# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 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 000-09439**

# INTERNATIONAL BANCSHARES CORPORATION
(Exact name of registrant as specified in its charter)

| **Texas** | **74-2157138** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**1200 San Bernardo Avenue, Laredo, Texas 78042-1359**
(Address of principal executive offices)
(Zip Code)

**(956) 722-7611**
(Registrant's telephone number, including area code)

**None**
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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," "smaller 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

| Class | Shares Issued and Outstanding |
|---|---|
| Common Stock, $1.00 par value | 62,048,914 shares outstanding at July 31, 2023 |

PART I - FINANCIAL INFORMATION

Item 1. **Financial Statements**

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 1,025,473 | $ 2,087,724 |
| Investment securities: | | |
| Held to maturity debt securities (Market value of $3,400 on June 30, 2023 and $3,400 on December 31, 2022) | 3,400 | 3,400 |
| Available for sale debt securities (Amortized cost of $5,285,989 on June 30, 2023 and $5,018,996 on December 31, 2022) | 4,669,847 | 4,417,796 |
| Equity securities with readily determinable fair values | 5,300 | 5,358 |
| Total investment securities | 4,678,547 | 4,426,554 |
| Loans | 7,573,077 | 7,430,603 |
| Less allowance for credit losses | (140,503) | (125,972) |
| Net loans | 7,432,574 | 7,304,631 |
| Bank premises and equipment, net | 430,596 | 431,612 |
| Accrued interest receivable | 53,371 | 45,787 |
| Other investments | 363,478 | 358,910 |
| Cash surrender value of life insurance policies | 300,789 | 300,589 |
| Goodwill | 282,532 | 282,532 |
| Other assets | 287,476 | 263,137 |
| Total assets | $ 14,854,836 | $ 15,501,476 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Condition, continued (Unaudited)**

**(Dollars in Thousands)**

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Demand—non-interest bearing | $ 5,261,184 | $ 5,846,055 |
| Savings and interest bearing demand | 4,382,171 | 4,745,768 |
| Time | 2,291,951 | 2,068,184 |
| Total deposits | 11,935,306 | 12,660,007 |
| Securities sold under repurchase agreements | 441,834 | 431,191 |
| Other borrowed funds | 10,845 | 10,944 |
| Junior subordinated deferrable interest debentures | 108,868 | 134,642 |
| Other liabilities | 165,992 | 219,933 |
| Total liabilities | 12,662,845 | 13,456,717 |
| Shareholders' equity: | | |
| Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 96,431,643 shares on June 30, 2023 and 96,420,456 shares on December 31, 2022 | 96,432 | 96,420 |
| Surplus | 154,522 | 154,061 |
| Retained earnings | 2,858,544 | 2,695,567 |
| Accumulated other comprehensive loss | (482,312) | (470,497) |
| | 2,627,186 | 2,475,551 |
| Less cost of shares in treasury, 34,386,679 shares on June 30, 2023 and 34,278,617 on December 31, 2022 | (435,195) | (430,792) |
| Total shareholders' equity | 2,191,991 | 2,044,759 |
| Total liabilities and shareholders' equity | $ 14,854,836 | $ 15,501,476 |

See accompanying notes to consolidated financial statements.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Income (Unaudited)**

**(Dollars in Thousands, except per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Interest income: | | | | |
| Loans, including fees | $ 152,896 | $ 87,630 | $ 295,166 | $ 169,118 |
| Investment securities: | | | | |
| Taxable | 32,175 | 16,938 | 61,984 | 30,128 |
| Tax-exempt | 1,569 | 351 | 3,147 | 701 |
| Other interest income | 11,484 | 4,665 | 25,976 | 6,069 |
| Total interest income | 198,124 | 109,584 | 386,273 | 206,016 |
| Interest expense: | | | | |
| Savings deposits | 14,778 | 1,296 | 26,472 | 2,397 |
| Time deposits | 11,628 | 2,277 | 18,457 | 4,781 |
| Securities sold under repurchase agreements | 3,295 | 241 | 5,437 | 425 |
| Other borrowings | 71 | 1,907 | 142 | 3,795 |
| Junior subordinated deferrable interest debentures | 1,897 | 962 | 4,125 | 1,671 |
| Total interest expense | 31,669 | 6,683 | 54,633 | 13,069 |
| Net interest income | 166,455 | 102,901 | 331,640 | 192,947 |
| Credit loss expense | 8,816 | 3,735 | 17,403 | 5,216 |
| Net interest income after provision for credit losses | 157,639 | 99,166 | 314,237 | 187,731 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 18,075 | 18,248 | 35,628 | 35,505 |
| Other service charges, commissions and fees | | | | |
| Banking | 14,392 | 12,935 | 28,447 | 25,451 |
| Non-banking | 2,581 | 2,042 | 4,535 | 3,807 |
| Other investments (loss) income, net | (2,900) | 1,219 | 55 | 4,101 |
| Other income | 5,554 | 8,798 | 9,399 | 17,890 |
| Total non-interest income | $ 37,702 | $ 43,242 | $ 78,064 | $ 86,754 |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Income, continued (Unaudited)**

**(Dollars in Thousands, except per share data)**

| | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|---|---|
| Non-interest expense: | | | | |
| Employee compensation and benefits | $ 33,294 | $ 31,045 | $ 66,153 | $ 62,164 |
| Occupancy | 6,004 | 6,189 | 12,330 | 12,461 |
| Depreciation of bank premises and equipment | 5,408 | 5,455 | 10,874 | 10,930 |
| Professional fees | 3,338 | 2,942 | 6,928 | 5,260 |
| Deposit insurance assessments | 1,693 | 1,979 | 5,831 | 3,036 |
| Net operations, other real estate owned | 105 | (47) | (1,640) | (455) |
| Advertising | 1,289 | 1,455 | 2,553 | 2,895 |
| Software and software maintenance | 4,928 | 4,372 | 9,897 | 8,549 |
| Other | 11,475 | 15,366 | 22,637 | 28,034 |
| Total non-interest expense | 67,534 | 68,756 | 135,563 | 132,874 |
| Income before income taxes | 127,807 | 73,652 | 256,738 | 141,611 |
| Provision for income taxes | 27,322 | 15,681 | 54,610 | 30,147 |
| Net income | $ 100,485 | $ 57,971 | $ 202,128 | $ 111,464 |
| Basic earnings per common share: | | | | |
| Weighted average number of shares outstanding | 62,074,485 | 62,950,103 | 62,108,188 | 63,150,061 |
| Net income per common share | $ 1.62 | $ 0.92 | $ 3.25 | $ 1.77 |
| Fully diluted earnings per common share: | | | | |
| Weighted average number of shares outstanding | 62,205,297 | 63,085,429 | 62,243,626 | 63,290,738 |
| Net income per common share | $ 1.62 | $ 0.92 | $ 3.25 | $ 1.76 |

See accompanying notes to consolidated financial statements.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income (Unaudited)**

**(Dollars in Thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | $ 100,485 | $ 57,971 | $ 202,128 | $ 111,464 |
| 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 $(16,433), $(19,033), $(3,141) and $(65,061)) | (61,821) | (71,599) | (11,815) | (244,755) |
| | (61,821) | (71,599) | (11,815) | (244,755) |
| Comprehensive income (loss) | $ 38,664 | $ (13,628) | $ 190,313 | $ (133,291) |

See accompanying notes to consolidated financial statements.

