

INTERNATIONAL BANCSHARES CORP
Form 10-Q
August 11, 2014

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, 2014

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 x No o

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 x No o

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 x

Accelerated filer o

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

Smaller reporting company o

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

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

Class
Common Stock, \$1.00 par value

Shares Issued and Outstanding
66,892,248 shares outstanding at August 5, 2014

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 451,695	\$ 274,785
Investment securities:		
Held-to-maturity (Market value of \$2,400 on June 30, 2014 and \$2,400 on December 31, 2013)	2,400	2,400
Available-for-sale (Amortized cost of \$5,209,023 on June 30, 2014 and \$5,372,594 on December 31, 2013)	5,225,043	5,304,579
Total investment securities	5,227,443	5,306,979
Loans	5,437,515	5,199,235
Less allowance for probable loan losses	(71,537)	(70,161)
Net loans	5,365,978	5,129,074
Bank premises and equipment, net	518,710	504,842
Accrued interest receivable	31,086	30,654
Other investments	409,910	388,563
Identified intangible assets, net	1,057	3,186
Goodwill	282,532	282,532
Other assets	148,056	158,862
Total assets	\$ 12,436,467	\$ 12,079,477

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	June 30, 2014	December 31, 2013
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand non-interest bearing	\$ 2,881,581	\$ 2,666,510
Savings and interest bearing demand	2,958,745	2,925,612
Time	2,582,313	2,651,303
Total deposits	8,422,639	8,243,425
Securities sold under repurchase agreements	870,065	957,381
Other borrowed funds	1,358,817	1,223,950
Junior subordinated deferrable interest debentures	180,416	190,726
Other liabilities	68,415	39,587
Total liabilities	10,900,352	10,655,069
Shareholders equity:		
Common shares of \$1.00 par value. Authorized 275,000,000 shares; issued 95,766,067 shares on June 30, 2014 and 95,743,592 shares on December 31, 2013	95,766	95,744
Surplus	164,681	163,947
Retained earnings	1,531,624	1,467,000
Accumulated other comprehensive income (loss) (including \$(5,397) and \$(5,646) of comprehensive loss related to other-than-temporary impairment for non-credit related issues)	10,415	(43,774)
	1,802,486	1,682,917
Less cost of shares in treasury, 28,878,612 shares on June 30, 2014 and 28,537,180 December 31, 2013	(266,371)	(258,509)
Total shareholders equity	1,536,115	1,424,408
Total liabilities and shareholders equity	\$ 12,436,467	\$ 12,079,477

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		Six Months Ended	
	2014	June 30, 2013	2014	June 30, 2013
Interest income:				
Loans, including fees	\$ 70,036	\$ 64,617	\$ 137,908	\$ 128,151
Investment securities:				
Taxable	26,545	18,601	52,724	39,120
Tax-exempt	2,728	3,085	6,251	6,121
Other interest income	31	21	94	42
Total interest income	99,340	86,324	196,977	173,434
Interest expense:				
Savings deposits	915	956	1,786	1,967
Time deposits	3,019	3,978	6,139	8,423
Securities sold under repurchase agreements	6,088	7,312	12,324	14,880
Other borrowings	564	289	1,120	579
Junior subordinated interest deferrable debentures	1,048	1,165	2,138	2,329
Total interest expense	11,634	13,700	23,507	28,178
Net interest income	87,706	72,624	173,470	145,256
Provision for probable loan losses	3,645	4,342	5,723	11,761
Net interest income after provision for probable loan losses	84,061	68,282	167,747	133,495
Non-interest income:				
Service charges on deposit accounts	22,450	23,507	44,512	47,337
Other service charges, commissions and fees				
Banking	12,090	10,052	22,911	20,035
Non-banking	1,161	1,515	3,060	2,576
Investment securities transactions, net	(379)	7,729	7,729	9,601
Other investments, net	2,309	8,635	11,367	15,632
Other income	3,822	2,996	10,062	4,776
Total non-interest income	\$ 41,453	\$ 46,705	\$ 99,641	\$ 99,957

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,	
	2014	2013	2014	2013
Non-interest expense:				
Employee compensation and benefits	\$ 29,989	\$ 30,764	\$ 60,234	\$ 60,975
Occupancy	7,856	7,180	14,864	14,992
Depreciation of bank premises and equipment	6,054	6,619	12,146	13,244
Professional fees	3,315	3,952	6,927	7,675
Deposit insurance assessments	1,558	1,762	2,997	3,378
Net expense, other real estate owned	830	1,575	1,759	3,364
Amortization of identified intangible assets	1,148	1,158	2,129	2,295
Advertising	1,955	2,023	3,785	3,869
Early termination fee securities sold under repurchase agreements		2,418	11,000	12,303
Impairment charges (Total other-than-temporary impairment losses, \$(74), net of \$(263), \$(953), net of \$(1,370), \$(107), net of \$(386), and \$15, net of \$(712), included in other comprehensive income)	189	417	279	727
Other	15,736	15,846	30,208	31,753
Total non-interest expense	68,630	73,714	146,328	154,575
Income before income taxes	56,884	41,273	121,060	78,877
Provision for income taxes	19,165	13,760	39,695	23,295
Net income	\$ 37,719	\$ 27,513	\$ 81,365	\$ 55,582
Basic earnings per common share:				
Weighted average number of shares outstanding:	66,925,664	67,190,792	67,027,750	67,189,196
Net income	\$.56	\$.41	\$ 1.21	\$.83
Fully diluted earnings per common share:				
Weighted average number of shares outstanding:	67,071,370	67,292,053	67,171,257	67,286,026
Net income	\$.56	\$.41	\$ 1.21	\$.83

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended		Six Months Ended	
	2014	June 30, 2013	2014	June 30, 2013
Net income	\$ 37,719	\$ 27,513	\$ 81,365	\$ 55,582
Other comprehensive income (loss), net of tax				
Net unrealized holding gains (losses) on securities available for sale arising during period (tax effects of \$18,168, \$(35,282), \$31,786 and \$(40,425))	33,742	(65,523)	59,032	(75,075)
Reclassification adjustment for losses (gains) on securities available for sale included in net income (tax effects of \$133, \$0, \$(2,705) and \$(3,360))	246		(5,024)	(6,241)
Reclassification adjustment for impairment charges on available for sale securities included in net income (tax effects of \$66, \$146, \$98 and \$254)	123	271	181	473
	34,111	(65,252)	54,189	(80,843)
Comprehensive income (loss)	\$ 71,830	\$ (37,739)	\$ 135,554	\$ (25,261)

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,	
	2014	2013
Operating activities:		
Net income	\$ 81,365	\$ 55,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable loan losses	5,723	11,761
Specific reserve, other real estate owned	238	478
Depreciation of bank premises and equipment	12,146	13,244
Gain on sale of bank premises and equipment	(3,957)	(516)
Gain on sale of other real estate owned	(298)	(188)
Accretion of investment securities discounts	(1,714)	(1,812)
Amortization of investment securities premiums	13,549	24,256
Investment securities transactions, net	(7,729)	(9,601)
Impairment charges on available-for-sale investment securities	279	727
Amortization of identified intangible assets	2,129	2,295
Stock based compensation expense	465	221
Earnings from affiliates and other investments	(5,086)	(13,209)
Deferred tax benefit	(2,083)	(3,274)
(Increase) decrease in accrued interest receivable	(432)	323
Net (increase) decrease in other assets	(8,136)	17,281
Net decrease in other liabilities	(4,198)	(4,754)
Net cash provided by operating activities	82,261	92,814
Investing activities:		
Proceeds from sales and calls of available for sale securities	368,296	178,124
Purchases of available for sale securities	(574,029)	(731,384)
Principal collected on mortgage-backed securities	367,999	749,233
Net increase in loans	(244,308)	(141,191)
Purchases of other investments	(5,602)	(637)
Distributions received on other investments	5,288	20,109
Purchases of bank premises and equipment	(28,846)	(16,321)
Proceeds from sales of other real estate owned	6,919	12,582
Proceeds from sale of bank premises and equipment	6,789	535
Net cash (used in) provided by investing activities	(97,494)	71,050