management deemed appropriate for the ACL calculation at December 31, 2022 remained constant in the December 31, 2023 calculation, with the exception of the large loan factor that was added to the ACL calculation in the second quarter of 2023.

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, 2023 | | | |
|---|---|---|---|---|
| | Loans Individually Evaluated For Impairment | | Loans Collectively Evaluated For Impairment | |
| | Recorded Investment | Allowance | Recorded Investment | Allowance |
| | (Dollars in Thousands) | | | |
| Domestic | | | | |
| Commercial | $ 30,872 | $ 7,971 | $ 1,597,358 | $ 27,579 |
| Commercial real estate: other construction & land development | 15,701 | 4,320 | 2,075,921 | 50,971 |
| Commercial real estate: farmland & commercial | 299 | — | 2,793,254 | 42,703 |
| Commercial real estate: multifamily | 96 | — | 380,743 | 5,088 |
| Residential: first lien | 93 | — | 477,940 | 5,812 |
| Residential: junior lien | — | — | 460,868 | 11,024 |
| Consumer | — | — | 45,121 | 318 |
| Foreign | — | — | 180,695 | 1,283 |
| Total | $ 47,061 | $ 12,291 | $ 8,011,900 | $ 144,778 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Loans Individually Evaluated For Impairment | | Loans Collectively Evaluated For Impairment | |
| | Recorded Investment | Allowance | Recorded Investment | Allowance |
| | (Dollars in Thousands) | | | |
| Domestic | | | | |
| Commercial | $ 30,747 | $ 2,375 | $ 1,468,006 | $ 24,353 |
| Commercial real estate: other construction & land development | 20,483 | 70 | 1,969,186 | 44,614 |
| Commercial real estate: farmland & commercial | 94 | — | 2,568,025 | 36,474 |
| Commercial real estate: multifamily | 117 | — | 306,384 | 3,794 |
| Residential: first lien | 77 | — | 425,647 | 4,759 |
| Residential: junior lien | 312 | — | 439,958 | 8,284 |
| Consumer | — | — | 41,592 | 281 |
| Foreign | — | — | 159,975 | 968 |
| Total | $ 51,830 | $ 2,445 | $ 7,378,773 | $ 123,527 |

Loans accounted for on a non-accrual basis at December 31, 2023, 2022 and 2021 amounted to $47,170,000, $51,648,000, and $1,921,000, respectively. The increase in non-accrual loans at December 31, 2022 is primarily attributable to two loans that were placed on non-accrual at the end of the fourth quarter of 2022. One relationship is secured by equipment used in the oil and gas industry and one is secured by real estate. The effect of such non-accrual loans reduced interest income by approximately $6,614,000, $116,000, and $169,000 for the years ended December 31, 2023, 2022, and 2021, 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, 2023, 2022, and 2021 amounted to approximately $5,597,000, $6,132,000, and $8,642,000, respectively.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| | (Dollars in Thousands) | |
| Domestic | | |
| Commercial | $ 30,872 | $ 30,747 |
| Commercial real estate: other construction & land development | 15,701 | 20,483 |
| Commercial real estate: farmland & commercial | 299 | 94 |
| Commercial real estate: multifamily | 96 | 117 |
| Residential: first lien | 202 | 207 |
| Total non-accrual loans | $ 47,170 | $ 51,648 |

Doubtful loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. We have identified these loans through our normal loan review procedures. Doubtful loans are measured based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral dependent. Substantially all of our doubtful loans are measured at the fair value of the collateral. In limited cases, we may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

We adopted the provisions of Accounting Standards Update 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") on January 1, 2023. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in existing guidance and enhances disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases. The adoption of ASU 2022-02 did not have a significant impact on our consolidated financial statements.

We occasionally provide modifications to borrowers experiencing financial difficulties. Modifications may include certain concessions that we must evaluate under ASU 2022-02 to determine the need for disclosure. Concessions to borrowers experiencing financial difficulties that would require disclosure include principal forgiveness, term extension, an other-than-insignificant payment delay, an interest rate reduction or a combination of these concessions. For the twelve months ended December 31, 2023, we did not provide any material modifications under these circumstances to any borrower experiencing financial difficulty that would require disclosure.

Under guidance in effect prior to January 1, 2023, the following table details loans accounted for as "troubled debt restructuring," segregated by loan class. Loans accounted for as troubled debt restructuring are included in impaired loans.

| | December 31, 2022 (Dollars in Thousands) |
|---|---|
| Domestic | |
| Residential: first lien | $ 1,642 |
| Residential: junior lien | 714 |
| Consumer | 802 |
| Foreign | 55 |
| Total troubled debt restructuring | $ 3,213 |

The Subsidiary Banks 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.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

While management 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 ACL (formerly allowance for probable loan losses) can be made only on a subjective basis. It is the judgment of our management that the ACL at December 31, 2023 and December 31, 2022, was adequate to absorb expected losses from loans in the portfolio at that date.

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

| | December 31, 2023 (Dollars in Thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 Days | 60 - 89 Days | 90 Days or Greater | 90 Days or greater & still accruing | Total Past Due | Current | Total Portfolio |
| Domestic | | | | | | | |
| Commercial | $ 2,387 | $ 1,583 | $ 30,238 | $ 539 | $ 34,208 | $ 1,594,022 | $ 1,628,230 |
| Commercial real estate: other construction & land development | 3,460 | — | 10,245 | — | 13,705 | 2,077,917 | 2,091,622 |
| Commercial real estate: farmland & commercial | 1,424 | 371 | 93 | 4 | 1,888 | 2,791,665 | 2,793,553 |
| Commercial real estate: multifamily | 369 | 330 | — | — | 699 | 380,140 | 380,839 |
| Residential: first lien | 1,812 | 1,439 | 2,545 | 2,437 | 5,796 | 472,236 | 478,032 |
| Residential: junior lien | 1,273 | 613 | 1,701 | 1,701 | 3,587 | 457,282 | 460,869 |
| Consumer | 263 | 11 | 27 | 27 | 301 | 44,820 | 45,121 |
| Foreign | 1,884 | 848 | 889 | 889 | 3,621 | 177,074 | 180,695 |
| Total past due loans | $ 12,872 | $ 5,195 | $ 45,738 | $ 5,597 | $ 63,805 | $ 7,995,156 | $ 8,058,961 |

| | December 31, 2022 (Dollars in Thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 Days | 60 - 89 Days | 90 Days or Greater | 90 Days or greater & still accruing | Total Past Due | Current | Total Portfolio |
| Domestic | | | | | | | |
| Commercial | $ 1,732 | $ 258 | $ 1,014 | $ 59 | $ 3,004 | $ 1,495,750 | $ 1,498,754 |
| Commercial real estate: other construction & land development | 1,130 | — | — | — | 1,130 | 1,988,539 | 1,989,669 |
| Commercial real estate: farmland & commercial | 1,744 | 117 | — | — | 1,861 | 2,566,257 | 2,568,118 |
| Commercial real estate: multifamily | — | — | — | — | — | 306,501 | 306,501 |
| Residential: first lien | 2,023 | 1,068 | 4,189 | 4,061 | 7,280 | 418,444 | 425,724 |
| Residential: junior lien | 925 | 771 | 1,717 | 1,717 | 3,413 | 436,857 | 440,270 |
| Consumer | 281 | 14 | 7 | 7 | 302 | 41,290 | 41,592 |
| Foreign | 717 | 23 | 288 | 288 | 1,028 | 158,947 | 159,975 |
| Total past due loans | $ 8,552 | $ 2,251 | $ 7,215 | $ 6,132 | $ 18,018 | $ 7,412,585 | $ 7,430,603 |

The increase in Commercial loans past due 90 days or greater at December 31, 2023 can be primarily attributed to a loan secured by equipment and other assets used in the oil and gas industry and oil and gas production that is on non-accrual. The increase in Commercial Real Estate: Other Construction & Land Development loans past due 90 days or greater can be primarily attributed to a loan secured by commercial property that is on non-accrual. Our 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 our 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 our 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

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

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 we could sustain some future loss if such weaknesses are not corrected.

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

| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Total |
|---|---|---|---|---|---|---|---|
| | | | | (Dollars in Thousands) | | | |
| Balance at December 31, 2023 | | | | | | | |
| Domestic | | | | | | | |
| Commercial | | | | | | | |
| Pass | $ 791,233 | $ 272,919 | $ 364,271 | $ 50,602 | $ 21,468 | $ 74,119 | $ 1,574,612 |
| Special Review | 7,613 | 1,800 | 164 | — | — | — | 9,577 |
| Watch List - Pass | 11,865 | — | — | — | — | — | 11,865 |
| Watch List - Substandard | 1,180 | 92 | 28 | — | — | 4 | 1,304 |
| Watch List - Doubtful | 27 | 30,810 | 35 | — | — | — | 30,872 |
| Total Commercial | $ 811,918 | $ 305,621 | $ 364,498 | $ 50,602 | $ 21,468 | $ 74,123 | $ 1,628,230 |
| Commercial | | | | | | | |
| Current-period gross writeoffs | $ 7,053 | $ 2,187 | $ 155 | $ 264 | $ 2 | $ 3 | $ 9,664 |
| Commercial real estate: other construction & land development | | | | | | | |
| Pass | $ 938,739 | $ 674,037 | $ 324,238 | $ 96,400 | $ 14,058 | $ 3,219 | $ 2,050,691 |
| Watch List - Substandard | 25,230 | — | — | — | — | — | 25,230 |
| Watch List - Doubtful | 2,726 | 12,975 | — | — | — | — | 15,701 |
| Total Commercial real estate: other construction & land development | $ 966,695 | $ 687,012 | $ 324,238 | $ 96,400 | $ 14,058 | $ 3,219 | $ 2,091,622 |
| Commercial real estate: other construction & land development | | | | | | | |
| Commercial real estate: farmland & commercial | | | | | | | |
| Pass | $ 888,878 | $ 628,653 | $ 415,458 | $ 267,705 | $ 184,164 | $ 248,626 | $ 2,633,484 |
| Special Review | 5,205 | — | 3,357 | — | — | — | 8,562 |
| Watch List - Pass | 16,654 | 87 | 233 | — | — | — | 16,974 |
| Watch List - Substandard | 129,644 | 2,201 | — | 2,304 | 84 | 1 | 134,234 |
| Watch List - Doubtful | 211 | 88 | — | — | — | — | 299 |
| Total Commercial real estate: farmland & commercial | $ 1,040,592 | $ 631,029 | $ 419,048 | $ 270,009 | $ 184,248 | $ 248,627 | $ 2,793,553 |
| Commercial real estate: farmland & commercial | | | | | | | |
| Commercial real estate: multifamily | | | | | | | |
| Pass | $ 123,523 | $ 94,551 | $ 42,081 | $ 73,652 | $ 10,743 | $ 36,193 | $ 380,743 |
| Watch List - Doubtful | — | 96 | — | — | — | — | 96 |
| Total Commercial real estate: multifamily | $ 123,523 | $ 94,647 | $ 42,081 | $ 73,652 | $ 10,743 | $ 36,193 | $ 380,839 |
| Commercial real estate: multifamily | | | | | | | |
| Residential: first lien | | | | | | | |
| Pass | $ 180,127 | $ 83,568 | $ 68,082 | $ 39,935 | $ 27,499 | $ 78,306 | $ 477,517 |
| Watch List - Substandard | — | — | 327 | — | — | 95 | 422 |
| Watch List - Doubtful | — | 93 | — | — | — | — | 93 |
| Total Residential: first lien | $ 180,127 | $ 83,661 | $ 68,409 | $ 39,935 | $ 27,499 | $ 78,401 | $ 478,032 |
| Residential: first lien | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ 43 | $ 43 |
| Residential: junior lien | | | | | | | |
| Pass | $ 88,628 | $ 76,845 | $ 96,411 | $ 76,490 | $ 34,870 | $ 87,625 | $ 460,869 |
| Total Residential: junior lien | $ 88,628 | $ 76,845 | $ 96,411 | $ 76,490 | $ 34,870 | $ 87,625 | $ 460,869 |
| Residential: junior lien | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ 298 | $ 298 |
| Consumer | | | | | | | |
| Pass | $ 36,639 | $ 5,366 | $ 1,043 | $ 237 | $ 157 | $ 1,679 | $ 45,121 |
| Total Consumer | $ 36,639 | $ 5,366 | $ 1,043 | $ 237 | $ 157 | $ 1,679 | $ 45,121 |
| Consumer | | | | | | | |
| Current-period gross writeoffs | $ 54 | $ 115 | $ 9 | $ — | $ 1 | $ — | $ 179 |
| Foreign | | | | | | | |
| Pass | $ 116,104 | $ 43,842 | $ 12,317 | $ 2,016 | $ 2,797 | $ 3,619 | $ 180,695 |
| Total Foreign | $ 116,104 | $ 43,842 | $ 12,317 | $ 2,016 | $ 2,797 | $ 3,619 | $ 180,695 |
| Total Loans | $ 3,364,226 | $ 1,928,023 | $ 1,328,045 | $ 609,341 | $ 295,840 | $ 533,486 | $ 8,058,961 |