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Shareholders' Equity**

**Three and Six Months ended June 30, 2023 and 2022**

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

| | Number of Shares | Common Stock | Surplus | Retained Earnings | Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at March 31, 2023 | 96,424 | $ 96,424 | $ 154,244 | $ 2,758,059 | $ (420,491) | $ (431,828) | $ 2,156,408 |
| Net income | — | — | — | 100,485 | — | — | 100,485 |
| Purchase of treasury stock (83,062 shares) | — | — | — | — | — | (3,367) | (3,367) |
| Exercise of stock options | 8 | 8 | 201 | — | — | — | 209 |
| Stock compensation expense recognized in earnings | — | — | 77 | — | — | — | 77 |
| Other comprehensive loss, net of tax: | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments | — | — | — | — | (61,821) | — | (61,821) |
| Balance at June 30, 2023 | 96,432 | $ 96,432 | $ 154,522 | $ 2,858,544 | $ (482,312) | $ (435,195) | $ 2,191,991 |

| | Number of Shares | Common Stock | Surplus | Retained Earnings | Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at March 31, 2022 | 96,357 | $ 96,357 | $ 152,405 | $ 2,486,177 | $ (205,136) | $ (382,124) | $ 2,147,679 |
| Net income | — | — | — | 57,971 | — | — | 57,971 |
| Purchase of treasury stock (930,763 shares) | — | — | — — | — — | — — | (37,169) | (37,169) |
| Exercise of stock options | 11 | 11 | 230 | — | — | — | 241 |
| Stock compensation expense recognized in earnings | — | — | 108 | — | — | — | 108 |
| Other comprehensive loss, net of tax: | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments | — | — | — | — | (71,599) | — | (71,599) |
| Balance at June 30, 2022 | 96,368 | $ 96,368 | $ 152,743 | $ 2,544,148 | $ (276,735) | $ (419,293) | $ 2,097,231 |

| | Number of Shares | Common Stock | Surplus | Retained Earnings | Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2022 | 96,420 | $ 96,420 | $ 154,061 | $ 2,695,567 | $ (470,497) | $ (430,792) | $ 2,044,759 |
| Net income | — | — | — | 202,128 | — | — | 202,128 |
| Dividends: | | | | | | | |
| Cash ($.63 per share) | — | — | — | (39,151) | — | — | (39,151) |
| Purchase of treasury stock (108,062 shares) | — | — | — | — | — | (4,403) | (4,403) |
| Exercise of stock options | 12 | 12 | 282 | — | — | — | 294 |
| Stock compensation expense recognized in earnings | — | — | 179 | — | — | — | 179 |
| Other comprehensive loss, net of tax: | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments | — | — | — | — | (11,815) | — | (11,815) |
| Balance at June 30, 2023 | 96,432 | $ 96,432 | $ 154,522 | $ 2,858,544 | $ (482,312) | $ (435,195) | $ 2,191,991 |

| | Number of Shares | Common Stock | Surplus | Retained Earnings | Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2021 | 96,351 | $ 96,351 | $ 152,144 | $ 2,470,710 | $ (31,980) | $ (378,744) | $ 2,308,481 |
| Net income | — | — | — | 111,464 | — | — | 111,464 |
| Dividends: | | | | | | | |
| Cash ($.60 per share) | — | — | — | (38,026) | — | — | (38,026) |
| Purchase of treasury stock (1,013,828 shares) | — | — | — | — | — | (40,549) | (40,549) |
| Exercise of stock options | 17 | 17 | 370 | — | — | — | 387 |
| Stock compensation expense recognized in earnings | — | — | 229 | — | — | — | 229 |
| Other comprehensive loss, net of tax: | | | | | | | |
| Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments | — | — | — | — | (244,755) | — | (244,755) |
| Balance at June 30, 2022 | 96,368 | $ 96,368 | $ 152,743 | $ 2,544,148 | $ (276,735) | $ (419,293) | $ 2,097,231 |

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

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

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

**(Dollars in Thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Operating activities: | | |
| Net income | $ 202,128 | $ 111,464 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit loss | 17,403 | 5,216 |
| Specific reserve, other real estate owned | 297 | 16 |
| Depreciation of bank premises and equipment | 10,874 | 10,930 |
| Gain on sale of bank premises and equipment | (124) | (3,080) |
| Gain on sale of other real estate owned | (2,626) | (1,174) |
| Accretion of investment securities discounts | (972) | (732) |
| Amortization of investment securities premiums | 3,504 | 8,773 |
| Unrealized loss on equity securities with readily determinable fair values | 58 | 498 |
| Stock based compensation expense | 179 | 229 |
| Losses (earnings) from affiliates and other investments | 2,696 | (4,079) |
| Deferred tax benefit | (3,190) | (589) |
| Increase in accrued interest receivable | (7,584) | (137) |
| Decrease in other assets | (18,525) | (3,774) |
| Increase in other liabilities | 23,821 | 43,821 |
| Net cash provided by operating activities | 227,939 | 167,382 |
| Investing activities: | | |
| Proceeds from maturities of securities | 51,167 | 2,075 |
| Proceeds from sales and calls of available for sale securities | 450 | — |
| Purchases of available for sale securities | (688,709) | (818,988) |
| Principal collected on mortgage backed securities | 296,920 | 415,801 |
| Net (increase) decrease in loans | (145,855) | 177,727 |
| Purchases of other investments | (21,627) | (68,253) |
| Distributions from other investments | 7,048 | 3,133 |
| Purchases of bank premises and equipment | (9,885) | (8,571) |
| Proceeds from sales of bank premises and equipment | 151 | 10,144 |
| Proceeds from sales of other real estate owned | 3,341 | 6,237 |
| Net cash used in investing activities | $ (506,999) | $ (280,695) |

**INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows, continued (Unaudited)**

**(Dollars in Thousands)**

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|
| Financing activities: | | |
| Net (decrease) increase in non-interest bearing demand deposits | $ (584,871) | $ 263,524 |
| Net (decrease) increase in savings and interest bearing demand deposits | (363,597) | 70,287 |
| Net increase (decrease) in time deposits | 223,767 | (8,436) |
| Net increase in securities sold under repurchase agreements | 10,643 | 73,696 |
| Net decrease in other borrowed funds | (99) | (96) |
| Redemption of long-term debt | (25,774) | — |
| Purchase of treasury stock | (4,403) | (40,549) |
| Proceeds from stock transactions | 294 | 387 |
| Payments of cash dividends | (39,151) | (38,026) |
| Net cash (used in) provided by financing activities | (783,191) | 320,787 |
| (Decrease) increase in cash and cash equivalents | (1,062,251) | 207,474 |
| Cash and cash equivalents at beginning of period | 2,087,724 | 3,209,242 |
| Cash and cash equivalents at end of period | $ 1,025,473 | $ 3,416,716 |
| Supplemental cash flow information: | | |
| Interest paid | $ 45,883 | $ 12,701 |
| Income taxes paid | 48,326 | 3,643 |
| Non-cash investing and financing activities: | | |
| Net transfers from loans to other real estate owned | $ 519 | $ 1,277 |
| Net transfers from bank premises and equipment to other assets | — | 2,476 |

See accompanying notes to consolidated financial statements.

*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 other subsidiaries. The information that follows may contain forward-looking statements, which are qualified as indicated under "Cautionary Notice Regarding Forward-Looking Statements" in Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of this report. Our website address is www.ibc.com.*

**Note 1 — Basis of Presentation**

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Our consolidated financial statements include the accounts of International Bancshares Corporation, and our wholly-owned bank subsidiaries, International Bank of Commerce, Laredo ("IBC"), Commerce Bank, International Bank of Commerce, Zapata, International Bank of Commerce, Brownsville, International Bank of Commerce, Oklahoma (the "Subsidiary Banks") and our wholly-owned non-bank subsidiaries, IBC Trading Company, Premier Tierra Holdings, Inc., IBC Charitable and Community Development Corporation, Emerald Galveston Holdings, LLC, IBC Capital Corporation, and Diamond Beach Holdings, LLC. Our consolidated financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in our latest Annual Report to Shareholders on Form ARS for the fiscal year ended December 31, 2022, furnished to the U.S. Securities and Exchange Commission ("SEC") on April 17, 2023 (our "2022 Annual Report"). Our consolidated statement of condition at December 31, 2022 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("US GAAP") for complete financial statements.

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 statements presented in this report. We have five active operating subsidiaries, the Subsidiary Banks. We apply the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), FASB ASC 280, "Segment Reporting," in determining our reportable segments and related disclosures.

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, other than the declaration of a semi-annual dividend. On July 25, 2023, the Board of Directors approved the semi-annual declaration of a $.63 per share cash dividend for recordholders of our common stock as of the close of business on August 11, 2023, payable on August 25, 2023.

**Note 2 — Fair Value Measurements**

ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"), defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid 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 inputs, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of June 30, 2023 by level within the fair value measurement hierarchy:

| | | Fair Value Measurements at Reporting Date Using (in Thousands) | | |
|---|---|---|---|---|
| | **Assets/Liabilities Measured at Fair Value June 30, 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 | $ 4,508,112 | $ — | $ 4,508,112 | $ — |
| States and political subdivisions | 161,735 | — | 161,735 | — |
| Equity Securities | 5,300 | 5,300 | — | — |
| | $ 4,675,147 | $ 5,300 | $ 4,669,847 | $ — |

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of December 31, 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 | $ — |

Available-for-sale debt securities are classified within Level 1 or 2 of the valuation hierarchy. Equity securities with readily determinable fair values are classified within Level 1. For debt investments 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.

