

INTERNATIONAL BANCSHARES CORP
Form 10-Q
August 05, 2016

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, 2016

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

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(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)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

Class	Shares Issued and Outstanding
Common Stock, \$1.00 par value	65,948,190 shares outstanding at August 2, 2016

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 245,351	\$ 273,053
Investment securities:		
Held to maturity (Market value of \$2,400 on June 30, 2016 and \$2,400 on December 31, 2015)	2,400	2,400
Available for sale (Amortized cost of \$4,169,804 on June 30, 2016 and \$4,196,034 on December 31, 2015)	4,233,319	4,199,372
Total investment securities	4,235,719	4,201,772
Loans	5,951,597	5,950,914
Less allowance for probable loan losses	(62,033)	(66,988)
Net loans	5,889,564	5,883,926
Bank premises and equipment, net	511,485	516,716
Accrued interest receivable	31,347	31,572
Other investments	470,243	468,791
Identified intangible assets, net	89	153
Goodwill	282,532	282,532
Other assets	110,310	114,354
Total assets	\$ 11,776,640	\$ 11,772,869

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	June 30, 2016	December 31, 2015
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand—non-interest bearing	\$ 3,099,467	\$ 3,149,618
Savings and interest bearing demand	3,049,405	3,020,222
Time	2,275,990	2,366,413
Total deposits	8,424,862	8,536,253
Securities sold under repurchase agreements	794,939	827,772
Other borrowed funds	552,125	505,750
Junior subordinated deferrable interest debentures	161,416	161,416
Other liabilities	102,674	76,175
Total liabilities	10,036,016	10,107,366
Shareholders' equity:		
Common shares of \$1.00 par value. Authorized 275,000,000 shares; issued 95,881,118 shares on June 30, 2016 and 95,866,218 shares on December 31, 2015	95,881	95,866
Surplus	168,687	167,980
Retained earnings	1,727,148	1,683,600
Accumulated other comprehensive income (including \$(3,689) on June 30, 2016 and \$(4,026) on December 31, 2015 of comprehensive loss related to other-than-temporary impairment for non-credit related issues)	40,977	2,167
	2,032,693	1,949,613
Less cost of shares in treasury, 29,934,516 shares on June 30, 2016 and 29,585,646 on December 31, 2015	(292,069)	(284,110)
Total shareholders' equity	1,740,624	1,665,503
Total liabilities and shareholders' equity	\$ 11,776,640	\$ 11,772,869

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,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	\$ 74,606	\$ 72,927	\$ 148,857	\$ 145,370
Investment securities:				
Taxable	20,596	23,257	40,716	47,140
Tax-exempt	2,627	2,749	5,274	5,522
Other interest income	67	42	106	78
Total interest income	97,896	98,975	194,953	198,110
Interest expense:				
Savings deposits	1,199	901	2,160	1,778
Time deposits	2,394	2,833	4,968	5,707
Securities sold under repurchase agreements	5,552	6,062	11,111	12,056
Other borrowings	757	369	1,384	844
Junior subordinated deferrable interest debentures	1,122	1,045	2,218	2,069
Total interest expense	11,024	11,210	21,841	22,454
Net interest income	86,872	87,765	173,112	175,656
Provision for probable loan losses	7,097	7,767	16,231	10,144
Net interest income after provision for probable loan losses	79,775	79,998	156,881	165,512
Non-interest income:				
Service charges on deposit accounts	17,854	19,850	35,964	39,042
Other service charges, commissions and fees				
Banking	10,957	13,075	21,334	23,528
Non-banking	1,694	1,856	2,991	2,966
Investment securities transactions, net	(227)	(427)	(360)	(428)
Other investments, net	2,766	3,462	10,617	7,717
Other income	3,567	2,328	6,996	4,153
Total non-interest income	\$ 36,611	\$ 40,144	\$ 77,542	\$ 76,978