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Total |
|---|---|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | | | |
| Balance at December 31, 2022 | | | | | | | |
| Domestic | | | | | | | |
| Commercial | | | | | | | |
| Pass | $ 736,462 | $ 524,879 | $ 96,401 | $ 35,917 | $ 43,792 | $ 29,464 | $ 1,466,915 |
| Special Review | 377 | 213 | — | — | — | — | 590 |
| Watch List - Substandard | 161 | 149 | 143 | — | 49 | — | 502 |
| Watch List - Doubtful | 29,789 | — | 954 | — | — | 4 | 30,747 |
| Total Commercial | $ 766,789 | $ 525,241 | $ 97,498 | $ 35,917 | $ 43,841 | $ 29,468 | $ 1,498,754 |
| Commercial | | | | | | | |
| Commercial real estate: other construction & land development | | | | | | | |
| Pass | $ 913,675 | $ 666,347 | $ 173,824 | $ 174,897 | $ 35,069 | $ 5,165 | $ 1,968,977 |
| Special Review | — | — | — | 209 | — | — | 209 |
| Watch List - Doubtful | 19,982 | 407 | 94 | — | — | — | 20,483 |
| Total Commercial real estate: other construction & land development | $ 933,657 | $ 666,754 | $ 173,918 | $ 175,106 | $ 35,069 | $ 5,165 | $ 1,989,669 |
| Commercial real estate: farmland & commercial | | | | | | | |
| Pass | $ 811,117 | $ 584,134 | $ 456,200 | $ 232,537 | $ 325,214 | $ 81,295 | $ 2,490,497 |
| Special Review | 2,855 | — | 842 | — | — | — | 3,697 |
| Watch List - Pass | 17,060 | 247 | — | — | — | — | 17,307 |
| Watch List - Substandard | 2,275 | — | 54,152 | 96 | — | — | 56,523 |
| Watch List - Doubtful | 94 | — | — | — | — | — | 94 |
| Total Commercial real estate: farmland & commercial | $ 833,401 | $ 584,381 | $ 511,194 | $ 232,633 | $ 325,214 | $ 81,295 | $ 2,568,118 |
| Commercial real estate: multifamily | | | | | | | |
| Pass | $ 127,680 | $ 87,469 | $ 59,035 | $ 12,026 | $ 5,490 | $ 14,684 | $ 306,384 |
| Watch List - Doubtful | 117 | — | — | — | — | — | 117 |
| Total Commercial real estate: multifamily | $ 127,797 | $ 87,469 | $ 59,035 | $ 12,026 | $ 5,490 | $ 14,684 | $ 306,501 |
| Residential: first lien | | | | | | | |
| Pass | $ 138,771 | $ 82,466 | $ 49,591 | $ 40,985 | $ 33,814 | $ 79,660 | $ 425,287 |
| Watch List - Substandard | — | 360 | — | — | — | — | 360 |
| Watch List - Doubtful | 77 | — | — | — | — | — | 77 |
| Total Residential: first lien | $ 138,848 | $ 82,826 | $ 49,591 | $ 40,985 | $ 33,814 | $ 79,660 | $ 425,724 |
| Residential: junior lien | | | | | | | |
| Pass | $ 92,256 | $ 108,815 | $ 91,130 | $ 41,273 | $ 21,975 | $ 84,509 | $ 439,958 |
| Watch List- Doubtful | — | 312 | — | — | — | — | 312 |
| Total Residential: junior lien | $ 92,256 | $ 109,127 | $ 91,130 | $ 41,273 | $ 21,975 | $ 84,509 | $ 440,270 |
| Consumer | | | | | | | |
| Pass | $ 31,962 | $ 6,603 | $ 897 | $ 489 | $ 28 | $ 1,613 | $ 41,592 |
| Total Consumer | $ 31,962 | $ 6,603 | $ 897 | $ 489 | $ 28 | $ 1,613 | $ 41,592 |
| Foreign | | | | | | | |
| Pass | $ 124,265 | $ 19,082 | $ 5,362 | $ 4,848 | $ 3,417 | $ 3,001 | $ 159,975 |
| Total Foreign | $ 124,265 | $ 19,082 | $ 5,362 | $ 4,848 | $ 3,417 | $ 3,001 | $ 159,975 |
| Total Loans | $ 3,048,975 | $ 2,081,483 | $ 988,625 | $ 543,277 | $ 468,848 | $ 299,395 | $ 7,430,603 |

The increase in Watch-List Pass Commercial loans at December 31, 2023 compared to December 31, 2022 can be primarily attributable to a relationship secured by commercial vehicles, which was downgraded from Pass. The increase in Commercial Real Estate: Construction and Development loans at December 31, 2023 compared to December 31, 2022 can be primarily attributable to the downgrade of two relationships secured by land for future development and land for hotel development from Pass. The increase in Commercial Real Estate: Farmland and Commercial loans at December 31, 2023 can be attributed to the downgrade of two relationships. One relationship is secured by a retail shopping center and one is secured by a hotel.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

**(5) Bank Premises and Equipment**

A summary of bank premises and equipment, by asset classification, at December 31, 2023 and 2022 were as follows:

| | Estimated useful lives | 2023 | 2022 |
|---|---|---|---|
| | | (Dollars in Thousands) | |
| Bank buildings and improvements | 5 - 39 years | $ 582,075 | $ 571,665 |
| Furniture, equipment and vehicles | 1 - 20 years | 325,855 | 307,990 |
| Land | | 108,551 | 108,622 |
| Less: accumulated depreciation | | (579,387) | (556,665) |
| Bank premises and equipment, net | | $ 437,094 | $ 431,612 |

**(6) Goodwill and Other Intangible Assets**

The majority of our identified intangibles are in the form of amortizable core deposit premium. A small portion of the fully amortized identified intangibles represent identified intangibles in the acquisition of the rights to the insurance agency contracts of InsCorp, Inc., acquired in 2008. Information on our identified intangible assets follows:

| | Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| | | (Dollars in Thousands) | |
| **December 31, 2023:** | | | |
| Core deposit premium | $ 58,675 | $ 58,675 | $ — |
| Identified intangible (contract rights) | 2,022 | 2,022 | — |
| Total identified intangibles | $ 60,697 | $ 60,697 | $ — |
| **December 31, 2022:** | | | |
| Core deposit premium | $ 58,675 | $ 58,675 | $ — |
| Identified intangible (contract rights) | 2,022 | 2,022 | — |
| Total identified intangibles | $ 60,697 | $ 60,697 | $ — |

Amortization expense of intangible assets was $0, $0 and $0 for the years ended December 31, 2023, 2022, and 2021.

There were no changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2022.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(7) Deposits**

Deposits as of December 31, 2023 and 2022 and related interest expense for the years ended December 31, 2023, 2022, and 2021 were as follows:

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in Thousands) | |
| Deposits: | | |
| Demand - non-interest bearing | | |
| Domestic | $ 4,126,635 | $ 4,744,299 |
| Foreign | 904,210 | 1,101,756 |
| Total demand non-interest bearing | 5,030,845 | 5,846,055 |
| Savings and interest bearing demand | | |
| Domestic | 3,161,411 | 3,448,717 |
| Foreign | 1,207,121 | 1,297,051 |
| Total savings and interest bearing demand | 4,368,532 | 4,745,768 |
| Time, certificates of deposit $100,000 or more | | |
| Domestic | 763,419 | 652,073 |
| Foreign | 1,103,710 | 892,619 |
| Less than $100,000 | | |
| Domestic | 289,565 | 276,660 |
| Foreign | 268,483 | 246,832 |
| Total time, certificates of deposit | 2,425,177 | 2,068,184 |
| Total deposits | $ 11,824,554 | $ 12,660,007 |

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| Interest expense: | | | |
| Savings and interest bearing demand | | | |
| Domestic | $ 42,148 | $ 9,196 | $ 3,268 |
| Foreign | 18,189 | 3,490 | 842 |
| Total savings and interest bearing demand | 60,337 | 12,686 | 4,110 |
| Time, certificates of deposit $100,000 or more | | | |
| Domestic | 18,597 | 5,528 | 6,652 |
| Foreign | 25,471 | 3,867 | 3,452 |
| Less than $100,000 | | | |
| Domestic | 4,592 | 1,027 | 984 |
| Foreign | 4,498 | 735 | 567 |
| Total time, certificates of deposit | 53,158 | 11,157 | 11,655 |
| Total interest expense on deposits | $ 113,495 | $ 23,843 | $ 15,765 |

Scheduled maturities of time deposits as of December 31, 2023 were as follows:

| | Total (in thousands) |
|---|---|
| 2024 | $ 2,301,914 |
| 2025 | 85,385 |
| 2026 | 23,102 |
| 2027 | 14,200 |
| 2028 | 573 |
| Thereafter | 3 |
| Total | $ 2,425,177 |

Scheduled maturities of time deposits in amounts of $100,000 or more at December 31, 2023, were as follows:

| | Total (in thousands) |
|---|---|
| Due within 3 months or less | $ 859,734 |
| Due after 3 months and within 6 months | 517,994 |
| Due after 6 months and within 12 months | 409,193 |
| Due after 12 months | 80,208 |
| | $ 1,867,129 |

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2023 and December 31, 2022 were $749,169,000 and $585,456,000, respectively.

**(8) Securities Sold Under Repurchase Agreements**

Our Subsidiary Banks have entered into repurchase agreements with individual customers of the Subsidiary Banks. The purchasers have agreed to resell to the Subsidiary Banks identical securities upon the maturities of the agreements. Securities sold under repurchase agreements were mortgage-backed securities and averaged $469,152,000 and $476,877,000 during 2023 and 2022, respectively, and the maximum amount outstanding at any month end during 2023 and 2022 was $544,418,000 and $513,368,000, respectively.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Further information related to repurchase agreements at December 31, 2023 and 2022 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, 2023 term: | | | | |
| Overnight agreements | $ 667,647 | $ 587,673 | $ 518,650 | 3.76 % |
| 1 to 29 days | 24,842 | 20,454 | 10,696 | 4.50 |
| 30 to 90 days | — | — | — | — |
| Over 90 days | 1,623 | 1,574 | 1,070 | 4.00 |
| Total | $ 694,112 | $ 609,701 | $ 530,416 | 3.78 % |
| December 31, 2022 term: | | | | |
| Overnight agreements | $ 664,491 | $ 559,637 | $ 419,703 | 1.61 % |
| 1 to 29 days | — | — | — | — |
| 30 to 90 days | — | — | — | — |
| Over 90 days | 20,852 | 16,968 | 11,488 | 1.32 |
| Total | $ 685,343 | $ 576,605 | $ 431,191 | 1.60 % |

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 may be short, and long-term fixed borrowings issued by the Federal Home Loan Bank of Dallas and the Federal Home Loan Bank of Topeka at the market price offered at the time of funding. These borrowings are secured by mortgage-backed investment securities and a portion of our loan portfolio.

Further information regarding our other borrowed funds at December 31, 2023 and 2022 is set forth in the following table:

| | December 31, | |
|---|---|---|
| | 2023 | 2022 |
| | (Dollars in Thousands) | |
| Federal Home Loan Bank advances—long-term(1) | | |
| Balance at year end | $ 10,745 | $ 10,944 |
| Rate on balance outstanding at year end | 2.61 % | 2.61 % |
| Average daily balance | $ 10,837 | $ 386,924 |
| Average rate | 2.61 % | 1.75 % |
| Maximum amount outstanding at any month end | $ 10,928 | $ 436,122 |

(1) Long-term advances at December 31, 2023 and December 31, 2022 consisted of amortizing and non-amortizing advances. The non-amortizing advances totaling $425,000,000 were called by the Federal Home Loan bank in the fourth quarter of 2022. Two amortizing advances are outstanding at December 31, 2023 in the amounts of $2,914,000 and $7,831,000 and mature in December 2033 and November 2033, respectively. The amortization on the amortizing long-term advances totals approximately $204,000, $210,000, $215,000, $221,000 and $227,000 for the years ending December 31, 2024, 2025, 2026, 2027 and December 31, 2028, respectively.

**(10) Junior Subordinated Deferrable Interest Debentures**

We currently have four statutory business trusts under the laws of the State of Delaware for the purpose of issuing trust preferred securities. These statutory business trusts (the “Trusts”) each issued capital and common securities (“Capital

and Common Securities") and invested the proceeds thereof in an equivalent amount of junior subordinated debentures (the "Debentures") we issued. As of December 31, 2023 and December 31, 2022, the principal amount of debentures outstanding totaled $108,868,000 and $134,642,000, respectively.

The Debentures are subordinated and junior in right of payment to all our present and future senior indebtedness (as defined in the respective indentures) 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. We have fully and unconditionally guaranteed the obligations of each of the Trusts with respect to the Capital and Common Securities. We have 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 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 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, 2023 and December 31, 2022, the total $108,868,000 and $134,642,000, respectively, 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, 2023:

| | Junior Subordinated Deferrable Interest Debentures (Dollars in Thousands) | Repricing Frequency | Interest Rate | Interest Rate Index[1] | Maturity Date | Optional Redemption Date[2] |
|---|---|---|---|---|---|---|
| Trust IX | $ 41,238 | Quarterly | 7.28 % | SOFR+ 1.62 | October 2036 | October 2011 |
| Trust X | 21,021 | Quarterly | 7.29 % | SOFR+ 1.65 | February 2037 | February 2012 |
| Trust XI | 25,990 | Quarterly | 7.28 % | SOFR+ 1.62 | July 2037 | July 2012 |
| Trust XII | 20,619 | Quarterly | 7.09 % | SOFR+ 1.45 | September 2037 | September 2012 |
| | $ 108,868 | | | | | |

(1) On July 1, 2023, the interest rate index on the Capital and Common Securities transitioned from U.S.-dollar London Interbank Offered Rate ("LIBOR") to the Three-Month CME Term Secured Overnight Financing rate ("SOFR") with a 26-basis point spread adjustment.
(2) 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, 2023, 2022, and 2021 is set forth in the following table:

| | Net Income (Numerator) | Shares (Denominator) (Dollars in Thousands, Except Per Share Amounts) | Per Share Amount |
|---|---|---|---|
| December 31, 2023: | | | |
| Basic EPS | | | |
| Net income available to common shareholders | $ 411,768 | 62,082,827 | $ 6.63 |
| Potential dilutive common shares | — | 138,774 | |
| Diluted EPS | $ 411,768 | 62,221,601 | $ 6.62 |
| December 31, 2022: | | | |
| Basic EPS | | | |
| Net income available to common shareholders | $ 300,232 | 62,658,414 | $ 4.79 |
| Potential dilutive common shares | — | 151,820 | |
| Diluted EPS | $ 300,232 | 62,810,234 | $ 4.78 |
| December 31, 2021: | | | |
| Basic EPS | | | |
| Net income available to common shareholders | $ 253,922 | 63,352,737 | $ 4.01 |
| Potential dilutive common shares | — | 133,629 | |
| Diluted EPS | $ 253,922 | 63,486,366 | $ 4.00 |

**(12) Employees' Profit-Sharing Plan**

We have a deferred profit-sharing plan for full-time employees with a minimum of one year of continuous employment. Our annual contribution to the plan is based on a percentage, as determined by our 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 $4,011,000, $4,300,000, and $3,550,000 were charged to income for the years ended December 31, 2023, 2022, and 2021, respectively.

**(13) International Operations**

We provide international banking services for our customers through our Subsidiary Banks. Neither we nor our Subsidiary Banks have facilities located outside the United States. International operations are distinguished from domestic operations based upon the domicile of the customer.

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

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

A summary of assets attributable to international operations at December 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in Thousands) | |
| Loans: | | |
| Commercial | $ 106,241 | $ 103,748 |
| Others | 74,454 | 56,227 |
| | 180,695 | 159,975 |
| Less allowance for probable loan losses | (1,283) | (968) |
| Net loans | $ 179,412 | $ 159,007 |
| Accrued interest receivable | $ 876 | $ 515 |

At December 31, 2023 and December 31, 2022, we had $147,551,000 and $131,254,000, respectively, in outstanding standby and commercial letters of credit to facilitate trade activities.

Revenues directly attributable to international operations were approximately $8,212,000, $4,821,000, and $4,090,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

**(14) Income Taxes**

We file 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:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| | | (Dollars in Thousands) | |
| Current | | | |
| U.S. | $ 82,657 | $ 66,670 | $ 59,591 |
| State | 6,137 | 5,118 | 5,272 |
| Total current taxes | 88,794 | 71,788 | 64,863 |
| Deferred | | | |
| U.S. | 23,001 | 10,555 | 3,794 |
| State | (51) | 64 | (252) |
| Total deferred taxes | 22,950 | 10,619 | 3,542 |
| Total income taxes | $ 111,744 | $ 82,407 | $ 68,405 |

Total income tax expense differs from the amount computed by applying the U.S. Federal income tax rate of 21% for 2023, 2022, and 2021 to income before income taxes. The reasons for the differences for the years ended December 31 are as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| | | (Dollars in Thousands) | |
| Computed expected tax expense | $ 110,065 | $ 80,893 | $ 68,011 |
| Change in taxes resulting from: | | | |
| Tax-exempt interest income | (3,663) | (2,433) | (2,970) |
| State tax, net of federal income taxes, tax credit and refunds | 4,808 | 4,094 | 3,966 |
| Other investment income | (2,761) | (1,391) | (1,753) |
| Net investment in low income housing investments | 1,974 | 1,906 | 203 |
| Other | 1,321 | (662) | 948 |
| Actual tax expense | $ 111,744 | $ 82,407 | $ 68,405 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 are reflected below:

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in Thousands) | |
| Deferred tax assets: | | |
| Loans receivable, principally due to the allowance for probable loan losses | $ 32,136 | $ 25,982 |
| Other real estate owned | 1,649 | 1,194 |
| Accrued expenses | 581 | 186 |
| Net unrealized losses on available for sale investment securities | 110,584 | 130,586 |
| Other | 1,352 | 2,308 |
| Total deferred tax assets | 146,302 | 160,256 |
| Deferred tax liabilities: | | |
| Bank premises and equipment, principally due to differences on depreciation | (14,879) | (13,615) |
| Impairment charges on available-for-sale securities | (19) | (19) |
| Identified intangible assets and goodwill | (14,151) | (14,125) |
| Partnership investment pass through | (58,376) | (30,319) |
| Other | (3,321) | (3,555) |
| Total deferred tax liabilities | (90,746) | (61,633) |
| Net deferred tax asset | $ 55,556 | $ 98,623 |

The net deferred tax asset of $55,556,000 and $98,623,000 at December 31, 2023 and December 31, 2022, respectively, is included in other assets in the consolidated statements of condition.

**(15) Stock Options and Stock Appreciation Rights**

On April 5, 2012, the Board of Directors adopted the 2012 International Bancshares Corporation Stock Option Plan (the “2012 Plan”). There were 800,000 shares of common stock available for stock option grants under the 2012 Plan, which were qualified incentive stock options (“ISOs”) or non-qualified stock options. 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. On April 4, 2022, the 2012 Plan expired and was not renewed.

The fair value of each option award granted under the plan was 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 was based on the historical volatility of the price of our stock. We used historical data to estimate the expected dividend yield and employee termination rates within the valuation model. The expected term of options was derived from historical exercise behavior. The risk-free rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant.

| | 2022 |
|---|---|
| Expected Life (Years) | 7.00 |
| Dividend yield | 3.08 % |
| Interest rate | 1.94 % |
| Volatility | 37.78 % |

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

A summary of option activity under the stock option plans for the twelve months ended December 31, 2023 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, 2022 | 461,822 | $ 29.67 | | |
| Plus: Options granted | — | — | | |
| Less: | | | | |
| Options exercised | (46,444) | 25.12 | | |
| Options expired | — | — | | |
| Options forfeited | (31,513) | 24.52 | | |
| Options outstanding at December 31, 2023 | 383,865 | 30.65 | 3.42 | $ 9,088 |
| Options fully vested and exercisable at December 31, 2023 | 232,143 | $ 27.80 | 1.96 | $ 6,157 |

Stock-based compensation expense included in the consolidated statements of income for the years ended December 31, 2023, 2022, and 2021 was approximately $330,000, $449,000, and $506,000, respectively. As of December 31, 2023, there was approximately $507,000 of total unrecognized stock-based compensation cost related to non-vested options granted under our plans that will be recognized over a weighted average period of 1.3 years.

Other information pertaining to option activity during the twelve months ended December 31, 2023, 2022, and 2021 is as follows:

| | Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| Weighted average grant date fair value of stock options granted | $ — | $ 11.24 | $ 10.20 |
| Total fair value of stock options vested | $ 514,000 | $ 514,000 | $ 1,308,000 |
| Total intrinsic value of stock options exercised | $ 1,060,000 | $ 1,670,000 | $ 2,536,000 |

On April 18, 2022, the Board of Directors adopted the 2022 International Bancshares Stock Appreciation Rights Plan (the "SAR Plan"). There are 750,000 shares of underlying common stock that may be used for stock appreciation right ("SAR") grants under the plan, however, no actual shares will be granted. Upon exercise, the SAR will be settled in cash. SARs granted may be exercisable for a period of up to 10 years from the date of grant and may vest over an eight-year period. As of December 31, 2023, a total of 465,250 SARS had been issued under the SAR Plan.

A summary of activity under the SAR Plan for the twelve months ended December 31, 2023 is as follows:

| | Number of stock appreciation rights | Weighted average exercise price | Weighted average remaining contractual term (years) | Aggregate intrinsic value ($) (in Thousands) |
|---|---|---|---|---|
| Stock appreciation rights outstanding at December 31, 2022 | 489,250 | $ 39.35 | | |
| Plus: Stock appreciation rights granted | | | | |
| Less: | | | | |
| Stock appreciation rights exercised | — | — | | |
| Stock appreciation rights expired | — | — | | |
| Stock appreciation rights forfeited | (24,000) | 39.33 | | |
| Stock appreciation rights outstanding at December 31, 2023 | 465,250 | 39.35 | 8.50 | 6,964 |
| Stock appreciation rights fully vested and exercisable at December 31, 2023 | — | $ — | | |

The fair value of the liability for payments due to stock appreciation rights holders at December 31, 2023 and December 31, 2022 is approximately $1,464,000 and $546,000, respectively, as calculated using a Black-Scholes-Merton model, and is included in other liabilities on the consolidated statements of condition. The expense recorded in connection with all grants under the SAR Plan totaled $918,000 and $546,000, respectively, for the twelve months ended December 31, 2023 and December 31, 2022. As of December 31, 2023, there was approximately $5,090,000 in unrecognized liability related to non-vested SARs granted under the plan that will be recognized over a weighted average period of 8.5 years.

### (16) Commitments, Contingent Liabilities and Other Matters

On March 15, 2020, the FRB announced that it had reduced regulatory reserve requirements to zero percent effective on March 26, 2020; therefore no cash is required to be maintained to satisfy regulatory reserve requirements.

We are involved in various legal proceedings that are in various stages of litigation. We have determined, based on discussions with our 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 our consolidated statements of condition and related statements of income, comprehensive income, shareholders' equity, and cash flows. However, many of these matters are in various stages of proceedings and further developments could cause management to revise its assessment of these matters.

### (17) Transactions with Related Parties

In the ordinary course of business, the Subsidiary Banks make loans to our directors and executive officers, 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 $13,335,000 and $28,708,000 at December 31, 2023 and 2022, respectively.

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

In the normal course of business, the Subsidiary Banks 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 Subsidiary Banks have in particular classes of financial instruments. At December 31, 2023, the following financial amounts of instruments, whose contract amounts represent credit risks, were outstanding (in thousands):

| | | |
|---|---|---|
| Commitments to extend credit | $ | 3,340,280 |
| Credit card lines | $ | 14,181 |
| Standby letters of credit | $ | 147,190 |
| Commercial letters of credit | $ | 361 |

We enter 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, we are 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, 2023, the maximum potential amount of future payments is approximately $147,190,000. At December 31, 2023, the fair value of these guarantees is not significant. Unsecured letters of credit totaled approximately $23,677,000 and $40,249,000 at December 31, 2023 and 2022, respectively.

We enter into commercial letters of credit on behalf of our customers which authorize a third party to draw drafts upon us up to a stipulated amount and with specific terms and conditions. A commercial letter of credit is a conditional commitment on our part to provide payment on drafts drawn in accordance with the terms of the commercial letter of credit.

The Subsidiary Banks' 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 Subsidiary Banks use the same credit policies in making commitments and conditional obligations as they do for on-statement of condition instruments. The Subsidiary Banks 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 Subsidiary Banks 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 Subsidiary Banks 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.

**(19) Capital Requirements**

Bank regulatory agencies limit the amount of dividends, which the Subsidiary Banks can pay, without obtaining prior approval from such agencies. At December 31, 2023, the Subsidiary Banks could pay dividends of up to $1,229,500,000 without prior regulatory approval and without adversely affecting their "well-capitalized" status under regulatory capital rules in effect at December 31, 2023. In addition to legal requirements, regulatory authorities also consider the adequacy of the Subsidiary Banks' total capital in relation to their deposits and other factors. These capital

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

adequacy considerations also limit amounts available for payment of dividends. We historically have not allowed any Subsidiary Bank to pay dividends in such a manner as to impair its capital adequacy.

We and the Subsidiary Banks 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 our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-statement of condition items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Current quantitative measures established by regulation to ensure capital adequacy require us 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, 2023, that we met all capital adequacy requirements to which we are subject.

In July 2013, the FDIC and other regulatory bodies established a new, comprehensive capital framework for U.S. banking organizations, consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the BASEL III capital reforms and various related capital provisions of the Dodd-Frank Act. Consistent with the Basel international framework, the rules include a new minimum ratio of Common Equity Tier 1 ("CET1") capital to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 capital to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. Regarding the quality of capital, the rules emphasize CET1 capital and implements strict eligibility criteria for regulatory capital instruments. The rules also improve the methodology for calculating risk-weighted assets to enhance risk sensitivity. The rules were subject to a four-year phase-in period for mandatory compliance, and we were required to begin to phase-in the new rules beginning on January 1, 2015. We believe that as of December 31, 2023, we meet all fully phased-in capital adequacy requirements.

In November 2017, the OCC, the FRB and the FDIC finalized a proposed rule that extends the current treatment under the regulatory capital rules for certain regulatory capital deductions and risk weights and certain minority interest requirements, as they apply to banking organizations that are not subject to the advanced approaches capital rules. Effective January 1, 2018, the rule also paused the full transition to the Basel III treatment of mortgage servicing assets, certain deferred tax assets, investments in the capital of unconsolidated financial institutions and minority interests. The agencies are also considering whether to make adjustments to the capital rules in response to CECL (the FASB Standard relating to current expected credit loss) and its potential impact on regulatory capital. Pursuant to rules issued by the federal bank regulatory agencies in February 2019 and March 2020, banking organizations were given options to phase in the adoption of CECL over a three-year transition period through December 31, 2022 or over a five-year transition period through December 31, 2024. Rather than electing to make one of the phase-in options, we immediately recognized the capital impact upon adopting CECL accounting standards on January 1, 2020, which resulted in an increase in our allowance for probable loan losses and a one-time cumulative-effect adjustment to retained earnings upon adoption.

In December 2017, the Basel Committee on Banking Supervision unveiled its final set of standards and reforms to its Basel III regulatory capital framework, commonly called "Basel III Endgame" or "Basel IV." The Basel IV framework makes changes to the capital framework first introduced as "Basel III" in 2010 and aim to reduce excessive variability in banks' calculations of risk-weighted capital ratios. Implementation of Basel IV began on January 1, 2023 and will continue over a five-year transition period by regulators in individual countries, including the U.S. federal bank regulatory agencies (after notice and comment).

As of December 31, 2023, our capital levels continue to exceed all capital adequacy requirements under the Basel III Capital Rules as currently applicable to us.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA") was enacted, and, among other things, it includes a simplified capital rule change which effectively exempts banks with assets of less than $10 billion that exceed the "community bank leverage ratio," from all risk-based capital requirements, including Basel III and its predecessors. The federal banking agencies must establish the "community bank leverage ratio" (a ratio of tangible equity to average consolidated assets) between 8% and 10% before community banks can begin to take advantage of this regulatory relief provision. Some of the Subsidiary Banks, with assets of less than $10 billion, may qualify for this exemption. Additionally, under the EGRRCPA, qualified bank holding companies with assets of up to $3 billion (currently $1 billion) will be eligible for the Federal Reserve's Small Bank Holding Company Policy Statement, which eases limitations on the issuance of debt by holding companies. On August 28, 2018, the Federal Reserve issued an interim final rule expanding the applicability of its Small Bank Holding Company Policy Statement. While holding companies that meet the conditions of the policy statement are excluded from consolidated capital requirements, their depository institutions continue to be subject to minimum capital requirements. Finally, for banks that continue to be subject to the risk-based capital rules of Basel III (e.g., 150%), certain commercial real estate loans that were formally classified as high volatility commercial real estate 31 ("HVCRE") will not be subject to heightened risk weights if they meet certain criteria. Also, while acquisition, development, and construction loans will generally be subject to heightened risk weights, certain exceptions will apply. On September 18, 2018, the federal banking agencies issued a proposed rule modifying the agencies' capital rules for HVCRE.

As of December 31, 2023, the most recent notification from the FDIC categorized all the Subsidiary Banks as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," we 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 our categorization as well-capitalized.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Our actual capital amounts and ratios for 2023 under current guidelines are presented in the following table:

| | Actual | | For Capital Adequacy Purposes Phase In Schedule | | 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, 2023: | | | | | | |
| Common Equity Tier 1 (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 2,563,130 | 21.72 % | $ 825,968 | 7.000 % | N/A | N/A |
| International Bank of Commerce, Laredo | 1,444,775 | 18.54 | 545,611 | 7.000 | $ 506,639 | 6.50 % |
| International Bank of Commerce, Brownsville | 477,390 | 24.41 | 136,883 | 7.000 | 127,106 | 6.50 |
| International Bank of Commerce, Oklahoma | 232,965 | 20.72 | 78,718 | 7.000 | 73,095 | 6.50 |
| Commerce Bank | 97,334 | 36.57 | 18,628 | 7.000 | 17,298 | 6.50 |
| International Bank of Commerce, Zapata | 64,110 | 31.18 | 14,394 | 7.000 | 13,366 | 6.50 |
| Total Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 2,790,171 | 23.65 % | $ 1,238,952 | 10.500 % | N/A | N/A |
| International Bank of Commerce, Laredo | 1,542,462 | 19.79 | 818,416 | 10.500 | $ 779,444 | 10.00 % |
| International Bank of Commerce, Brownsville | 500,268 | 25.58 | 205,325 | 10.500 | 195,547 | 10.00 |
| International Bank of Commerce, Oklahoma | 247,031 | 21.97 | 118,076 | 10.500 | 112,454 | 10.00 |
| Commerce Bank | 100,660 | 37.82 | 27,943 | 10.500 | 26,612 | 10.00 |
| International Bank of Commerce, Zapata | 66,680 | 32.43 | 21,591 | 10.500 | 20,563 | 10.00 |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 2,642,492 | 22.39 % | $ 1,002,961 | 8.500 % | N/A | N/A |
| International Bank of Commerce, Laredo | 1,444,775 | 18.54 | 662,527 | 8.500 | $ 623,555 | 8.00 % |
| International Bank of Commerce, Brownsville | 477,390 | 24.41 | 166,215 | 8.500 | 156,438 | 8.00 |
| International Bank of Commerce, Oklahoma | 232,965 | 20.72 | 95,586 | 8.500 | 89,963 | 8.00 |
| Commerce Bank | 97,334 | 36.57 | 22,620 | 8.500 | 21,290 | 8.00 |
| International Bank of Commerce, Zapata | 64,110 | 31.18 | 17,478 | 8.500 | 16,450 | 8.00 |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Consolidated | $ 2,642,492 | 17.46 % | $ 605,262 | 4.00 % | $ N/A | N/A |
| International Bank of Commerce, Laredo | 1,444,775 | 16.40 | 352,412 | 4.00 | 440,515 | 5.00 % |
| International Bank of Commerce, Brownsville | 477,390 | 11.79 | 161,919 | 4.00 | 202,398 | 5.00 |
| International Bank of Commerce, Oklahoma | 232,965 | 14.72 | 63,294 | 4.00 | 79,117 | 5.00 |
| Commerce Bank | 97,334 | 14.50 | 26,858 | 4.00 | 33,572 | 5.00 |
| International Bank of Commerce, Zapata | 64,110 | 13.26 | 19,338 | 4.00 | 24,172 | 5.00 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Our actual capital amounts and ratios for 2022 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, 2022: | | | | | | |
| Common Equity Tier 1 (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 2,232,723 | 20.21 % | $ 773,398 | 7.000 % | N/A | N/A |
| International Bank of Commerce, Laredo | 1,310,616 | 18.07 | 507,625 | 7.000 | $ 471,366 | 6.50 % |
| International Bank of Commerce, Oklahoma | 363,093 | 20.86 | 121,855 | 7.000 | 113,151 | 6.50 |
| International Bank of Commerce, Brownsville | 232,689 | 21.17 | 76,941 | 7.000 | 71,445 | 6.50 |
| International Bank of Commerce, Zapata | 98,087 | 42.26 | 16,248 | 7.000 | 15,088 | 6.50 |
| Commerce Bank | 71,418 | 37.70 | 13,261 | 7.000 | 12,314 | 6.50 |
| Total Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | $ 2,455,468 | 22.22 % | $ 1,160,096 | 10.500 % | N/A | N/A % |
| International Bank of Commerce, Laredo | 1,401,298 | 19.32 | 761,438 | 10.500 | $ 725,179 | 10.00 |
| International Bank of Commerce, Oklahoma | 383,804 | 22.05 | 182,782 | 10.500 | 174,078 | 10.00 |
| International Bank of Commerce, Brownsville | 243,739 | 22.18 | 115,412 | 10.500 | 109,916 | 10.00 |
| International Bank of Commerce, Zapata | 100,798 | 43.43 | 24,372 | 10.500 | 23,212 | 10.00 |
| Commerce Bank | 73,420 | 38.76 | 19,892 | 10.500 | 18,945 | 10.00 |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | % |
| Consolidated | $ 2,324,903 | 21.04 % | $ 939,126 | 8.500 % | N/A | N/A |
| International Bank of Commerce, Laredo | 1,310,616 | 18.07 | 616,402 | 8.500 | $ 580,143 | 8.00 |
| International Bank of Commerce, Oklahoma | 363,093 | 20.86 | 147,966 | 8.500 | 139,262 | 8.00 |
| International Bank of Commerce, Brownsville | 232,689 | 21.17 | 93,429 | 8.500 | 87,933 | 8.00 |
| International Bank of Commerce, Zapata | 98,087 | 42.26 | 19,730 | 8.500 | 18,569 | 8.00 |
| Commerce Bank | 71,418 | 37.70 | 16,103 | 8.500 | 15,156 | 8.00 % |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Consolidated | $ 2,324,903 | 14.59 % | $ 637,578 | 4.00 % | $ N/A | N/A |
| International Bank of Commerce, Laredo | 1,310,616 | 13.09 | 400,489 | 4.00 | 500,611 | 5.00 |
| International Bank of Commerce, Oklahoma | 363,093 | 8.95 | 162,246 | 4.00 | 202,808 | 5.00 |
| International Bank of Commerce, Brownsville | 232,689 | 13.48 | 69,028 | 4.00 | 86,286 | 5.00 |
| International Bank of Commerce, Zapata | 98,087 | 14.39 | 27,270 | 4.00 | 34,088 | 5.00 |
| Commerce Bank | 71,418 | 15.00 | 19,048 | 4.00 | 23,811 | 5.00 |

## (20) 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,

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

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 financial instruments reported on the consolidated statements of condition at their fair value as of December 31, 2023 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, 2023 | 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 debt securities | | | | |
| Residential mortgage-backed securities | $ 4,660,099 | $ — | $ 4,660,099 | $ — |
| States and political subdivisions | 162,242 | — | 162,242 | — |
| Equity Securities | 5,417 | 5,417 | — | — |
| | $ 4,827,758 | $ 5,417 | $ 4,822,341 | $ — |

The following table represents financial instruments reported on the consolidated balance sheets at their fair value as of December 31, 2022 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, 2022 | 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 | | | | |
| U.S. Treasury securities | $ 49,393 | $ — | $ 49,393 | $ — |
| Residential mortgage-backed securities | 4,209,212 | — | 4,209,212 | — |
| States and political subdivisions | 159,191 | — | 159,191 | — |
| Equity Securities | 5,358 | 5,358 | — | — |
| | $ 4,423,154 | $ 5,358 | $ 4,417,796 | $ — |

For the years ended December 31, 2023 and December 31, 2022, debt investment securities available-for-sale are classified within Level 2 of the valuation hierarchy. Equity securities with readily determinable fair values are classified within Level 1. For debt securities classified as Level 2 in the fair value hierarchy, we obtain fair value measurements 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.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements (Continued)**

Certain financial instruments 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 financial instruments measured at fair value on a non-recurring basis as of and for the period ended December 31, 2023 by level within the fair value measurement hierarchy:

| | | Fair Value Measurements at Reporting Date Using (in thousands) | | | |
|---|---|---|---|---|---|
| | Assets/Liabilities Measured at Fair Value Period ended December 31, 2023 | 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: | | | | | |
| Watch-List doubtful loans | $ 46,124 | $ — | $ — | $ 46,124 | $ 10,221 |
| Other real estate owned | 307 | — | — | 307 | 2,538 |

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the year ended December 31, 2022 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, 2022 | 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: | | | | | |
| Watch-List doubtful loans | $ 30,743 | $ — | $ — | $ 30,743 | $ 2,346 |
| Other real estate owned | 5,653 | — | — | 5,653 | 1,627 |

Our assets measured at fair value on a non-recurring basis are limited to loans classified as Watch List – Doubtful and other real estate owned. The fair value of Watch-List Doubtful loans is derived in accordance with FASB ASC 310, "Receivables". They are primarily comprised of collateral-dependent commercial loans. As the primary sources of loan repayments decline, the secondary repayment source, the collateral, takes on greater significance. Correctly evaluating the fair value becomes even more important. Re-measurement of the loan to fair value is done through a specific valuation allowance included in the ACL. The fair value of the loan is based on the fair value of the collateral, as determined through either an appraisal or evaluation process. The basis for our appraisal and appraisal review process is based on regulatory guidelines and strives to comply with all regulatory appraisal laws, regulations, and the Uniform Standards of Professional Appraisal Practice. All appraisals and evaluations are "as is" (the property's highest and best use) valuations based on the current conditions of the property/project at that point in time. The determination of the fair value of the collateral is based on the net realizable value, which is the appraised value less any closing costs, when applicable. As of December 31, 2023, we had approximately $46,491,000 of doubtful commercial collateral dependent loans, of which approximately $1,272,000 had an appraisal performed within the immediately preceding twelve months and of which approximately $35,061,000 had an evaluation performed within the immediately preceding twelve months. As of December 31, 2022, we had approximately $51,326,000 of doubtful commercial collateral dependent loans, of which approximately $0 had an

appraisal performed within the immediately preceding twelve months and of which approximately $51,326,000 had an evaluation performed within the immediately preceding twelve months.

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

Other real estate owned is comprised of real estate acquired by foreclosure and deeds in lieu of foreclosure. Other real estate owned is carried at the lower of the recorded investment in the property or its fair value less estimated costs to sell such property (as determined by independent appraisal) within Level 3 of the fair value hierarchy. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the ACL (formerly 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, 2023, 2022, and 2021, we recorded approximately $0, $2,000, and $2,000, respectively, in charges to the ACL in connection with loans transferred to other real estate owned. For the twelve months ended December 31, 2023, 2022, and 2021, we recorded approximately $2,538,000, $1,627,000, and $2,655,000, respectively, in adjustments to fair value in connection with other real estate owned.

The fair value estimates, methods, and assumptions for our financial instruments at December 31, 2023 and December 31, 2022 are outlined below.

*Cash and Cash Equivalents*

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

*Investment securities held-to-maturity*

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

*Investment Securities*

For debt investment securities, which may 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 – Investment Securities, Equity Securities with Readily Determinable Fair Values and Other Investments.

*Loans*

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

For variable rate performing loans, the carrying amount approximates the fair value. For fixed rate performing loans, except residential mortgage loans, the fair value is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources or the primary origination market. Fixed rate performing loans are within Level 3 of the fair value hierarchy. At December 31, 2023 and December 31, 2022, the carrying amount of fixed rate performing loans was $1,199,347,000 and $1,203,381,000, respectively, and the estimated fair value was $1,073,892,000 and $1,100,848,000, 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, 2023 and December 31, 2022. 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 3 of the fair value hierarchy. At December 31, 2023 and December 31, 2022, the carrying amount of time deposits was $2,425,177,000 and $2,068,184,000, respectively, and the estimated fair value was $2,428,681,000 and $2,076,231,000, respectively.

*Securities Sold Under Repurchase Agreements*

Securities sold under repurchase agreements are short-term maturities. Due to the contractual terms of the instruments, the carrying amounts approximated fair value at December 31, 2023 and December 31, 2022.

*Junior Subordinated Deferrable Interest Debentures*

We currently have 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, 2023 and December 31, 2022.

*Other Borrowed Funds*

We currently have long-term borrowings issued from the Federal Home Loan Bank ("FHLB"). The long-term borrowings outstanding at December 31, 2023 and December 31, 2022 are fixed-rate borrowings and the fair value is based on established market spreads for similar types of borrowings. The fixed-rate long-term borrowings are included in Level 2 of the fair value hierarchy. At December 31, 2023 and December 31, 2022 the carrying amount of the fixed-rate long-term FHLB borrowings was $10,745,000 and $10,944,000, respectively, and the estimated fair value was $10,745,000 and $10,944,000, 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.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

*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 of our entire holdings of a particular financial instrument. Because no market exists for a significant portion of our financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(21) International Bancshares Corporation (Parent Company Only) Financial Information**

**Statements of Condition**

**(Parent Company Only)**

**December 31, 2023 and 2022**

**(Dollars in Thousands)**

| | 2023 | 2022 |
|---|---|---|
| ASSETS | | |
| Cash | $ 105,184 | $ 89,263 |
| Other investments | 111,382 | 114,901 |
| Net loans | 62,150 | 42,519 |
| Investment in subsidiaries | 2,281,952 | 1,933,269 |
| Goodwill | 3,365 | 3,365 |
| Other assets | 8,617 | 7,181 |
| Total assets | $ 2,572,650 | $ 2,190,498 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Junior subordinated deferrable interest debentures | $ 108,868 | $ 134,642 |
| Due to IBC Trading | 21 | 21 |
| Other liabilities | 15,987 | 11,076 |
| Total liabilities | 124,876 | 145,739 |
| Shareholders' equity: | | |
| Common shares | 96,467 | 96,420 |
| Surplus | 155,511 | 154,061 |
| Retained earnings | 3,029,088 | 2,695,567 |
| Accumulated other comprehensive loss | (397,889) | (470,497) |
| | 2,883,177 | 2,475,551 |
| Less cost of shares in treasury | (435,403) | (430,792) |
| Total shareholders' equity | 2,447,774 | 2,044,759 |
| Total liabilities and shareholders' equity | $ 2,572,650 | $ 2,190,498 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

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

**Statements of Income**

**(Parent Company Only)**

**Years ended December 31, 2023, 2022 and 2021**

**(Dollars in Thousands)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Income: | | | |
| Dividends from subsidiaries | $ 179,000 | $ 222,175 | $ 80,882 |
| Interest income on notes receivable | 5,769 | 2,394 | 1,139 |
| (Loss) income on other investments | (6,150) | 8,662 | 9,662 |
| Other | 4 | 857 | 58 |
| Total income | 178,623 | 234,088 | 91,741 |
| Expenses: | | | |
| Interest expense (Debentures) | 8,122 | 5,037 | 2,792 |
| Provision for credit loss | 500 | 437 | — |
| Other | 252 | 2,291 | 2,272 |
| Total expenses | 8,874 | 7,765 | 5,064 |
| Income before federal income taxes and equity in undistributed net income of subsidiaries | 169,749 | 226,323 | 86,677 |
| Income tax (benefit) expense | (1,365) | 504 | 1,358 |
| Income before equity in undistributed net income of subsidiaries | 171,114 | 225,819 | 85,319 |
| Equity in undistributed net income of subsidiaries | 240,654 | 74,413 | 168,603 |
| Net income | $ 411,768 | $ 300,232 | $ 253,922 |

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

**Statements of Cash Flows
(Parent Company Only)**

**Years ended December 31, 2023, 2022 and 2021
(Dollars in Thousands)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $ 411,768 | $ 300,232 | $ 253,922 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for credit loss | 500 | 437 | — |
| Unrealized (gain) loss on equity securities with readily determinable fair values | (14) | 36 | (51) |
| Stock compensation expense | 330 | 449 | 506 |
| Increase (decrease) in other liabilities | 4,911 | 1,743 | (8,084) |
| Equity in undistributed net income of subsidiaries | (240,654) | (74,413) | (168,603) |
| Net cash provided by operating activities | 176,841 | 228,484 | 77,690 |
| Investing activities: | | | |
| Net (increase) decrease in notes receivable | (20,170) | (32,556) | 1,549 |
| Increase in other assets and other investments | (33,285) | (43,343) | (11,787) |
| Net cash used in investing activities | (53,455) | (75,899) | (10,238) |
| Financing activities: | | | |
| Redemption of long-term debt | (25,774) | — | — |
| Proceeds from stock transactions | 1,167 | 1,537 | 2,414 |
| Payments of cash dividends - common | (78,247) | (75,375) | (72,838) |
| Purchase of treasury stock | (4,611) | (52,048) | (716) |
| Net cash used in financing activities | (107,465) | (125,886) | (71,140) |
| Increase (decrease) in cash | 15,921 | 26,699 | (3,688) |
| Cash at beginning of year | 89,263 | 62,564 | 66,252 |
| Cash at end of year | $ 105,184 | $ 89,263 | $ 62,564 |

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

| 2023 | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
|---|---|---|---|---|
| Interest income | $ 209,714 | 204,175 | 198,124 | 188,149 |
| Interest expense | 45,181 | 36,847 | 31,669 | 22,964 |
| Net interest income | 164,533 | 167,328 | 166,455 | 165,185 |
| Provision for probable loan losses | 6,697 | 10,476 | 8,816 | 8,587 |
| Non-interest income | 46,492 | 45,385 | 37,702 | 40,362 |
| Non-interest expense | 68,591 | 71,200 | 67,534 | 68,029 |
| Income before income taxes | 135,737 | 131,037 | 127,807 | 128,931 |
| Income taxes | 29,361 | 27,773 | 27,322 | 27,288 |
| Net income | $ 106,376 | $ 103,264 | $ 100,485 | $ 101,643 |
| Per common share: | | | | |
| Basic | | | | |
| Net income | $ 1.71 | $ 1.66 | $ 1.62 | $ 1.64 |
| Diluted | | | | |
| Net income | $ 1.71 | $ 1.66 | $ 1.62 | $ 1.63 |

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

| **2022** | | Fourth Quarter | | Third Quarter | | Second Quarter | | First Quarter |
|---|---|---|---|---|---|---|---|---|
| Interest income | $ | 174,678 | | 145,087 | | 109,584 | | 96,432 |
| Interest expense | | 15,217 | | 9,870 | | 6,683 | | 6,386 |
| Net interest income | | 159,461 | | 135,217 | | 102,901 | | 90,046 |
| Provision for probable loan losses | | 7,910 | | 8,525 | | 3,735 | | 1,481 |
| Non-interest income | | 45,778 | | 54,602 | | 43,242 | | 43,512 |
| Non-interest expense | | 62,422 | | 75,173 | | 68,756 | | 64,118 |
| Income before income taxes | | 134,907 | | 106,121 | | 73,652 | | 67,959 |
| Income taxes | | 29,495 | | 22,765 | | 15,681 | | 14,466 |
| Net income | $ | 105,412 | $ | 83,356 | $ | 57,971 | $ | 53,493 |
| Per common share: | | | | | | | | |
| Basic | | | | | | | | |
| Net income | $ | 1.69 | $ | 1.34 | $ | 0.92 | $ | 0.84 |
| Diluted | | | | | | | | |
| Net income | $ | 1.68 | $ | 1.34 | $ | 0.92 | $ | 0.84 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**
**Condensed Average Statements of Condition**
**(Dollars in Thousands)**
**(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, 2023, 2022, and 2021. Tax-exempt income has not been adjusted to a tax-equivalent basis:

| | 2023 | | | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Rate/Cost | Average Balance | Interest (Dollars in Thousands) | Average Rate/Cost | Average Balance | Interest | Average Rate/Cost |
| *Assets* | | | | | | | | | |
| Interest earning assets: | | | | | | | | | |
| Loan, net of unearned discounts: | | | | | | | | | |
| Domestic | $ 7,526,132 | 611,836 | 8.13 % | $ 6,977,890 | 397,356 | 5.69 % | $ 7,318,756 | 355,125 | 4.85 % |
| Foreign | 147,477 | 8,212 | 5.57 | 138,262 | 4,821 | 3.49 | 123,524 | 4,090 | 3.31 |
| Investment securities: | | | | | | | | | |
| Taxable | 5,167,485 | 132,151 | 2.56 | 4,510,293 | 74,988 | 1.66 | 3,624,903 | 34,331 | 0.95 |
| Tax-exempt | 162,300 | 6,259 | 3.86 | 70,636 | 2,541 | 3.60 | 43,906 | 1,483 | 3.38 |
| Other | 869,497 | 41,704 | 4.80 | 2,831,040 | 46,075 | 1.63 | 2,449,193 | 3,074 | 0.13 |
| Total interest-earning assets | 13,872,891 | 800,162 | 5.77 % | 14,528,121 | 525,781 | 3.62 % | 13,560,282 | 398,103 | 2.94 % |
| Non-interest earning assets: | | | | | | | | | |
| Cash and cash equivalents | 141,365 | | | 365,194 | | | 204,747 | | |
| Bank premises and equipment, net | 412,678 | | | 415,883 | | | 442,281 | | |
| Other assets | 1,350,722 | | | 1,203,790 | | | 1,021,644 | | |
| Less allowance for probable loan losses | (141,016) | | | (116,188) | | | (111,791) | | |
| Total | $ 15,636,640 | | | $ 16,396,800 | | | $ 15,117,163 | | |
| *Liabilities and Shareholders' Equity* | | | | | | | | | |
| Interest bearing liabilities: | | | | | | | | | |
| Savings and interest bearing demand deposits | $ 4,487,192 | 60,337 | 1.34 % | $ 4,667,048 | 12,686 | 0.27 % | $ 4,297,561 | 4,110 | 0.10 % |
| Time deposits: | | | | | | | | | |
| Domestic | 985,189 | 23,189 | 2.35 | 1,020,388 | 6,555 | 0.64 | 1,077,371 | 7,636 | 0.71 |
| Foreign | 1,262,762 | 29,969 | 2.37 | 1,139,209 | 4,602 | 0.40 | 1,083,866 | 4,019 | 0.37 |
| Securities sold under repurchase agreements | 469,152 | 14,760 | 3.15 | 476,877 | 2,495 | 0.52 | 411,661 | 621 | 0.15 |
| Other borrowings | 10,839 | 283 | 2.61 | 386,924 | 6,781 | 1.75 | 436,226 | 7,654 | 1.75 |
| Junior subordinated interest deferrable debentures | 115,859 | 8,123 | 7.01 | 134,642 | 5,037 | 3.74 | 134,642 | 2,791 | 2.07 |
| Total interest bearing liabilities | 7,330,993 | 136,661 | 1.86 % | 7,825,088 | 38,156 | 0.49 % | 7,441,327 | 26,831 | 0.36 % |
| Non-interest bearing liabilities: | | | | | | | | | |
| Demand Deposits | 5,299,865 | | | 5,973,462 | | | 5,355,105 | | |
| Other liabilities | 333,309 | | | 200,013 | | | 70,601 | | |
| Shareholders' equity | 2,672,483 | | | 2,398,237 | | | 2,250,130 | | |
| Total | $ 15,636,650 | | | $ 16,396,800 | | | $ 15,117,163 | | |
| Net interest income | | $ 663,501 | | | $ 487,625 | | | $ 371,272 | |
| Net yield on interest earning assets | | | 4.78 % | | | 3.36 % | | | 2.74 % |

**INTERNATIONAL BANCSHARES CORPORATION**
**OFFICERS AND DIRECTORS**

**OFFICERS**

DENNIS E. NIXON
Chairman of the Board and President

JUDITH I. WAWROSKI
Chief Accounting Officer and Treasurer

DALIA F. MARTINEZ
Vice President

MIRTA SALCEDO
Auditor

MARISA V. SANTOS
Secretary

HILDA V. TORRES
Assistant Secretary

**DIRECTORS**

DENNIS E. NIXON
Chairman of the Board
International Bank of Commerce

JAVIER DE ANDA
Senior Vice President
B.P. Newman Investment Company

DOUG HOWLAND
Investments

RUDOLPH M. MILES
Investments

LARRY NORTON
Investments

ROBERTO R. RESENDEZ
Investments

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

DIANA G. ZUNIGA
President and Owner
Investors Alliance, Inc.

**Exhibit 21**

**List of Subsidiaries**

**Subsidiaries of International Bancshares Corporation**

| Name | State of Incorporation or Organization | Business | % of Ownership |
|---|---|---|---|
| IBC Trading Company | Texas | Export Trading | 100 % |
| IBC Capital Corporation | Delaware | Investments | 100 % |
| IBC Charitable and Community Development Corporation | Texas | Community Development | 100 % |
| Premier Tierra Holdings, Inc. | Texas | Liquidating Subsidiary | 100 % |
| International Bank of Commerce | Texas | State Bank | 100 % |
| Commerce Bank | Texas | State Bank | 100 % |
| International Bank of Commerce, Zapata | Texas | State Bank | 100 % |
| International Bank of Commerce, Brownsville | Texas | State Bank | 100 % |
| International Bank of Commerce, Oklahoma | Oklahoma | State Bank | 100 % |
| Diamond Beach Holdings, LLC | Texas | Merchant Banking | 100 % |
| Gulfstar Merchant Banking I, Ltd. | Texas | Merchant Banking | 70 % |
| Gulfstar Merchant Banking II, Ltd. | Texas | Merchant Banking | 70 % |
| Gulfstar Merchant Banking III, Ltd. | Texas | Merchant Banking | 50 % |
| Gulfstar Merchant Banking IV, Ltd. | Texas | Merchant Banking | 50 % |

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (No. 333-183958) on Form S-8 of International Bancshares Corporation of our reports dated February 26, 2024, relating to the consolidated financial statements and to the effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 10-K of International Bancshares Corporation for the year ended December 31, 2023.

/s/ RSM US LLP

Austin, Texas
February 26, 2024

**Exhibit 31a**

**Certification**

I, Dennis E. Nixon, certify that:

1. I have reviewed this Annual Report on Form 10-K of International Bancshares Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2024

By: /s/ DENNIS E. NIXON
Dennis E. Nixon
*President (Chief Executive Officer)*

**Exhibit 31b**

**Certification**

I, Judith I. Wawroski, certify that:

1. I have reviewed this Annual Report on Form 10-K of International Bancshares Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2024

By: /s/ JUDITH I. WAWROSKI
Judith I. Wawroski
*Treasurer (Principal Financial Officer)*

**Exhibit 32a**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of International Bancshares Corporation (the "Company") on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis E. Nixon, President and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DENNIS E. NIXON
Dennis E. Nixon
*President*
Date: February 26, 2024

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and not being filed for purposes of Section 18 of the Securities Exchange Act, as amended, and is not to be incorporated by reference into any filing of the Company, whether on and before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32b**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of International Bancshares Corporation (the "Company") on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judith I. Wawroski, Treasurer and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as applicable; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JUDITH I. WAWROSKI
Judith I. Wawroski
*Treasurer*
Date: February 26, 2024

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and not being filed for purposes of Section 18 of the Securities Exchange Act, as amended, and is not to be incorporated by reference into any filing of the Company, whether on and before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 97**

**INTERNATIONAL BANCSHARES CORPORATION**

STATEMENT OF COMPANY POLICY
Securities Trades by Directors, Officers and
Employees of the Company
February 20, 2024

This Statement of Company Policy on Securities Trades by Directors, Officers and Employees of the Company (this "Policy Statement") is intended to familiarize you with the obligations and responsibilities of directors, officers and employees of International Bancshares Corporation ("IBC") and its subsidiaries under the federal securities laws of the United States. IBC and its subsidiaries are hereinafter collectively referred to as the "Company." In the interest of brevity, the discussion of applicable rules and regulations has been condensed and therefore is not comprehensive.

Should you desire additional information about any of the matters discussed in this Policy Statement, please contact Eliza Gonzalez (the "Compliance Officer").

**EXECUTIVE SUMMARY**

The summary below highlights this Policy Statement's most important features.

- *Pre-Clearance of Trades by Directors, Officers, Key Bank Officers and Other Employees Designated by Compliance Officer.* All transactions (acquisitions, dispositions, transfers, etc.) in IBC stock by employees designated by the Compliance Officer, directors, and officers of IBC, executive officers of any of the IBC subsidiaries who perform policy-making functions for the Company ("Key Bank Officers"), and any designees of said individuals, family members or other persons (other than tenants or employees) living in the same household of said individuals, and entities controlled by said individuals (collectively, "Covered Persons") must be pre-cleared by the Compliance Officer, even if such transaction complies with the other requirements set forth in this Policy Statement. This requirement does not apply to stock option exercises but does cover market sales of option stock. Generally speaking, transactions requiring pre-clearance will likely not be approved during each period beginning 15 days prior to the end of a quarter and ending after the second full business day following IBC's filing with the Securities and Exchange Commission of its Form 10-Q or Form 10-K for such quarter or year, as applicable. **IN ANY EVENT, THE DECISION TO TRADE IN IBC SECURITIES IS THE RESPONSIBILITY OF THE INDIVIDUAL, REGARDLESS OF WHETHER THE TRADE IS PRE-CLEARED AND NO PRE-CLEARANCE SHOULD BE REGARDED AS CONSTITUTING LEGAL ADVICE.**

- *Confidentiality of Inside Information*. Directors, officers and all employees of the Company must maintain inside information about the Company in strict confidence, and should not communicate such information to any person unless the person has a need to know the information for legitimate, Company-related

reasons. This policy also applies to information relating to any other company, including borrowers or suppliers of the Company, obtained in the course of employment. In the event that a director, officer or employee receives an inquiry concerning IBC's stock, such director, officer or employee should immediately forward such inquiry to the Compliance Officer.

- *Prohibition of Insider Trading*. No director, officer or employee of the Company may trade in IBC securities while in possession of material nonpublic information concerning the Company. This policy also applies to trading in the securities of other companies where a director, officer or employee has material nonpublic information obtained in the course of employment with or service to the Company.

- *Prevention of Insider Trading by Others.* Directors, officers and employees who become aware of a potential insider-trading violation should immediately advise the Compliance Officer, and should take necessary steps to prevent persons under their control from using inside information for trading purposes.

- *Restrictions on Resales of IBC Securities*. Directors and officers of IBC and Key Bank Officers generally should make public resales of IBC securities through a broker in accordance with Rule 144, which restricts the amount, manner of sale, and timing of such resales, or through some other private resale exemption available under the securities laws. Private resales also may be subject to some restrictions.

- *Gifts, Margin Accounts and Pledges*. Bona fide gifts are not deemed to involve sales of stock, so they can be made at any time without limitation on the amount of the gift; provided, however, that whether a gift is truly bona fide will depend on the circumstances surrounding such gift. Covered Persons must receive pre-approval from the Compliance Officer for any transaction that would involve holding Company securities in a margin account or pledging Company securities as collateral for a loan.

- *Restrictions on Purchases of IBC Securities*. Rules 10b-6 and 10b-18 place limits on purchases of IBC securities by directors and officers of IBC and Key Bank Officers while IBC is engaged in a public offering or a buyback of its securities.

- *Disgorgement of Profits on Short-Swing Transactions*. Unless exempted in certain limited situations, any profits realized by an officer or director of IBC or a Key Bank Officer on any purchase and sale, or sale and purchase, of IBC securities within a period of less than six months are recoverable by the Company.

- *Prohibition of Short Sales and Hedging Transactions*. No Covered Person may engage in a short sale of stock issued by IBC or by any subsidiary of IBC. No director, officer, or employee who performs a policy-making function for IBC or who is otherwise designated by the Compliance Officer (such employee, a

"Key Employee") may purchase financial instruments, or otherwise engage in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of equity securities issued by the Company and granted as compensation to or held directly or indirectly by such director, officer, or Key Employee. Furthermore, no director, officer, or Key Employee may engage in transactions involving Company-based derivative securities.

- *Ownership Reports.* Every insider (i.e., directors, officers, beneficial owners of more than ten percent of IBC stock and Key Bank Officers) must file an initial report on Form 3 of their respective holdings of IBC's equity securities within ten calendar days of acquiring status as an insider. Such director or officer must file subsequent reports on Form 4 within two business days after a change in beneficial ownership that is required to be reported occurs. Option exercises must be reported on Form 4. Gifts of securities made or received by the insider must also be reported on Form 4 and may no longer be reported on a deferred basis using Form 5. Certain exempt transactions are eligible for deferred reporting on Form 5, but insiders are encouraged to report them earlier on Form 4 on a voluntary basis.

- *Acquisition Statements*. Any person who becomes the beneficial owner of more than five percent of a class of IBC's registered equity securities must file a report on Schedule 13D (or on Schedule 13G, in certain limited circumstances) within five business days after the date the five-percent threshold is surpassed and must amend any such report within two business days after the date of any material change in previously reported information.

**DETAILED DISCUSSION**

**PRE-CLEARANCE OF ALL TRADES BY COVERED PERSONS**

**1. *General Procedure***

*Procedure*. To provide assistance in preventing inadvertent violations of the insider trading laws (which could result, for example, where a director, officer, Key Bank Officer or other employee of the Company designated by the Compliance Officer engages in a trade while unaware of a pending major development), all transactions (acquisitions, dispositions, transfers, etc.) in IBC securities by Covered Persons must be pre-cleared by the Compliance Officer. If a Covered Person contemplates a transaction, such person should contact the Compliance Officer in advance. The Compliance Officer will, in turn, check with Dennis E. Nixon to confirm whether there are any major developments pending. This requirement does not apply to stock option exercises, but would cover market sales of option stock. This requirement also does not apply to transactions in IBC securities that are executed pursuant to an approved 10b5-1 plan.

It should also be noted that IBC's filing of any Form 10-K or 10-Q almost always has the potential to have a material effect on the market for IBC's securities. Therefore, to avoid even the appearance of trading on the basis of material nonpublic information, transactions requested by or on behalf of Covered Persons, in IBC's securities during the

period beginning 15 days prior to the end of any fiscal quarter and ending after the second full business day following IBC's filing of its Form 10-Q or Form 10-K, as applicable, for that period (each a "Blackout Period") will generally not be approved. For purposes of this Policy Statement, the Compliance Officer hereby designates any employee that is involved in preparing or is otherwise exposed to IBC's quarterly or annual financial information prior to its proper dissemination into the market as being subject to the above-described pre-clearance requirements for the Blackout Period applicable to such financial information.

IBC may also on occasion issue interim earnings guidance or other potentially material information by means of a press release, SEC filing on Form 8-K or other means designed to achieve widespread dissemination of the information. Directors, officers, Key Bank Officers and those involved in assembling information for such guidance should anticipate that trading will be blacked out while IBC is in the process of assembling the information to be released and until the information has been released and fully absorbed by the market.

From time to time an event may occur that is material to IBC and is known by only a few directors or executives. So long as the event remains material and nonpublic, the persons who are aware of the event, as well as other Covered Persons, may not trade in IBC securities, as follows. The existence of an event-specific blackout will not be announced, other than to those who are aware of the event giving rise to the blackout. If, however, a Covered Person who is unaware of the event requests permission to trade in IBC securities during an event-specific blackout, the Compliance Officer will inform the requesting person of the existence of a blackout period, without disclosing the reason for the blackout. Any person made aware of the existence of an event-specific blackout should not disclose the existence of a blackout to any other person. Failure of the Compliance Officer to designate a person as being subject to an event-specific blackout will not relieve that person of the obligation not to trade while aware of material nonpublic information.

Covered Persons may also be subject to event-specific blackouts pursuant to the SEC's Regulation Blackout Trading Restriction, which prohibits certain sales and other transfers by insiders during certain blackout periods, but only to the extent IBC has pension plans subject to such regulations.

**IN ANY EVENT, THE DECISION TO TRADE IN IBC SECURITIES IS THE RESPONSIBILITY OF THE INDIVIDUAL, REGARDLESS OF WHETHER THE TRADE IS PRE-CLEARED AND NO PRE-CLEARANCE SHOULD BE REGARDED AS CONSTITUTING LEGAL ADVICE.**

**2. *General Exceptions to Pre-Clearance Requirements***

*Stock Option Exercises*. This pre-clearance requirement does not apply to the exercise of stock options or to the exercise of a tax withholding right pursuant to which an employee elects to have IBC withhold shares subject to an option to satisfy tax withholding requirements. However, this pre-clearance requirement does apply to any sale of the underlying stock or to a cashless exercise of the option through a broker, as this involves selling a portion of the underlying stock to cover the exercise costs.

*10b5-1 Plans*. Neither the pre-clearance requirement nor the Blackout Periods under this policy apply to trades in IBC securities by persons otherwise covered by this policy where such trades are executed pursuant to an approved 10b5-1 plan. Rule 10b5-1 provides an affirmative defense from insider trading liability under the federal securities laws for trading plans that meet certain requirements. In general, a Covered Person seeking to rely on Rule 10b5-1's affirmative defense must enter into a 10b5-1 plan in good faith at a time when that person does not possess material nonpublic information and, subject to a few exceptions, does not already have an outstanding, unexpired plan that would qualify for the affirmative defense provided under Rule 10b5-1(c)(1). A person can only rely on the affirmative defense for a single-trade plan if the person has not, during the preceding 12-month period, adopted another single-trade plan that qualified for the affirmative defense.

Once a 10b5-1 plan is adopted, the Covered Person must act in good faith with respect to the plan and must not exercise any influence over the amount of securities to be traded, the price at which the securities are to be traded or the date of the trade. No purchases or sales under a 10b5-1 plan can occur until the expiration of a cooling-off period consisting of: (1) in the case of a plan entered into by an officer or director of IBC or a Key Bank Officer, the later of (i) 90 days after the plan's adoption, or (ii) two business days following IBC's disclosure of its financial results in a Form 10-Q or Form 10-K for the completed fiscal quarter in which the plan was adopted; provided that the cooling-off period is subject to a 120-day maximum; or (2) in the case of a plan entered into by any person other than IBC, an officer or director of IBC, or a Key Bank Officer, 30 days after the plan's adoption. The plan must either specify the amount, pricing and timing of transactions covered by the plan in advance or delegate discretion on those matters to an independent third party. Any modification to the amount, price, or timing of the purchase or sale of the securities underlying a 10b5-1 plan will be treated effectively as the adoption of a new plan, which will trigger the commencement of a new cooling-off period during which trading under the plan is prohibited. The Covered Person must not alter or deviate from the plan or enter into or alter a corresponding or hedging transaction with respect to the securities covered by the plan. The Covered Person must include a representation in the plan, certifying that on the date of the plan's adoption, the Covered Person (1) is not aware of any material nonpublic information about IBC or IBC securities, and (2) is adopting the plan in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b5-1. When reporting transactions that were executed pursuant to a plan on Form 4 or Form 5 reports filed on or after April 1, 2023, filers will be required to indicate via a checkbox that a transaction reported on that form was made pursuant to the Rule 10b5-1(c) affirmative defense.

The Compliance Officer must approve in advance in writing all 10b5-1 plans. The Compliance Officer shall consider the effect of all such 10b5-1 plans upon IBC's 10b5-1 stock repurchase plan, if any. To ensure compliance with Rule 10b-18(b)(4) (Volume of Purchases), the Compliance Officer may require that all trades in IBC securities executed pursuant to a 10b5-1 plan adopted by a person otherwise covered by this policy be executed by the same agent that IBC uses to execute trades under its 10b5-1 stock repurchase plan, if any. In accordance with Item 408 under Regulation S-K, beginning in the Form 10-Q for the period ending June 30, 2023 and in each Form 10-Q and Form 10-K thereafter, IBC

will be required to disclose whether, during the last fiscal quarter, any Covered Person adopted or terminated any 10b5-1 plan or Non-Rule 10b5-1 trading arrangement (as defined in Item 408) and must provide a description of the material terms of any such plan, including the name and title of the Covered Person, the date on which the Covered Person adopted or terminated the plan, the duration of the plan, and the aggregate number of securities to be purchased or sold pursuant to the plan.

**CONFIDENTIALITY OF INSIDE INFORMATION**

Directors, officers and all employees of the Company who come into possession of material nonpublic information concerning the Company (or information relating to any other company obtained in the course of employment with or service to the Company) must safeguard the information and not intentionally or inadvertently communicate it to any person (including family members and friends) unless the person has a need to know the information for legitimate, Company-related reasons. A director, officer or employee who improperly reveals material inside information (a "tipper") to another person (a "tippee") can be held liable under the antifraud provisions of the securities laws (primarily Section 10(b) of the Securities Exchange Act of 1934 (the "1934 Act") and Rule 10b-5 promulgated under the 1934 Act) for the trading activities of the tippee and any other person with whom the tippee shares the information. These penalties can apply whether or not the tipper derives any benefit from the tippee's actions. See the discussion under Insider Trading below for a more detailed description of some of the possible consequences of "tipping."

*Methods of Preserving Confidentiality*. Consistent with the foregoing, directors, officers and all employees of the Company should be discreet with inside information and not discuss it in public places where it can be overheard, such as elevators, restaurants, taxis and airplanes. Such information should be divulged only to persons having a need to know it in order to carry out their job responsibilities. To avoid even the appearance of impropriety, directors, officers and employees should refrain from providing advice or making recommendations regarding the purchase or sale of securities of IBC. In the event that a director, officer or employee receives an inquiry concerning the Company's securities, such person should immediately forward such inquiry to the Compliance Officer.

**INSIDER TRADING**

**1. *Prohibition of Insider Trading***

The antifraud provisions of the federal securities laws generally prohibit insiders from trading securities on the basis of material nonpublic information. In addition, the antifraud provisions prohibit fraudulent, manipulative, or deceptive trading practices. Persons who violate these prohibitions are subject to potential civil damages and criminal penalties. For individuals who trade on inside information (or tip information to others), the consequences can include:

- Disgorgement of any illicit profits and a civil penalty of up to three times the profit gained or loss avoided;

- A criminal fine (no matter how small the profit) of up to $5 million; and
- A jail term of up to twenty years.

*Materiality*. Information is deemed material if there is a substantial likelihood that a reasonable investor would consider it important in deciding whether to buy, sell, or refrain from any activity regarding IBC's securities. Further, information would be material if it were likely to have a significant impact on the market price of IBC's securities. By way of example, it is probable that the following information, in most circumstances, would be deemed material: annual or quarterly financial results; a significant change in earnings or earnings projections; unusual gains or losses in major operations; negotiations and agreements regarding significant acquisitions; a significant increase or decrease in dividends; and major management changes. The materiality of particular information is subject to reassessment on a regular basis. For example, the information may become stale because of the passage of time, or subsequent events may supersede it. However, so long as the information remains material and nonpublic, it must be maintained in strict confidence and not used for trading purposes. It is also important to remember that any securities transactions are viewed after-the-fact with the benefit of hindsight. Consequently, any transaction should be considered carefully.

*Trading After Information Becomes Public*. When material information has been publicly disclosed, Covered Persons (and any other employee or other person in possession of the information) must refrain from trading IBC's securities until the information has been adequately disseminated to the public and investors have been able to evaluate it. Generally, information regarding relatively simple matters, such as earnings results, will be deemed to have been adequately disseminated and absorbed by the marketplace after the second full business day after its release. When more complex matters, such as a prospective major acquisition or disposition, are announced, it may be necessary to allow additional time for the information to be comprehended by investors before trading is allowed. In such circumstances, directors, officers and employees desiring to trade IBC securities should consult with the Compliance Officer regarding a suitable waiting period before trading.

**2. *Prevention of Insider Trading by Others***

Section 21A of the 1934 Act provides the SEC with the authority to bring a civil action against any "controlling person" who knows of, or recklessly disregards, a likely insider trading violation by a person under his control and fails to take appropriate steps to prevent the violation from occurring. For a company (as well as possibly any supervisory officer) that fails to take appropriate steps to prevent illegal trading, the consequences can include:

- A civil penalty of the greater of $1 million or three times the profit gained or loss avoided as a result of the employee's violation; and
- A criminal penalty of up to $25 million.

The Company, the directors and officers of IBC, and certain Key Bank Officers, could be deemed controlling persons subject to potential liability under Section 21A.

Accordingly, it is incumbent on directors and officers of IBC and Key Bank Officers to maintain an awareness of possible insider trading violations by persons under their supervision and to take measures to prevent such violations. In the event a director, officer or employee becomes aware of the possibility of such a violation, he or she should contact the Compliance Officer immediately.