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

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period ended June 30, 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 June 30, 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 | $ 29,763 | $ — | $ — | $ 29,763 | $ 1,010 |
| Other real estate owned | 899 | — | — | 899 | 297 |

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period 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 allowance for credit losses ("ACL"). The fair value of the loan is based on the fair value of the collateral, as determined through either an appraisal or internal 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 internal 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 June 30, 2023, we had $41,653,000 of doubtful commercial collateral dependent loans, of which $0 had an appraisal performed within the immediately preceding twelve months, and of which $40,224,000 had an internal 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 $0 had an appraisal performed within the immediately preceding twelve months and of which $51,326,000 had an internal evaluation performed within the immediately preceding twelve months.

Our determination to either seek an appraisal or to perform an internal 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 analysis of the doubtful loan. 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, if necessary. The fair value is reviewed periodically, and subsequent write-downs are made through a charge to operations, accordingly. Other real estate owned is included in other assets on the consolidated financial statements. For the three and six months ended June 30, 2023 and the twelve months ended December 31, 2022, we recorded $0, $0 and $2,000, respectively, in charges to the ACL in connection with loans transferred to other real estate owned. For the three and six months ended June 30, 2023 and the twelve months ended December 31, 2022, we recorded $47,000, $250,000 and $1,627,000, 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 June 30, 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.

*Time Deposits with Banks*

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

*Investment Securities Held-to-Maturity*

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

*Investment Securities*

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

*Loans*

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

For variable rate performing loans, the carrying amount approximates the fair value. For fixed-rate performing loans, except residential mortgage loans, the fair value is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources or the primary origination market. Fixed-rate performing loans are within Level 3 of the fair value hierarchy. At June 30, 2023 and December 31, 2022, the carrying amount of fixed rate performing loans was $1,179,615,000 and $1,203,381,000, respectively, and the estimated fair value was $1,077,069,000 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 June 30, 2023 and December 31, 2022. The fair value of time deposits is based on the discounted value of contractual cashflows. The discount rate is based on currently offered rates. Time deposits are within Level 3 of the fair value hierarchy. At June 30, 2023 and December 31, 2022, the carrying amount of time deposits was $2,291,951,000 and $2,068,184,000, respectively, and the estimated fair value was $2,297,750,000 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2023 and December 31, 2022, the carrying amount of the fixed rate long-term FHLB borrowings was $10,845,000 and $10,944,000, respectively, and the estimated fair value was $10,845,000 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.

*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 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.

**Note 3 — Loans**

A summary of loans, by loan type at June 30, 2023 and December 31, 2022 is as follows:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| | (Dollars in Thousands) | |
| Commercial, financial and agricultural | $ 4,280,036 | $ 4,373,373 |
| Real estate - mortgage | 866,427 | 865,994 |
| Real estate - construction | 2,202,187 | 1,989,669 |
| Consumer | 43,411 | 41,592 |
| Foreign | 181,016 | 159,975 |
| Total loans | $ 7,573,077 | $ 7,430,603 |

**Note 4 — Allowance for Credit Losses**

The allowance for credit losses (“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 & 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. 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 when 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, (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) 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 TDR's, (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 for the second quarter 2023 ACL. Because of the magnitude of large loans, they pose a higher risk of default and 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, thus the default of one of these larger loans in a relationship may jeopardize the entire 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 transactions in the allowance for credit loan losses by loan class is as follows:

| | Three Months Ended June 30, 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 March 31, 2023 | $ 27,788 | $ 50,933 | $ 36,556 | $ 3,984 | $ 4,559 | $ 8,357 | $ 291 | $ 1,089 | $ 133,557 |
| Losses charged to allowance | (2,792) | — | — | — | — | (164) | (26) | — | (2,982) |
| Recoveries credited to allowance | 556 | 526 | 6 | — | 1 | 15 | 8 | — | 1,112 |
| Net (losses) recoveries charged to allowance | (2,236) | 526 | 6 | — | 1 | (149) | (18) | — | (1,870) |
| Credit loss expense | 2,093 | 1,605 | 2,126 | 122 | 532 | 2,234 | 13 | 91 | 8,816 |
| Balance at June 30, 2023 | $ 27,645 | $ 53,064 | $ 38,688 | $ 4,106 | $ 5,092 | $ 10,442 | $ 286 | $ 1,180 | $ 140,503 |

| | Three Months Ended June 30, 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 March 31, 2022 | $ 23,901 | $ 36,372 | $ 34,854 | $ 3,062 | $ 4,016 | $ 7,046 | $ 264 | $ 712 | $ 110,227 |
| Losses charged to allowance | (2,001) | — | — | — | (57) | — | (34) | — | (2,092) |
| Recoveries credited to allowance | 508 | 1 | 6 | — | 168 | 14 | 5 | — | 702 |
| Net (losses) recoveries charged to allowance | (1,493) | 1 | 6 | — | 111 | 14 | (29) | — | (1,390) |
| Credit loss expense | 3,169 | 340 | 410 | (206) | 10 | (166) | 35 | 143 | 3,735 |
| Balance at June 30, 2022 | $ 25,577 | $ 36,713 | $ 35,270 | $ 2,856 | $ 4,137 | $ 6,894 | $ 270 | $ 855 | $ 112,572 |

| | Six Months Ended June 30, 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 | (4,763) | — | — | — | — | (165) | (87) | — | (5,015) |
| Recoveries credited to allowance | 1,181 | 837 | 11 | — | 8 | 92 | 14 | — | 2,143 |
| Net (losses) recoveries charged to allowance | (3,582) | 837 | 11 | — | 8 | (73) | (73) | — | (2,872) |
| Credit loss expense | 4,499 | 7,543 | 2,203 | 312 | 325 | 2,231 | 78 | 212 | 17,403 |
| Balance at June 30, 2023 | $ 27,645 | $ 53,064 | $ 38,688 | $ 4,106 | $ 5,092 | $ 10,442 | $ 286 | $ 1,180 | $ 140,503 |

| | Six Months Ended June 30, 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 | (4,113) | (2) | — | — | (156) | (28) | (122) | — | (4,421) |
| Recoveries credited to allowance | 1,110 | 3 | 14 | — | 198 | 62 | 16 | — | 1,403 |
| Net (losses) recoveries charged to allowance | (3,003) | 1 | 14 | — | 42 | 34 | (106) | — | (3,018) |
| Credit loss expense | 5,402 | 1,322 | (398) | (435) | 22 | (894) | 104 | 93 | 5,216 |
| Balance at June 30, 2022 | $ 25,577 | $ 36,713 | $ 35,270 | $ 2,856 | $ 4,137 | $ 6,894 | $ 270 | $ 855 | $ 112,572 |

The credit loss charged to expense for the three and six months ended June 30, 2023 has increased from the same periods of 2022 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 June 30, 2023 ACL calculation.

The tables below provide additional information on the balance of loans individually or collectively evaluated for impairment and their related allowance, by loan class as of June 30, 2023 and December 31, 2022:

| | June 30, 2023 | | | |
|---|---|---|---|---|
| | Loans Individually Evaluated For Impairment | | Loans Collectively Evaluated For Impairment | |
| | Recorded Investment | Allowance | Recorded Investment | Allowance |
| | (Dollars in Thousands) | | | |
| Domestic | | | | |
| Commercial | $ 31,312 | $ 3,010 | $ 1,421,885 | $ 24,635 |
| Commercial real estate: other construction & land development | 10,173 | 70 | 2,192,014 | 52,994 |
| Commercial real estate: farmland & commercial | 287 | — | 2,518,383 | 38,688 |
| Commercial real estate: multifamily | 108 | — | 308,061 | 4,106 |
| Residential: first lien | 70 | — | 418,831 | 5,092 |
| Residential: junior lien | 318 | — | 447,208 | 10,442 |
| Consumer | — | — | 43,411 | 286 |
| Foreign | — | — | 181,016 | 1,180 |
| Total | $ 42,268 | $ 3,080 | $ 7,530,809 | $ 137,423 |

| | 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 |

The table below provides additional information on loans accounted for on a non-accrual basis by loan class at June 30, 2023 and December 31, 2022:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| | (Dollars in Thousands) | |
| Domestic | | |
| Commercial | $ 31,312 | $ 30,747 |
| Commercial real estate: other construction & land development | 10,173 | 20,483 |
| Commercial real estate: farmland & commercial | 287 | 94 |
| Commercial real estate: multifamily | 108 | 117 |
| Residential: first lien | 203 | 207 |
| Total non-accrual loans | $ 42,083 | $ 51,648 |

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 2022-22 did not have a significant impact to 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 six months ended June 30, 2023, we did not provide any modifications under these circumstances to any borrower experiencing financial difficulty.

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 Watch List—Doubtful 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.

While our management believes 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 can be made only on a subjective basis. It is the judgment of our management that the ACL at June 30, 2023 was adequate to absorb probable losses from loans in the portfolio at that date.

The following tables present information regarding the aging of past due loans by loan class at June 30, 2023 and December 31, 2022:

| | June 30, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 Days | 60 - 89 Days | 90 Days or Greater | 90 Days or greater & still accruing | Total Past Due | Current | Total Portfolio |
| | (Dollars in Thousands) | | | | | | |
| Domestic | | | | | | | |
| Commercial | $ 14,411 | $ 1,584 | $ 29,975 | $ 167 | $ 45,970 | $ 1,407,227 | $ 1,453,197 |
| Commercial real estate: other construction & land development | 629 | 98 | 10,085 | — | 10,812 | 2,191,375 | 2,202,187 |
| Commercial real estate: farmland & commercial | 745 | — | — | — | 745 | 2,517,925 | 2,518,670 |
| Commercial real estate: multifamily | 45 | 108 | — | — | 153 | 308,016 | 308,169 |
| Residential: first lien | 3,338 | 758 | 2,713 | 2,588 | 6,809 | 412,093 | 418,902 |
| Residential: junior lien | 1,344 | 299 | 1,278 | 1,278 | 2,921 | 444,604 | 447,525 |
| Consumer | 255 | 19 | 6 | 6 | 280 | 43,131 | 43,411 |
| Foreign | 184 | 226 | 374 | 374 | 784 | 180,232 | 181,016 |
| Total past due loans | $ 20,951 | $ 3,092 | $ 44,431 | $ 4,413 | $ 68,474 | $ 7,504,603 | $ 7,573,077 |

| | December 31, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 Days | 60 - 89 Days | 90 Days or Greater | 90 Days or greater & still accruing | Total Past Due | Current | Total Portfolio |
| | (Dollars in Thousands) | | | | | | |
| Domestic | | | | | | | |
| Commercial | $ 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 June 30, 2023 can be primarily attributed to a loan secured by equipment and other assets used in the oil and gas industry as well as 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.

A summary of the loan portfolio by credit quality indicator by loan class and by year of origination at June 30, 2023 and December 31, 2022 is presented below:

| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Total |
|---|---|---|---|---|---|---|---|
| | | | | (Dollars in Thousands) | | | |
| Balance at June 30, 2023 | | | | | | | |
| Domestic | | | | | | | |
| Commercial | | | | | | | |
| Pass | $ 389,737 | $ 432,583 | $ 423,509 | $ 58,607 | $ 25,484 | $ 65,813 | $ 1,395,733 |
| Special Review | — | 300 | 189 | — | — | — | 489 |
| Watch List - Substandard | 23,992 | 1,543 | 113 | — | 15 | — | 25,663 |
| Watch List - Doubtful | 32 | 31,280 | — | — | — | — | 31,312 |
| Total Commercial | $ 413,761 | $ 465,706 | $ 423,811 | $ 58,607 | $ 25,499 | $ 65,813 | $ 1,453,197 |
| Commercial | | | | | | | |
| Current-period gross writeoffs | $ 2,443 | $ 2,045 | $ 9 | $ 264 | $ — | $ 2 | $ 4,763 |
| Commercial real estate: other construction & land development | | | | | | | |
| Pass | $ 650,337 | $ 713,105 | $ 479,217 | $ 166,136 | $ 129,419 | $ 30,999 | $ 2,169,213 |
| Special Review | 20,094 | 2,500 | — | — | 207 | — | 22,801 |
| Watch List - Doubtful | 88 | 10,085 | — | — | — | — | 10,173 |
| Total Commercial real estate: other construction & land development | $ 670,519 | $ 725,690 | $ 479,217 | $ 166,136 | $ 129,626 | $ 30,999 | $ 2,202,187 |
| Commercial real estate: other construction & land development | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Commercial real estate: farmland & commercial | | | | | | | |
| Pass | $ 427,809 | $ 681,701 | $ 418,069 | $ 317,679 | $ 210,586 | $ 314,081 | $ 2,369,925 |
| Special Review | 69,450 | — | — | 829 | — | — | 70,279 |
| Watch List - Pass | 16,722 | 88 | 239 | — | — | — | 17,049 |
| Watch List - Substandard | 56,333 | 2,232 | — | 2,473 | 91 | 1 | 61,130 |
| Watch List - Doubtful | 198 | 89 | — | — | — | — | 287 |
| Total Commercial real estate: farmland & commercial | $ 570,512 | $ 684,110 | $ 418,308 | $ 320,981 | $ 210,677 | $ 314,082 | $ 2,518,670 |
| Commercial real estate: farmland & commercial | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Commercial real estate: multifamily | | | | | | | |
| Pass | $ 54,095 | $ 123,832 | $ 43,201 | $ 58,737 | $ 11,321 | $ 16,875 | $ 308,061 |
| Watch List - Doubtful | — | 108 | — | — | — | — | 108 |
| Total Commercial real estate: multifamily | $ 54,095 | $ 123,940 | $ 43,201 | $ 58,737 | $ 11,321 | $ 16,875 | $ 308,169 |
| Commercial real estate: multifamily | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential: first lien | | | | | | | |
| Pass | $ 93,380 | $ 91,403 | $ 72,269 | $ 43,195 | $ 30,667 | $ 87,575 | $ 418,489 |
| Watch List - Substandard | — | — | 343 | — | — | — | 343 |
| Watch List - Doubtful | — | 70 | — | — | — | — | 70 |
| Total Residential: first lien | $ 93,380 | $ 91,473 | $ 72,612 | $ 43,195 | $ 30,667 | $ 87,575 | $ 418,902 |
| Residential: first lien | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential: junior lien | | | | | | | |
| Pass | $ 40,329 | $ 86,506 | $ 103,393 | $ 81,966 | $ 37,583 | $ 97,430 | $ 447,207 |
| Watch List- Doubtful | 318 | — | — | — | — | — | 318 |
| Total Residential: junior lien | $ 40,647 | $ 86,506 | $ 103,393 | $ 81,966 | $ 37,583 | $ 97,430 | $ 447,525 |
| Residential: junior lien | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ 165 | $ 165 |
| Consumer | | | | | | | |
| Pass | $ 22,184 | $ 15,853 | $ 3,187 | $ 441 | $ 228 | $ 1,518 | $ 43,411 |
| Total Consumer | $ 22,184 | $ 15,853 | $ 3,187 | $ 441 | $ 228 | $ 1,518 | $ 43,411 |
| Consumer | | | | | | | |
| Current-period gross writeoffs | $ 9 | $ 73 | $ 4 | $ — | $ — | $ 1 | $ 87 |
| Foreign | | | | | | | |
| Pass | $ 60,834 | $ 91,375 | $ 14,995 | $ 4,598 | $ 3,974 | $ 5,240 | $ 181,016 |
| Total Foreign | $ 60,834 | $ 91,375 | $ 14,995 | $ 4,598 | $ 3,974 | $ 5,240 | $ 181,016 |
| Foreign | | | | | | | |
| Current-period gross writeoffs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Total Loans | $ 1,925,932 | $ 2,284,653 | $ 1,558,724 | $ 734,661 | $ 449,575 | $ 619,532 | $ 7,573,077 |

| | 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 Substandard Commercial loans at June 30, 2023 compared to December 31, 2022 can be primarily attributed to a loan secured by accounts receivable that was downgraded from Pass. The increase in Special Review Commercial Real Estate: Other Construction and Land Development loans at June 30, 2023 can be attributed to a loan secured by land that was downgraded from Pass. The increase in Watch-List Substandard Commercial Real Estate: Farmland & Commercial loans at June 30, 2023 compared to December 31, 2022 can be primarily attributed to the downgrade from Pass of a loan secured by a retail building that was downgraded from Pass.

**Note 5 — Stock Options**

On April 5, 2012, the Board of Directors adopted the 2012 International Bancshares Corporation Stock Option Plan (the “2012 Plan”). There 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.

A summary of option activity under the stock option plan for the six months ended June 30, 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 | (11,187) | 26.27 | | |
| Options expired | — | — | | |
| Options forfeited | (5,188) | 37.38 | | |
| Options outstanding at June 30, 2023 | 445,447 | 29.67 | 3.58 | $ 6,474 |
| Options fully vested and exercisable at June 30, 2023 | 286,044 | $ 26.75 | 2.17 | $ 4,992 |

Stock-based compensation expense included in the consolidated statements of income for the three and six months ended June 30, 2023 was $77,000 and $179,000, respectively. Stock-based compensation expense include in the consolidated statements of income for the three and six months ended June 30, 2022 was $108,000 and $229,000, respectively. As of June 30, 2023, there was approximately $583,000 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 1.6 years.