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Non-interest expense:				
Employee compensation and benefits	\$ 31,155	\$ 29,650	\$ 61,938	\$ 61,402
Occupancy	5,906	6,681	12,072	12,860
Depreciation of bank premises and equipment	6,208	6,332	12,388	12,558
Professional fees	3,446	4,020	6,739	7,267
Deposit insurance assessments	1,508	1,440	3,001	2,930
Net expense, other real estate owned	1,377	928	2,255	2,396
Amortization of identified intangible assets	32	161	64	280
Advertising	2,319	2,023	4,424	4,030
Software and software maintenance	3,723	2,563	7,034	5,129
Impairment charges (Total other-than-temporary impairment charges, \$(300) net of \$(367), \$(54), net of \$(278), \$(332) net of \$(523) and \$(176), net of \$(627), included in other comprehensive income)	67	224	191	451
Other	16,243	14,249	29,796	26,591
Total non-interest expense	71,984	68,271	139,902	135,894
Income before income taxes	44,402	51,871	94,521	106,596
Provision for income taxes	14,714	17,996	31,849	36,859
Net income	\$ 29,688	\$ 33,875	\$ 62,672	\$ 69,737
Basic earnings per common share:				
Weighted average number of shares outstanding	65,944,220	66,424,723	65,979,167	66,420,511
Net income	\$ 0.45	\$ 0.51	\$ 0.95	\$ 1.05
Fully diluted earnings per common share:				
Weighted average number of shares outstanding	66,159,105	66,684,136	66,138,593	66,619,788

Net income	\$ 0.45	\$ 0.51	\$ 0.95	\$ 1.05
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See accompanying notes to consolidated financial statements

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INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 29,688	\$ 33,875	\$ 62,672	\$ 69,737
Other comprehensive income, net of tax:				
Net unrealized holding gains (losses) on securities available for sale arising during period (net of tax effects of \$5,451, \$(13,610), \$20,705, and \$(1,854))	10,124	(25,275)	38,452	(3,443)
Reclassification adjustment for losses on securities available for sale included in net income (net of tax effects of \$79, \$149, \$126, and \$150)	148	278	234	278
Reclassification adjustment for impairment charges on available for sale securities included in net income (net of tax effects of \$23, \$78, \$67, and \$158)	44	146	124	293
	10,316	(24,851)	38,810	(2,872)
Comprehensive income	\$ 40,004	\$ 9,024	\$ 101,482	\$ 66,865

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,	2015
	2016	2015
Operating activities:		
Net income	\$ 62,672	\$ 69,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable loan losses	16,231	10,144
Specific reserve, other real estate owned	570	118
Depreciation of bank premises and equipment	12,388	12,558
Gain on sale of bank premises and equipment	(40)	(143)
Gain on sale of other real estate owned	(55)	(205)
Accretion of investment securities discounts	(259)	(886)
Amortization of investment securities premiums	12,311	14,074
Investment securities transactions, net	360	428
Impairment charges on available for sale securities	191	451
Amortization of identified intangible assets	64	280
Stock based compensation expense	554	583
Earnings from affiliates and other investments	(5,555)	(6,527)
Deferred tax expense	386	118
Decrease in accrued interest receivable	225	119
Increase in other assets	(1,894)	(972)
Net increase in other liabilities	5,006	511
Net cash provided by operating activities	103,155	100,388
Investing activities:		
Proceeds from maturities of securities	—	1,075
Proceeds from sales and calls of available for sale securities	195,538	30,282
Purchases of available for sale securities	(582,117)	(241,570)
Principal collected on mortgage backed securities	407,011	432,542
Net increase in loans	(23,852)	(115,735)
Purchases of other investments	(1,509)	(12,491)
Distributions from other investments	3,942	10,332
Purchases of bank premises and equipment	(7,160)	(11,983)
Proceeds from sales of bank premises and equipment	43	10,922

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Proceeds from sales of other real estate owned	2,010	891
Net cash (used in) provided by investing activities	\$ (6,094)	\$ 104,265

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INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

Six Months
Ended
June 30,
2016 2015

Financing activities: