

INTERNATIONAL BANCSHARES CORP
Form 10-Q
November 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from to

Commission file number 0-9439

INTERNATIONAL BANCSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

74-2157138
(I.R.S. Employer Identification No.)

1200 San Bernardo Avenue, Laredo, Texas 78042-1359

OR

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(Address of principal executive offices)

(Zip Code)

(956) 722-7611

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated filer

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	68,647,437 shares outstanding at November 1, 2007

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	September 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 233,119	\$ 268,207
Federal funds sold	18,000	29,000
Total cash and cash equivalents	251,119	297,207
Time deposits with banks	11,375	396
Investment securities:		
Held-to-maturity (Market value of \$2,300 on September 30, 2007 and \$2,375 on December 31, 2006)	2,300	2,375
Available-for-sale (Amortized cost of \$4,050,691 on September 30, 2007 and \$4,548,236 on December 31, 2006)	4,028,436	4,488,078
Total investment securities	4,030,736	4,490,453
Loans, net of unearned discounts	5,235,303	5,034,810
Less allowance for possible loan losses	(63,075)	(64,537)
Net loans	5,172,228	4,970,273
Bank premises and equipment, net	420,106	390,323
Accrued interest receivable	55,036	57,288
Other investments	314,050	345,988
Identified intangible assets, net	32,833	34,358
Goodwill, net	283,198	282,246
Other assets	46,189	42,922
Total assets	\$ 10,616,870	\$ 10,911,454

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	September 30, 2007	December 31, 2006
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand - non-interest bearing	\$ 1,420,527	\$ 1,453,476
Savings and interest bearing demand	2,316,113	2,204,451
Time	3,284,956	3,331,991
Total deposits	7,021,596	6,989,918
Securities sold under repurchase agreements	1,241,260	706,335
Other borrowed funds	1,141,333	2,095,576
Junior subordinated deferrable interest debentures	211,199	210,908
Other liabilities	91,762	66,661
Total liabilities	9,707,150	10,069,398
Commitments, Contingent Liabilities and Other Tax Matters (Note 10)		
Shareholders equity:		
Common shares of \$1.00 par value. Authorized 275,000,000 shares; issued 95,437,489 shares on September 30, 2007 and 86,224,046 shares on December 31, 2006	95,437	86,224
Surplus	143,908	138,247
Retained earnings	916,383	861,251
Accumulated other comprehensive loss	(14,339)	(40,390)
	1,141,389	1,045,332
Less cost of shares in treasury, 26,785,619 shares on September 30, 2007 and 25,643,564 shares on December 31, 2006	(231,669)	(203,276)
Total shareholders equity	909,720	842,056
Total liabilities and shareholders equity	\$ 10,616,870	\$ 10,911,454

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income:				
Loans, including fees	\$ 112,214	\$ 104,837	\$ 334,193	\$ 292,441
Federal funds sold	700	748	2,217	2,942
Investment securities:				
Taxable	44,862	49,728	142,300	149,094
Tax-exempt	1,046	1,136	3,255	3,452
Other interest income	336	103	2,456	315
Total interest income	159,158	156,552	484,421	448,244
Interest expense:				
Savings deposits	14,233	9,743	41,024	28,786
Time deposits	36,297	32,759	107,570	88,379
Securities sold under repurchase agreements	11,718	7,319	30,253	22,867
Other borrowings	14,821	29,423	60,203	74,157
Junior subordinated interest deferrable debentures	4,281	7,356	13,226	17,741
Total interest expense	81,350	86,600	252,276	231,930
Net interest income	77,808	69,952	232,145	216,314
Provision (credit) for possible loan losses	(3,916)	1,954	(1,357)	2,633
Net interest income after provision (credit) for possible loan losses	81,724	67,998	233,502	213,681
Non-interest income:				
Service charges on deposit accounts	23,318	21,324	64,602	63,839
Other service charges, commissions and fees				
Banking	8,800	7,451	25,761	21,680
Non-banking	5,061	6,000	13,892	14,011
Investment securities transactions, net	(1,031)	(1,353)	(15,941)	(943)
Other investments, net	4,226	3,389	14,794	15,346
Other income	5,243	3,247	16,017	13,764
Total non-interest income	45,617	40,058	119,125	127,697

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Non-interest expense:				
Employee compensation and benefits	\$ 34,645	\$ 31,418	\$ 97,800	\$ 91,042
Occupancy	8,172	6,919	23,515	19,667
Depreciation of bank premises and equipment	8,178	7,201	23,547	21,006
Professional fees	3,014	2,819	8,483	8,289
Stationery and supplies	1,466	1,568	4,437	4,469
Amortization of identified intangible assets	1,332	1,217	3,861	3,650
Advertising	3,391	2,891	9,811	8,935
Other	18,154	14,995	52,397	58,547
Total non-interest expense	78,352	69,028	223,851	215,605
Income before income taxes	48,989	39,028	128,776	125,773
Provision for income taxes	16,327	12,435	42,880	40,547
Net income	\$ 32,662	\$ 26,593	\$ 85,896	\$ 85,226
Basic earnings per common share:				
Weighted average number of shares outstanding:	68,898,059	69,287,481	69,174,016	69,507,388
Net income	\$.47	\$.38	\$ 1.24	\$ 1.23
Fully diluted earnings per common share:				
Weighted average number of shares outstanding:	69,090,549	69,977,891	69,575,373	70,225,403
Net income	\$.47	\$.38	\$ 1.23	\$ 1.21

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 32,662	\$ 26,593	\$ 85,896	\$ 85,226
Other comprehensive income (loss), net of tax				
Net unrealized holding (losses) gains on securities available for sale arising during period	13,110	14,933	36,413	(8,348)
Reclassification adjustment for (losses) gains on securities available for sale included in net income	(670)	(879)	(10,362)	(613)
Comprehensive income	\$ 45,102	\$ 40,647	\$ 111,947	\$ 76,265