On April 18, 2022, the Board of Directors adopted the 2022 International Bancshares Corporation 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 June 30, 2023, a total of 502,250 SARs had been issued under the SAR Plan.

A summary of activity under the SAR Plan for the six months ended June 30, 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 | (12,250) | 39.33 | | |
| Stock appreciation rights outstanding at June 30, 2023 | 477,000 | 39.35 | 9.50 | $ 2,313 |
| Stock appreciation rights fully vested and exercisable at June 30, 2023 | — | $ — | | |

The fair value of the liability for payments due to stock appreciation rights holders at June 30, 2023 is approximately $976,000, as calculated using a Black-Sholes 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 $264,000 and $166,000 for the three and six months ended June 30, 2023, respectively. As of June 30, 2023, there was approximately $5,820,000 in unrecognized liability related to non-vested SARs granted under the plan that will be recognized over a weighted average period of 9.5 years.

**Note 6 — Investment Securities, Equity Securities with Readily Determinable Fair Values and Other Investments**

We classify debt securities into one of three categories: held-to-maturity, available-for-sale, or trading. Such debt securities are reassessed for appropriate classification at each reporting date. Securities classified as "held-to-maturity" are carried at amortized cost for financial statement reporting, while securities classified as "available-for-sale" and "trading" are carried at their fair value. Unrealized holding gains and losses are included in net income for those securities classified as "trading," while unrealized holding gains and losses related to those securities classified as "available-for-sale" are excluded from net income and reported net of tax as other comprehensive income (loss) and accumulated other comprehensive income (loss) until realized, or in the case of losses, when deemed other than temporary. 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 will be recorded as a charge to our ACL with subsequent changes in the amount of impairment, up or down, also recorded through our ACL. We have evaluated the debt securities classified as available-for-sale and held-to-maturity at June 30, 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 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 June 30, 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 | $ 5,123,159 | $ 1,237 | $ (616,284) | $ 4,508,112 | $ 4,508,112 |
| Obligations of states and political subdivisions | 162,830 | 892 | (1,987) | 161,735 | 161,735 |
| Total investment securities | $ 5,285,989 | $ 2,129 | $ (618,271) | $ 4,669,847 | $ 4,669,847 |

(1) Included in the carrying value of residential mortgage-backed securities are $827,045 of mortgage-backed securities issued by Ginnie Mae and $3,681,067 of mortgage-backed securities issued by Fannie Mae and Freddie Mac.

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 |

| | Available for Sale | | | | |
|---|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Carrying value(1) |
| | (Dollars in Thousands) | | | | |
| 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 and $3,528,091 of mortgage-backed securities issued by Fannie Mae and Freddie.

The amortized cost and estimated fair value of investment securities at June 30, 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 | — | — | 162,390 | 161,295 |
| Residential mortgage-backed securities | — | — | 5,123,159 | 4,508,112 |
| Total investment securities | $ 3,400 | $ 3,400 | $ 5,285,989 | $ 4,669,847 |

Residential mortgage-backed securities are securities primarily issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”), Federal National Mortgage Association (“Fannie Mae”), or 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 early September 2008 and because securities issued by others that are collateralized by residential mortgage-backed securities issued by Fannie Mae or Freddie Mac are rated consistently as AAA rated securities.

The amortized cost and fair value of available-for-sale debt investment securities pledged to qualify for fiduciary powers, to secure public monies as required by law, repurchase agreements and short-term fixed borrowings was $1,642,812,000 and $1,394,906,000, respectively, at June 30, 2023.

Proceeds from the sale and calls of debt securities available-for-sale were $0 and $450,000 for the three and six months ended June 30, 2023, which included $0 and $0 of mortgage-backed securities. Gross gains of $0 and $0 and gross losses of $0 and $0 were realized on the sales and calls for the three and six months ended June 30, 2023. Proceeds from the sale and call of debt securities available-for-sale were $0 and $0 for the three and six months ended June 30,

2022, which included $0 and $0 of mortgage-backed securities. Gross gains of $0 and $0 and gross losses of $0 and $0 were realized on the sales and calls for the three and six months ended June 30, 2022, respectively.

Equity securities with readily determinable fair values consist primarily of Community Reinvestment Act funds. At June 30, 2023 and December 31, 2022, the balance in equity securities with readily determinable fair values recorded at fair value were $5,300,000 and $5,358,000, respectively. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the three and six months ended June 30, 2023 and the three and six months ended June 30, 2022:

| | Three Months Ended June 30, 2023 (Dollars in Thousands) |
|---|---|
| Net losses recognized during the period on equity securities | $ (92) |
| 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 | $ (92) |

| | Three Months Ended June 30, 2022 (Dollars in Thousands) |
|---|---|
| Net losses recognized during the period on equity securities | $ (229) |
| 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 | $ (229) |

| | Six Months Ended June 30, 2023 (Dollars in Thousands) |
|---|---|
| Net losses recognized during the period on equity securities | $ (58) |
| 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 | $ (58) |

| | Six Months Ended June 30, 2022 (Dollars in Thousands) |
|---|---|
| Net losses recognized during the period on equity securities | $ (498) |
| 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 | $ (498) |

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 $220,276,000 and $214,549,000 at June 30, 2023 and at December 31, 2022, respectively, and are included in other investments on the consolidated financial statements. Unfunded commitments to LIHTC projects totaled $33,869,000 at June 30, 2023 and $41,191,000 at December 31, 2022 and are included in other liabilities on the consolidated financial statements.

**Note 7 — Other Borrowed Funds**

Other borrowed funds include FHLB borrowings, which are short-term and long-term borrowings issued by the FHLB of Dallas at the market price offered at the time of funding. These borrowings are secured by residential mortgage-backed investment securities and a portion of our loan portfolio. At June 30, 2023, other borrowed funds totaled $10,845,000 compared to $10,944,000 at December 31, 2022.

**Note 8 — Junior Subordinated Interest Deferrable Debentures**

As of June 30, 2023, we had four statutory business trusts under the laws of the State of Delaware, for the purpose of issuing trust preferred securities. The four statutory business trusts we formed (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 ("Debentures") that we issued. As of June 30, 2023 and December 31, 2022, the principal amount of Debentures outstanding totaled $108,868,000 and $134,642,000, respectively. On April 7, 2023, after receiving the regulatory approvals, we redeemed the full $25,000,000 of Junior Subordinated Deferrable Interest Debentures related to IB Capital Trust VIII.

The Debentures are subordinated and junior in right of payment to all 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 our investments and not consolidated in our consolidated financial statements. Although the Capital and Common Securities issued by each of the Trusts are not included as a component of shareholders' equity on the consolidated statement of condition, the Capital and Common Securities are treated as capital for regulatory purposes. Specifically, under applicable regulatory guidelines, the Capital and Common 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 June 30, 2023 and December 31, 2022, the total $108,868,000 and $134,642,000, respectively, of the Capital and Common Securities outstanding qualified as Tier 1 capital.

The following table illustrates key information about each of the Capital and Common Securities and their interest rate at June 30, 2023:

| | Junior Subordinated Deferrable Interest Debentures (Dollars in Thousands) | Repricing Frequency | Interest Rate | Interest Rate Index(1)(2) | | | Maturity Date | Optional Redemption Date[(1)] |
|---|---|---|---|---|---|---|---|---|
| Trust IX | $ 41,238 | Quarterly | 6.80 % | LIBOR | + | 1.62 | October 2036 | October 2011 |
| Trust X | 21,021 | Quarterly | 6.95 % | LIBOR | + | 1.65 | February 2037 | February 2012 |
| Trust XI | 25,990 | Quarterly | 6.80 % | LIBOR | + | 1.62 | July 2037 | July 2012 |
| Trust XII | 20,619 | Quarterly | 6.95 % | LIBOR | + | 1.45 | September 2037 | September 2012 |
| | $ 108,868 | | | | | | | |

(1) The Capital and Common Securities may be redeemed in whole or in part on any interest payment date after the Optional Redemption Date.
(2) The interest rate index on the Capital and Common Securities transitioned to the Secured Overnight Financing Rate ("SOFR") effective July 1, 2023.

**Note 9 — Common Stock and Dividends**

We paid cash dividends of $.63 per share on February 28, 2023 to record holders of our common stock on February 15, 2023. We paid cash dividends of $.60 per share on February 28, 2022 to record holders of our common stock on February 15, 2022.

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. 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 second 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 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 July 31, 2023, a total of 13,692,792 shares had been repurchased under all programs at a cost of $414,222,000. We are not obligated to purchase shares under our stock repurchase program outside of the Rule 10b-18 and Rule 10b5-1trading plans.