**LIMITATIONS ON SECURITIES TRANSACTIONS**

**1. *Public Resales Under Rule 144***

The Securities Act of 1933 (the "1933 Act") requires every person who offers or sells securities to register such securities with the SEC unless an exemption from registration is available. An exemption frequently relied upon by officers and directors for public sales of securities of their companies is Rule 144 under the 1933 Act. The rule is available for public sales by any person of "restricted securities" (i.e., securities acquired in a private offering or certain other types of exempt offerings) and for sales by affiliates (directors, officers, 10% shareholders of IBC and other individuals who perform policy-making functions of the Company, such as Key Bank Officers, and the family members and other persons living in such individuals' respective household) of any securities, whether restricted or unrestricted.

*Requirements of Rule 144.* Rule 144 contains five conditions, although the applicability of some of these conditions will depend on the circumstances of the sale:

(1) *Current Public Information*. Current information about the Company must be publicly available at the time of sale. The Company's periodic reports filed with the SEC ordinarily satisfy this requirement.

(2) *Holding Period.* Restricted securities must be held and fully paid for by the seller for a period of six months prior to sale. In some cases, such as those involving gifts or bequests, the holding period of another person can be "tacked" to the seller's holding period for computation purposes.

(3) *Volume Limitations*. The amounts of securities which can be sold during any three-month period cannot exceed the greater of (i) one percent of the outstanding shares of the class, or (ii) the average weekly reported trading volume for shares of the class during the four calendar weeks preceding the filing of the notice of sale referred to below (these dribble out provisions are always applicable to affiliates).

(4) *Manner of Sale*. Securities sold by affiliates must be sold in an unsolicited brokers' transaction or directly to a market-maker, or in so-called "riskless principal" transactions.

(5) *Notice of Sale*. The seller must file a notice of the proposed sale with the SEC at the time the order to sell is placed with the broker, unless the amount to be sold neither exceeds 5,000 shares nor involves sale proceeds greater than $50,000.

*Exception to Rule 144*. The foregoing conditions (except for the requirement that current public information still be available) do not have to be complied with by holders of restricted securities who have (i) not been an affiliate of the Company during the three months preceding the sale under the rule, (ii) continue to be a non-affiliate at the time of sale, and (iii) who have held (and fully paid for) their restricted shares for at least six months. For those who meet the description in the preceding sentence after having held (and fully paid for) their restricted shares for at least one year, the current public information requirement will also not apply.

*Treatment of Gifts*. Bona fide gifts are not deemed to involve sales of stock, so they can be made at any time without limitation on the amount of the gift, provided, however, that whether a gift is truly bona fide will depend on the circumstances surrounding such gift. For example, a gift made by a Covered Person to a donee with knowledge that the donee will likely sell the stock in close proximity to the time of the gift could be deemed a sale of stock rather than a bona fide gift, and may expose the Covered Person to potential liability. Donees who receive restricted securities from an affiliate generally will be subject to the same restrictions under Rule 144 that would have applied to the donor for a period of up to six months following the gift, depending on the circumstances.

*Margin Accounts and Pledges.* Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. Because a margin sale or foreclosure sale may occur at a time when the pledgor is aware of material nonpublic information or otherwise is not permitted to trade in Company securities, Covered Persons must receive pre-approval from the Compliance Officer for any such transaction that would involve holding Company securities in a margin account or pledging Company securities as collateral for a loan.

**2. *Private Resales***

Directors and officers may also sell securities in a private transaction without registration pursuant to the terms and conditions set forth in Section 4(a)(7) of the 1933 Act. The purchaser should sign a special investor letter that attests to, among other things, the purchaser's status as an "accredited investor" within the meaning of Regulation D of the 1933 Act. It is recommended that you consult with counsel prior to engaging in any private sale of IBC's securities.

**3. *Restrictions on Purchases of IBC Securities***

To prevent market manipulation, the SEC has adopted Rules 10b-6 and 10b-18 under the 1934 Act. Rule 10b-6 generally prohibits the Company or any of its affiliates from buying IBC stock in the open market during certain periods while a public offering is taking place. Rule 10b-18 sets forth guidelines for purchases of IBC stock by the Company or its affiliates while a stock buyback program is occurring. While the guidelines are optional, compliance with them provides immunity from a stock manipulation charge. You must consult with the Company if you desire to make purchases of IBC stock during any period that the Company is making a public offering or buying stock from the public.

**4. *Disgorgement of Profits on Short-Swing Transactions***

Section 16 of the 1934 Act applies to directors and officers of IBC and to any person beneficially owning more than ten percent of any registered class of IBC's equity securities and to Key Bank Officers. Section 16 is intended to deter such persons (collectively referred to below as "insiders") from misusing confidential information about their companies for personal trading gain. The general effect of Section 16 is to restrict the trading activities of insiders with respect to the securities of their companies by requiring public disclosure under Section 16(a) of their trades, permitting the recovery under Section 16(b) of any "profits" realized by them on certain transactions, and prohibiting them under Section 16(c) from engaging in short sales. The methods employed by Section 16 are separately discussed below.

*Recovery of Short-Swing Profits*. Under Section 16(b), any profit realized by an insider on a "short-swing" transaction (i.e., a purchase and sale, or sale and purchase, of IBC's equity securities within a period of less than six months) must be disgorged to the Company upon demand by the Company or a stockholder acting on its behalf. By law, the Company cannot waive or release any claim it may have under Section 16(b), or enter into an enforceable agreement to provide indemnification for amounts recovered under the section. "Profits" in this sense is broadly defined, and may not be equivalent to the actual moneys received by the insider.

*Strict Liability Provision*. Liability under Section 16(b) is imposed in a mechanical fashion without regard to whether the insider intended to violate the section. Good faith or absence of inside information, therefore, is not a defense. All that is necessary for a successful claim is to show that the insider realized profits on a short-swing transaction. When computing recoverable profits on multiple purchases and sales within a six month period, the courts maximize the recovery by matching the lowest purchase price with the highest sale price, the next lowest purchase price with the next highest sale price, and so on. The use of this method makes it possible for an insider to sustain a net loss on a series of transactions while having recoverable profits.

*Broad Application*. The terms "purchase" and "sale" are construed under Section 16(b) to cover a broad range of transactions, including acquisitions and dispositions in tender offers and certain corporate reorganizations. Moreover, purchases and sales by an insider may be matched with transactions by any person (such as certain family members) whose securities are deemed to be beneficially owned by the insider. Sales of IBC stock to IBC are not considered "sales" for purposes of Section 16(b) liability, if the sales are approved in advance by the Board of Directors or a committee composed solely of two or more non-employee directors.

*Limitations on Liability*. The SEC has mitigated the impact of Section 16(b) in some situations by providing exemptions from liability (such as those for transactions under certain employee benefit plans). Further, the courts have indicated that it is permissible for insiders to structure their transactions to avoid the application of Section 16(b). Before engaging in any transaction involving IBC's equity securities,

directors and officers of IBC and Key Bank Officers must consult with the Compliance Officer, to discuss the potential applicability of Section 16(b).

**5. *Prohibition of Short Sales and Hedging Transactions***

Under Section 16(c), insiders are prohibited from effecting “short sales” of IBC’s equity securities. A “short sale” is one involving securities which the seller does not own at the time of sale, or, if owned, are not delivered within 20 days after the sale or deposited in the mail or other usual channels of transportation within five days after the sale. Furthermore, no director, officer, or Key Employee of IBC, or any of their designees, may purchase any financial instrument (including any prepaid variable forward contract, equity swap, collar, or exchange fund), or otherwise engage in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of equity securities issued by the Company and granted as compensation to or held directly or indirectly by such director, officer, or Key Employee.

Additionally, no director, officer, or Key Employee of IBC, or any of their designees, may engage in transactions involving Company-based derivative securities, whether or not such transactions are entered into for hedging or monetization purposes. Derivative securities are options, warrants, stock appreciation rights, convertible notes, or similar rights whose value is derived from the value of an equity security. Transactions involving derivative securities include but are not limited to: pre-paid variable forward contracts, equity swaps, exchange funds, Company-based option contracts, straddles, collars, or transactions in debt that may be convertible into Company stock.

**DISCLOSURE REQUIREMENTS**

**1. *Ownership Reports***

Under Section 16(a) of the 1934 Act, insiders must file electronically with the SEC and any stock exchange on which IBC’s equity securities are listed public reports disclosing their holdings of, and transactions in, IBC’s equity securities. Within ten calendar days of acquiring insider status, each insider must file an initial report on Form 3 to disclose all equity securities of IBC beneficially owned by such insider. Even if an insider owns no securities on the date of acquiring insider status, such insider must file a Form 3 report. A report on Form 4 must be filed within two business days after a change in beneficial ownership that is required to be reported occurs. That an insider’s transactions resulted in no net change, or the fact that no securities were owned after the transactions were completed, does not provide a basis for failing to report. Certain exempt transactions may be eligible for deferred reporting on Form 5, but insiders are encouraged to report them earlier on Form 4 on a voluntary basis. The exercise of stock options requires a Form 4 filing. Gifts of securities made or received by an insider must also be reported on Form 4 and may no longer be reported on a deferred basis using Form 5. A Form 5 is not required to be filed by an insider who has previously reported all transactions otherwise required to be reported on the Form 5.

*Reportable Transactions*. Absent an exemption, all changes in an insider’s beneficial ownership (not just purchases and sales) of IBC securities must be reported.

Thus, such transactions as gifts and stock dividends ordinarily are reportable. Moreover, in certain situations, an officer or director must report on a Form 4 transactions carried out before becoming an officer or director if the transactions occurred within six months of the transaction giving rise to the insider's first Form 4 filing obligation. Similarly, a person who ceases to be an officer or director must report any transactions that occur after the cessation of the person's officer or director status if executed within six months of an opposite transaction subject to Section 16(b) of the 1934 Act that occurred while the person was an officer or director.

*Beneficial Ownership*. The reports under Section 16(a) are intended to cover all securities beneficially owned either directly by the insider or indirectly through others. A person is deemed to be the beneficial owner of securities if the person has the opportunity, directly or indirectly, to profit or shares in any profit derived from a transaction in the securities. An insider is considered the direct owner of all IBC equity securities held (1) in the insider's own name, (2) in the name of a bank, broker, or nominee for the account of the insider, or (3) jointly with others as joint tenants, tenants in common, tenants by the entirety, or community property. An insider is considered the indirect beneficial owner of any securities from which such person obtains benefits substantially equivalent to those of ownership. Thus, equity securities of IBC beneficially owned through partnerships, corporations, trusts, estates, and family members generally are subject to reporting. Absent countervailing facts, an insider is presumed to be the indirect beneficial owner of securities held by such insider's spouse or immediate family members sharing such insider's household. However, an insider is free to disclaim and rebut the presumption of beneficial ownership of these or any other securities being reported if such insider believes there is a reasonable basis for doing so.

*Need for Care.* It is important that insiders prepare their reports under Section 16(a) properly and file them on a timely basis. There is no provision for an extension of the filing deadlines, and the SEC can take enforcement action against insiders who do not comply fully with the filing requirements. In addition, IBC is required to disclose in its annual proxy statement those Section 16 reporting persons who failed to file a Schedule 16 report on a timely basis, the number of reports not timely filed and the number of transactions described or that should have been described in those reports. Accordingly, the Company urges all directors and officers to avail themselves of the assistance available from the Compliance Officer in satisfying the reporting requirements.

**2. *Acquisition Statements***

Section 13(d) of the 1934 Act requires the filing of a statement on Schedule 13D (or on Schedule 13G, in certain limited circumstances) by any person or group that acquires beneficial ownership of more than five percent of a class of equity securities registered under the Act. The threshold for reporting is met if the stock owned, when coupled with the amount of stock subject to options exercisable within 60 days, exceeds the five-percent limit.

*Filing Requirements*. A report on Schedule 13D is required to be filed with the SEC and submitted to the Company within five business days after the date the five-percent reporting threshold is surpassed. If a material change occurs in the facts set forth in the

Schedule 13D, such as an increase or decrease of one percent or more in the percentage of stock beneficially owned, an amendment disclosing the change must be filed within two business days after the date the material change occurs. A decrease in beneficial ownership to five percent or less, or any change of one percent or more, is per se material and must be reported.

*Beneficial Ownership*. A person is deemed the beneficial owner of securities for purposes of Section 13(d) if he has or shares voting power (i.e., the power to vote or direct the voting of the securities) or dispositive power (i.e., the power to sell or direct the sale of the securities). As is true under Section 16(a) of the 1934 Act, a person filing a Schedule 13D may disclaim beneficial ownership of any securities attributed to such person if there is a reasonable basis for doing so.