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2007	2006
Operating activities:		
Net income	\$ 85,896	\$ 85,226
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit) provision for possible loan losses	(1,357)	2,633
Amortization of loan premiums	239	965
Accretion of time deposit discounts	(9)	
Accretion of time deposits with banks	(49)	
Decrease in loans held for sale	19,251	3,554
Depreciation of bank premises and equipment	23,547	21,006
Gain on sale of bank premises and equipment	(3,409)	(487)
Depreciation and amortization of leased assets	1,625	1,625
Accretion of investment securities discounts	(439)	(334)
Amortization of investment securities premiums	3,173	3,075
Investment securities transactions, net	15,941	943
Amortization of junior subordinated debenture discounts	292	441
Amortization of identified intangible assets	3,861	3,650
Stock based compensation expense	581	689
Earnings from affiliates and other investments	(7,852)	(8,772)
Deferred tax (benefit) expense	(2,261)	616
Decrease (increase) in accrued interest receivable	2,770	(6,352)
Net decrease in other assets	(5,015)	(47,635)
Net increase in other liabilities	14,087	87,610
Net cash provided by operating activities	150,872	148,453
Investing activities:		
Proceeds from maturities of securities	21,903	5,270
Proceeds from sales of available for sale securities	841,081	61,360
Purchases of available for sale securities	(1,103,277)	(851,186)
Principal collected on mortgage-backed securities	738,989	653,314
Maturities of time deposits with banks	35,643	568
Net increase in loans	(187,484)	(305,150)
Purchases of other investments	(54,922)	(8,002)
Distributions of other investments	97,262	10,014
Purchases of bank premises and equipment	(56,513)	(65,165)
Proceeds from sale of bank premises and equipment	7,917	9,497
Adjustment to goodwill related to prior acquisition (Note 10)	5,885	
Cash paid in purchase transaction	(23,470)	
Cash acquired in purchase transaction	30,772	

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Net cash provided by (used in) investing activities	353,786	(489,480)
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INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2007	2006
Financing activities:		
Net (decrease) increase in non-interest bearing demand deposits	\$ (62,287)	\$ 33,262
Net increase (decrease) in savings and interest bearing demand deposits	55,041	(93,929)
Net (decrease) increase in time deposits	(79,068)	119,403
Net increase (decrease) in securities sold under repurchase agreements	534,925	(139,848)
Net (decrease) increase in other borrowed funds	(954,490)	296,797
Proceeds of issuance of long-term debt	53,609	41,238
Principal payments of long term-debt	(53,610)	(67,269)
Purchase of treasury stock	(28,393)	(24,335)
Proceeds from stock transactions	5,640	1,488
Payment of cash dividends	(22,086)	(22,113)
Payment of cash dividends in lieu of fractional shares	(27)	
Net cash (used in) provided by financing activities	(550,746)	144,694
Decrease in cash and cash equivalents	(46,088)	(196,333)
Cash and cash equivalents at beginning of period	297,207	458,118
Cash and cash equivalents at end of period	\$ 251,119	\$ 261,785
Supplemental cash flow information:		
Interest paid	\$ 250,212	\$ 226,301
Income taxes paid	51,508	38,231
Adjustment to goodwill arising from prior acquisition (Note 10)	2,076	7,016

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The accounting and reporting policies of International Bancshares Corporation (Corporation) and Subsidiaries (the Corporation and Subsidiaries collectively referred to herein as the Company) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, International Bank of Commerce, Laredo (IBC), Commerce Bank, International Bank of Commerce, Zapata, International Bank of Commerce, Brownsville and the Corporation s wholly-owned non-bank subsidiaries, IBC Subsidiary Corporation, IBC Life Insurance Company, IBC Trading Company, and IBC Capital Corporation, as well as the GulfStar Group in which the Company owns a controlling interest. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto in the Company s latest Annual Report on Form 10-K. The consolidated statement of condition at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications have been made to make prior periods comparable.

The Company operates as one segment. The operating information used by the Company s chief executive officer for purposes of assessing performance and making operating decisions about the Company is the consolidated statements presented in this report. The Company has four active operating subsidiaries, namely, the bank subsidiaries, otherwise known as International Bank of Commerce, Laredo, Commerce Bank, International Bank of Commerce, Zapata and International Bank of Commerce, Brownsville. The Company applies the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, in determining its reportable segments and related disclosures. None of the Company s other subsidiaries meets the 10% threshold for disclosure under SFAS No. 131.

All per share data presented has been restated to reflect the stock splits effected through stock dividends, Note 9.

On January 1, 2007, the Company changed its accounting policy related to accounting for contingencies in connection with the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109. See Note 10 Commitments, Contingent Liabilities and Other Tax Matters.

Note 2 Acquisition

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On March 16, 2007, the Company completed its acquisition of Southwest First Community, Inc. (Southwest Community), a bank holding company with approximately \$133 million in assets that owned State Bank & Trust in Beeville, Texas and Commercial State Bank in Sinton, Texas. The transaction was pursuant to the Agreement and Plan of Merger dated December 1, 2006 (the Merger Agreement). The Company paid consideration totaling \$23.5 million in cash.

Note 3 Loans

A summary of net loans, by loan type at September 30, 2007 and December 31, 2006 is as follows:

	September 30, 2007	December 31, 2006
(Dollars in thousands)		
Commercial, financial and agricultural	\$ 2,341,448	\$ 2,337,573
Real estate mortgage	742,205	785,401
Real estate construction	1,691,382	1,404,186
Consumer	182,622	198,580
Foreign	277,648	309,144
Total loans	5,235,305	5,034,884
Unearned discount	(2)	