**Note 10 — Commitments and Contingent Liabilities**

We are involved in various legal proceedings that are in various stages of litigation. We have determined, based on discussions with its counsel, that any material loss in such actions, individually or in the aggregate, is remote or the damages sought, even if fully recovered, would not be considered material to our consolidated financial position or results of operations. However, many of these matters are in various stages of proceedings and further developments could cause management to revise its assessment of these matters.

**Note 11 — Capital Ratios**

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under

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

In July 2013, the Federal Deposit Insurance Corporation ("FDIC") and other regulatory bodies established a new, comprehensive capital framework for U.S. banking organizations, consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the BASEL III capital reforms and various Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank") related capital provisions. Consistent with the Basel international framework, the rules include a minimum ratio of Common Equity Tier 1 ("CET1") to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets.  The capital conservation buffer began phasing-in on January 1, 2016 at .625% and increased each year until January 1, 2019, when we were required to have a 2.5% capital conservation buffer, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. Regarding the quality of capital, the 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 rules beginning on January 1, 2015.  We believe that as of June 30, 2023, we continue to meet all fully phased-in capital adequacy requirements.

On November 21, 2017, the OCC, the Federal Reserve 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.

On December 7, 2017, the Basel Committee on Banking Supervision unveiled the latest round of its regulatory capital framework, commonly called "Basel IV."  The framework makes changes to the capital framework first introduced as "Basel III" in 2010.  The committee targeted 2022-2027 as the timeframe for implementation by regulators in individual countries, including the U.S. federal bank regulatory agencies (after notice and comment).

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

As of June 30, 2023, our capital levels continue to exceed all capital adequacy requirements under the Basel III Capital Rules as currently applicable to us.

On May 24, 2018, the 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 ("ADC") 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.

We had a CET1 to risk-weighted assets ratio of 21.32% on June 30, 2023 and 20.21% on December 31, 2022. We had a Tier 1 capital-to-average-total-asset (leverage) ratio of 16.29% and 14.59%, risk-weighted Tier 1 capital ratio of 22.03% and 21.04% and risk-weighted total capital ratio of 23.28% and 22.22% at June 30, 2023 and December 31, 2022, respectively. Our CET1 capital consists of common stock and related surplus, net of treasury stock, and retained earnings. We and our Subsidiary Banks elected to opt-out of the requirement to include most components of accumulated other comprehensive income (loss) in the calculation of CET1 capital. CET1 is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions. Tier 1 capital includes CET1 capital and additional Tier 1 capital. Additional Tier 1 capital includes the Capital and Common Securities issued by the Trusts (see Note 8 above) up to a maximum of 25% of Tier 1 capital on an aggregate basis. Any amount that exceeds the 25% threshold qualifies as Tier 2 capital. As of June 30, 2023, the total of $108,868,000 of the Capital and Common Securities outstanding qualified as Tier 1 capital. We actively monitor the regulatory capital ratios to ensure that our Subsidiary Banks are well-capitalized under the regulatory framework.

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

We and our Subsidiary Banks are subject to the regulatory capital requirements administered by the Federal Reserve, and, for our Subsidiary Banks, the FDIC. Regulatory authorities can initiate certain mandatory actions if we or any of our Subsidiary Banks fail to meet the minimum capital requirements, which could have a direct material effect on our financial statements. Management believes, as of June 30, 2023, that we and each of our Subsidiary Banks meet all capital adequacy requirements to which we are subject.

*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 other subsidiaries. The information that follows may contain forward-looking statements, which are qualified as indicated under "Cautionary Notice Regarding Forward-Looking Statements" in Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of this report. Our website address is www.ibc.com.*

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

The following discussion should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2022, which are included in our 2022 Annual Report. Operating results for the six months ended June 30, 2023 are not necessarily indicative of the results for the year ending December 31, 2023, or any future period.

**Special Cautionary Notice Regarding Forward Looking Information**

Certain matters discussed in this report, excluding historical information, include forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by these sections. Although 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 those disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 23, 2023, among others, the following:

- Local, regional, national and international economic business conditions and the impact they may have on us, our customers, and our 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 Federal Reserve Bank or other sources in the future which 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 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.
- Technological changes, system failures or breaches of our network security, as well as other cyber security risks that 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 endemics.
- 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, the Financial Accounting Standards Board and other accounting standards setters.
- The costs and effects of regulatory developments or regulatory or other governmental, the results of regulatory examinations or reviews, and the process of obtaining required regulatory approvals.
- The effect of any supervisory and enforcement efforts by the CFPB related to 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.
- 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 Dodd-Frank.
- 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 167 facilities and 257 ATMs, and provide 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 an 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 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 those needs and servicing the sales arising from those discussions on a long-term basis. The Subsidiary Banks have various compensation plans, including incentive-based compensation, for fairly compensating employees. The 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.

We are very active in facilitating trade along the United States border with Mexico. We do a large amount of business with customers domiciled in Mexico. Deposits from persons and entities domiciled in Mexico comprise a large and stable portion of the deposit base of our Subsidiary Banks. We also serve the growing Hispanic population through our facilities located throughout South, Central and Southeast Texas and the State of Oklahoma.

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 and create efficiencies and institute cost-control protocols at all levels. We will continue to 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, closely. 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**

| | June 30, 2023 | December 31, 2022 | Percent Increase (Decrease) |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| Assets | $ 14,854,836 | $ 15,501,476 | (4.2)% |
| Net loans | 7,432,574 | 7,304,631 | 1.8 |
| Deposits | 11,935,306 | 12,660,007 | (5.7) |
| Securities sold under repurchase agreements | 441,834 | 431,191 | 2.5 |
| Other borrowed funds | 10,845 | 10,944 | (0.9) |
| Junior subordinated deferrable interest debentures | 108,868 | 134,642 | (19.1) |
| Shareholders' equity | 2,191,991 | 2,044,759 | 7.2 |

**Consolidated Statements of Income Information**

| | Three Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) | Six Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | | 2023 | 2022 | |
| Interest income | $ 198,124 | $ 109,584 | 80.8 % | $ 386,273 | $ 206,016 | 87.5 % |
| Interest expense | 31,669 | 6,683 | 373.9 | 54,633 | 13,069 | 318.0 |
| Net interest income | 166,455 | 102,901 | 61.8 | 331,640 | 192,947 | 71.9 |
| Provision for probable loan losses | 8,816 | 3,735 | 136.0 | 17,403 | 5,216 | 233.6 |
| Non-interest income | 37,702 | 43,242 | (12.8) | 78,064 | 86,754 | (10.0) |
| Non-interest expense | 67,534 | 68,756 | (1.8) | 135,563 | 132,874 | 2.0 |
| Net income | 100,485 | 57,971 | 73.3 % | 202,128 | 111,464 | 81.3 % |
| | | | | | | |
| Per common share: | | | | | | |
| Basic | $ 1.62 | $ .92 | 76.1 % | $ 3.25 | $ 1.77 | 83.6 % |
| Diluted | 1.62 | .92 | 76.1 | 3.25 | 1.76 | 84.7 |

**Net Income**

Net income for the three and six months ended June 30, 2023 increased by 73.3% and 81.3%, respectively, compared to the same periods of 2022. Net income for the three and six months ended June 30, 2023 was positively impacted by an increase in net interest income and 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 Federal Reserve Board actions to raise interest rates in 2022 and 2023. 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 Interest Income**

| | Three Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) | Six Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | | 2023 | 2022 | |
| Interest Income: | | | | | | |
| Loans, including fees | $ 152,896 | $ 87,630 | 74.5 % | $ 295,166 | $ 169,118 | 74.5 % |
| Investment securities: | | | | | | |
| Taxable | 32,175 | 16,938 | 90.0 | 61,984 | 30,128 | 105.7 |
| Tax-exempt | 1,569 | 351 | 347.0 | 3,147 | 701 | 348.9 |
| Other interest income | 11,484 | 4,665 | 146.2 | 25,976 | 6,069 | 328.0 |
| Total interest income | 198,124 | 109,584 | 80.8 | 386,273 | 206,016 | 87.5 |
| Interest expense: | | | | | | |
| Savings deposits | 14,778 | 1,296 | 1,040.3 | 26,472 | 2,397 | 1,004.4 |
| Time deposits | 11,628 | 2,277 | 410.7 | 18,457 | 4,781 | 286.0 |
| Securities sold under Repurchase agreements | 3,295 | 241 | 1,267.2 | 5,437 | 425 | 1,179.3 |
| Other borrowings | 71 | 1,907 | (96.3) | 142 | 3,795 | (96.3) |
| Junior subordinated interest deferrable debentures | 1,897 | 962 | 97.2 | 4,125 | 1,671 | 146.9 |
| Total interest expense | 31,669 | 6,683 | 373.9 | 54,633 | 13,069 | 318.0 |
| Net interest income | $ 166,455 | $ 102,901 | 61.8 % | $ 331,640 | $ 192,947 | 71.9 % |

The increase in net interest income for the three and six months ended June 30, 2023 can be attributed 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 Federal Reserve actions to raise interest rates in 2022 and 2023. Net interest income is the spread between income on interest earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, such as deposits, repurchase agreements and funds borrowed. As part of 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 twice a year (see table on page 44 for the June 30, 2023 gap analysis). Our management currently believes that we are properly positioned for interest rate changes; however, if our 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.

**Non-Interest Income**

| | Three Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) | Six Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | | 2023 | 2022 | |
| Service charges on deposit accounts | $ 18,075 | $ 18,248 | (0.9)% | $ 35,628 | $ 35,505 | 0.3 % |
| Other service charges, commissions and fees | | | | | | |
| Banking | 14,392 | 12,935 | 11.3 | 28,447 | 25,451 | 11.8 |
| Non-banking | 2,581 | 2,042 | 26.4 | 4,535 | 3,807 | 19.1 |
| Other investments, net | (2,900) | 1,219 | (337.9) | 55 | 4,101 | (98.7) |
| Other income | 5,554 | 8,798 | (36.9) | 9,399 | 17,890 | (47.5) |
| Total non-interest income | $ 37,702 | $ 43,242 | (12.8)% | $ 78,064 | $ 86,754 | (10.0)% |

Total non-interest income for the three and six months ended June 30, 2023 decreased by 12.8% and 10.0%, respectively, compared to the same periods of 2022. Non-interest income for the three months ended June 30, 2023 was negatively impacted due to a loss recorded on a merchant banking investment. Non-interest income for the three and six months ended June 30, 2022 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 the footprint with customer activity.

**Non-Interest Expense**

| | Three Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) | Six Months Ended June 30, (Dollars in Thousands) | | Percent Increase (Decrease) |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | | 2023 | 2022 | |
| Employee compensation and benefits | $ 33,294 | $ 31,045 | 7.2 % | $ 66,153 | $ 62,164 | 6.4 % |
| Occupancy | 6,004 | 6,189 | (3.0) | 12,330 | 12,461 | (1.1) |
| Depreciation of bank premises and equipment | 5,408 | 5,455 | (0.9) | 10,874 | 10,930 | (0.5) |
| Professional fees | 3,338 | 2,942 | 13.5 | 6,928 | 5,260 | 31.7 |
| Deposit insurance assessments | 1,693 | 1,979 | (14.5) | 5,831 | 3,036 | 92.1 |
| Net operations, other real estate owned | 105 | (47) | 323.4 | (1,640) | (455) | (260.4) |
| Advertising | 1,289 | 1,455 | (11.4) | 2,553 | 2,895 | (11.8) |
| Software and software maintenance | 4,928 | 4,372 | 12.7 | 9,897 | 8,549 | 15.8 |
| Other | 11,475 | 15,366 | (25.3) | 22,637 | 28,034 | (19.3) |
| Total non-interest expense | $ 67,534 | $ 68,756 | (1.8)% | $ 135,563 | $ 132,874 | 2.0 % |

Non-interest expense for the three and six months ended June 30, 2023 decreased by 1.8% and increased by 2.0%, respectively compared to the same periods of 2022. The increase in non-interest expense can be primarily attributed to an increase in our employee compensation and benefits costs as we continue to review and adjust our compensation and benefit programs to recognize performance and retain our workforce. 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.

**Financial Condition**

**Allowance for Credit Losses**

The allowance for credit losses increased 11.5% to $140,503,000 at June 30, 2023 from $125,972,000 at December 31, 2022. The provision for credit losses charged to expense increased 136.0% and 233.6%, respectively, for the three and six months ended June 30, 2023 to $8,816,000 and $17,403,000, respectively, compared to $3,735,000 and $5,216,000 for the same periods of 2022. The credit loss charged to expense for the three and six months ended June 30, 2023 has increased from the same periods of 2022 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 June 30, 2023 ACL calculation. The allowance for credit losses was 1.86% of total loans at June 30, 2023 and 1.70% of total loans at December 31, 2022.

**Investment Securities**

Residential mortgage-backed debt securities are securities primarily issued by Freddie Mac, Fannie Mae, or Ginnie Mae. Investments in debt residential mortgage-backed securities issued by Ginnie Mae are fully guaranteed by the U.S. Government. Investments in debt 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 early September 2008 and because securities issued by others that are collateralized by residential mortgage-backed securities issued by Fannie Mae or Freddie Mac are rated consistently as AAA rated securities.

**Loans**

Total loans increased by 1.9% to $7,573,077,000 at June 30, 2023, from $7,430,603,000 at December 31, 2022.

**Deposits**

Deposits decreased by 5.7% to $11,935,306,000 at June 30, 2023, compared to $12,660,007,000 at December 31, 2022. Deposits decreased at June 30, 2023 as a result of increased general activities by customers, increased competition for deposits by the federal government, and overly aggressive pricing by competitors. 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 in our best interest to allow some deposits to runoff because the rates being offered by our competition 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. The five separately charted banks within our holding company structure also allows us to work with customers to maximize their FDIC insurance levels and provide additional levels of insured deposits.

**Foreign Operations**

On June 30, 2023, we had $14,854,836,000 of consolidated assets, of which approximately $181,016,000, or 1.2%, was related to loans outstanding to borrowers domiciled in foreign countries, compared to $159,975,000, or 1.0%, at December 31, 2022. Of the $181,016,000, 79.8% is directly or indirectly secured by U.S. assets, certificates of deposits and real estate; 10.4% is secured by foreign real estate or other assets; and 9.8% is unsecured.

**Critical Accounting Policies**

We have established various accounting policies that 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 that 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 & 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. 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 when 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, (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) 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 TDR's, (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 and geopolitical events. The large loan operational risk factor was added for the second quarter 2023 ACL. Because of the magnitude of large loans, they pose a higher risk of default and 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, thus the default of one of these larger loans in a relationship may jeopardize the entire 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.

**Liquidity and Capital Resources**

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.  Deposits from persons and entities domiciled in Mexico comprise a stable portion of the deposit base of our Subsidiary Banks.  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 our 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 significant unused lines of credit in order to fund liquidity needs.  We also maintain a sizable, high quality investment portfolio to provide significant liquidity.  These securities can be pledged to the FHLB, sold, or sold under agreements to repurchase, to provide immediate liquidity.  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.

We maintain an adequate level of capital as a margin of safety for our depositors and shareholders.  At June 30, 2023, shareholders' equity was $2,191,991,000 compared to $2,044,759,000 at December 31, 2022.  The increase in shareholders' equity can be primarily attributed to the retention of earnings.

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

In July 2013, the FDIC and other regulatory bodies established a new, comprehensive capital framework for U.S. banking organizations, consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the BASEL III capital reforms and various Dodd-Frank Act related capital provisions. Consistent with the Basel international framework, the rules include a minimum ratio of Common Equity Tier 1 ("CET1") to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets.  The capital conservation buffer began phasing-in on January 1, 2016 at .625% and increased each year until January 1, 2019, when we were required to have a 2.5% capital conservation buffer, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. Regarding the quality of capital, the 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 rules beginning on January 1, 2015.  Management believes, as of June 30, 2023, that we and each of our Subsidiary Banks continue to meet all fully phased-in capital adequacy requirements.

On November 21, 2017, the Office of the Comptroller of the Currency ("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.

On December 7, 2017, the Basel Committee on Banking Supervision unveiled the latest round of its regulatory capital framework, commonly called "Basel IV."  The framework makes changes to the capital framework first introduced as "Basel III" in 2010.  The committee targeted 2022-2027 as the timeframe for implementation by regulators in individual countries, including the U.S. federal bank regulatory agencies (after notice and comment).

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

As of June 30, 2023, our capital levels continue to exceed all capital adequacy requirements under the Basel III Capital Rules as currently applicable to us.

On May 24, 2018, the 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 ("ADC") 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.

We had a CET1 to risk-weighted assets ratio of 21.32% on June 30, 2023 and 20.21% on December 31, 2022.  We had a Tier 1 capital-to-average-total-asset (leverage) ratio of 16.29% and 14.59%, risk-weighted Tier 1 capital ratio of 22.03% and 21.04% and risk-weighted total capital ratio of 23.28% and 22.22% at June 30, 2023 and December 31, 2022, respectively.  Our CET1 capital consists of common stock and related surplus, net of treasury stock, and retained earnings.  We and our Subsidiary Banks elected to opt-out of the requirement to include most components of accumulated other comprehensive income (loss) in the calculation of CET1 capital.  CET1 is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.  Tier 1 capital includes CET1 capital and additional Tier 1 capital.  Additional Tier 1 capital includes the Capital and Common Securities issued by the Trusts (see Note 8) up to a maximum of 25% of Tier 1 capital on an aggregate basis.  Any amount that exceeds the 25% threshold qualifies as Tier 2 capital.  As of June 30, 2023, the total of $108,868,000 of the Capital and Common Securities outstanding qualified as Tier 1 capital.  We actively monitor the regulatory capital ratios to ensure that our Subsidiary Banks are well-capitalized under the regulatory framework.

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

We and our Subsidiary Banks are subject to the regulatory capital requirements administered by the Federal Reserve, and, for our Subsidiary Banks, the FDIC. Regulatory authorities can initiate certain mandatory actions if we or

any of our Subsidiary Banks fail to meet the minimum capital requirements, which could have a direct material effect on our financial statements. Management believes, as of June 30, 2023, that we and each of our Subsidiary Banks continue to meet all capital adequacy requirements to which we are subject.

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 anticipate fluctuations in interest rates by adjusting the balance between sources and uses of funds as deemed appropriate. The net-interest rate sensitivity as of June 30, 2023 is illustrated in the table entitled "Interest Rate Sensitivity," below. This information reflects the balances of assets and liabilities for which rates are subject to change. A mix of assets and liabilities that are roughly equal in volume and re-pricing characteristics represents a matched interest rate sensitivity position. Any excess of assets or liabilities results in an interest rate sensitivity gap.

We undertake an interest rate sensitivity analysis to monitor the potential risk on future earnings resulting from the impact of possible future changes in interest rates on currently existing net asset or net liability positions. However, this type of analysis is as of a point-in-time position, when in fact that position can quickly change as market conditions, customer needs, and management strategies change. Thus, interest rate changes do not affect all categories of assets and liabilities equally or at the same time. As indicated in the table, we are asset sensitive in both the short- and long-term scenarios. Our Asset and Liability Committee semi-annually reviews the consolidated position along with simulation and duration models, and makes adjustments as needed to control our interest rate risk position. We use modeling of future events as a primary tool for monitoring interest rate risk.

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

| June 30, 2023 | 3 Months or Less | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| | Rate/Maturity | | | | |
| | | | (Dollars in Thousands) | | |
| Rate sensitive assets | | | | | |
| Investment securities | $ 186,123 | $ 534,071 | $ 3,796,617 | $ 161,736 | $ 4,678,547 |
| Loans, net of non-accruals | 6,261,426 | 264,828 | 277,332 | 727,408 | 7,530,994 |
| Total earning assets | $ 6,447,549 | $ 798,899 | $ 4,073,949 | $ 889,144 | $ 12,209,541 |
| Cumulative earning assets | $ 6,447,549 | $ 7,246,448 | $ 11,320,397 | $ 12,209,541 | |
| Rate sensitive liabilities | | | | | |
| Time deposits | $ 984,082 | $ 1,165,177 | $ 142,689 | $ 3 | $ 2,291,951 |
| Other interest bearing deposits | 4,382,171 | — | — | — | 4,382,171 |
| Securities sold under repurchase agreements | 430,276 | 11,558 | — | — | 441,834 |
| Other borrowed funds | — | — | — | 10,845 | 10,845 |
| Junior subordinated deferrable interest debentures | 108,868 | — | — | — | 108,868 |
| Total interest bearing liabilities | $ 5,905,397 | $ 1,176,735 | $ 142,689 | $ 10,848 | $ 7,235,669 |
| Cumulative sensitive liabilities | $ 5,905,397 | $ 7,082,132 | $ 7,224,821 | $ 7,235,669 | |
| Repricing gap | $ 542,152 | $ (377,836) | $ 3,931,260 | $ 878,296 | $ 4,973,872 |
| Cumulative repricing gap | 542,152 | 164,316 | 4,095,576 | 4,973,872 | |
| Ratio of interest-sensitive assets to liabilities | 1.09 | 0.68 | 28.55 | 81.96 | 1.69 |
| Ratio of cumulative, interest-sensitive assets to liabilities | 1.09 | 1.02 | 1.57 | 1.69 | |

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

During the three and six months ended June 30, 2023, there were no material changes in market risk exposures that affected the quantitative and qualitative disclosures regarding market risk presented under the caption "Liquidity and Capital Resources" located on pages 14 through 19 of our 2022 Annual Report.

**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures*

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

*Internal Control Over Financial Reporting*

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

## PART II - OTHER INFORMATION

**Item 1. Legal Proceedings**

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 any current legal proceedings, 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. However, many of these matters are in various stages of proceedings and further developments could cause management to revise its assessment of these matters.

**1A. Risk Factors**

There were no material changes in the risk factors as previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 23, 2023. In addition to those risk factors, the following factors represent material risks and uncertainties that we believe could affect the Company's business and investment in the Company's common stock.

***Our financial condition, results of operation and stock price may be negatively impacted by recent negative developments affecting the banking industry, unrelated bank failures, and diminished depositor confidence in depository institutions, and the increased threat of bank-run contagion.***

The recent bank failures involving Silicon Valley Bank, Signature Bank and First Republic Bank during a less than two-month period from March to May 2023 has 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 like IBC, and created an increasing threat of bank-run contagion. As a result, customers may choose to maintain deposits with larger financial institutions 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.***

Recent negative developments in the banking industry, culminating in the high-profile implosions of Silicon Valley Bank, Signature Bank, and First Republic Bank, 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.

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

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. 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 second 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 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 July 31, 2023, a total of 13,692,792 shares had been repurchased under all programs at a cost of $414,222,000. 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 June 30, 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) |
|---|---|---|---|---|
| April 1 – April 30, 2023 | 6,000 | $ 40.70 | 6,000 | $ 127,765,000 |
| May 1 – May 31, 2023 | 77,062 | 40.52 | 77,062 | 124,642,000 |
| June 1 – June 30, 2023 | — | — | — | 124,642,000 |
| Total | 83,062 | $ 40.53 | 83,062 | |

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

**Item 5. Other Information**

During the quarter ended June 30, 2023, none of the Company’s directors or officers adopted, modified, or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Item 408(a) of Regulation S-K.

**Item 6. Exhibits**

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

13 —Annual report to Shareholders on Form ARS for the fiscal year ended December 31, 2022, furnished to the SEC on April 17, 2023

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

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

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

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

101++ — Interactive Data File

104++ — Cover Page Interactive Data File (included in Exhibit 101)

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++ Attached as Exhibit 101 to this report are the following documents formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Cover Page to this Form 10-Q; (ii) the Condensed Consolidated Statement of Earnings for the three and six months ended June 30, 2023 and 2022; (iii) the Condensed Consolidated Balance Sheet as of June 30, 2023 and December 31, 2022; and (iv) the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2023 and June 30, 2022.

## SIGNATURES

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

INTERNATIONAL BANCSHARES CORPORATION

| | | |
|---|---|---|
| Date: | August 3, 2023 | /s/ Dennis E. Nixon<br>Dennis E. Nixon<br>President |
| Date: | August 3, 2023 | /s/ Judith I. Wawroski<br>Judith I. Wawroski<br>Treasurer |

**Exhibit 31(a)**

**Certification of Chief Executive Officer**
**pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Dennis E. Nixon, certify that:

1. I have reviewed this report on form 10-Q 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 the 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: August 3, 2023

/s/ Dennis E. Nixon
Dennis E. Nixon
President (Chief Executive Officer)

**Exhibit 31(b)**

**Certification of Chief Financial Officer**
**pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Judith I. Wawroski, certify that:

1. I have reviewed this report on form 10-Q 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: August 3, 2023

/s/ Judith I. Wawroski
Judith I. Wawroski
Treasurer (Principal Financial Officer)

**Exhibit 32(a)**

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

In connection with the Quarterly Report of International Bancshares Corporation (the "Company") on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis E. Nixon, Chief 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(a) 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: August 3, 2023

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. 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, 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 32(b)**

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

In connection with the Quarterly Report of International Bancshares Corporation (the "Company") on Form 10-Q for the period ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judith I. Wawroski, 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(a) 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: August 3, 2023

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. 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, 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.