

**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, 2024
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

(State or other jurisdiction of
incorporation or organization)

74-2157138

(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	62,202,810 shares outstanding at November 4, 2024

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

	(Dollars in Thousands)	
	September 30, 2024	December 31, 2023
Assets		
Cash and cash equivalents	\$ 779,836	\$ 651,058
Investment securities:		
Held to maturity debt securities (Market value of \$ 4,400 on September 30, 2024 and \$3,400 on December 31, 2023)	4,400	3,400
Available for sale debt securities (Amortized cost of \$ 5,410,095 on September 30, 2024 and \$5,330,814 on December 31, 2023)	5,012,584	4,822,341
Equity securities with readily determinable fair values	5,538	5,417
Total investment securities	5,022,522	4,831,158
Loans		
Less allowance for credit losses	(156,099)	(157,069)
Net loans	8,430,926	7,901,892
Bank premises and equipment, net	435,719	437,094
Accrued interest receivable	72,875	65,302
Other investments	325,421	343,452
Cash surrender value of life insurance policies	300,957	303,486
Goodwill	282,532	282,532
Other assets	241,524	250,215
Total assets	\$ 15,892,312	\$ 15,066,189

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	September 30, 2024	December 31, 2023
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand—non-interest bearing	\$ 4,721,927	\$ 5,030,845
Savings and interest bearing demand	4,577,367	4,368,532
Time	<u>2,801,761</u>	<u>2,425,177</u>
Total deposits	<u>12,101,055</u>	<u>11,824,554</u>
Securities sold under repurchase agreements	706,258	530,416
Other borrowed funds	10,593	10,745
Junior subordinated deferrable interest debentures	108,868	108,868
Other liabilities	<u>216,122</u>	<u>143,832</u>
Total liabilities	<u>13,142,896</u>	<u>12,618,415</u>
Shareholders' equity:		
Common shares of \$1.00 par value. Authorized 275,000,000 shares; issued 96,602,799 shares on September 30, 2024 and 96,466,900 shares on December 31, 2023		
31, 2023	96,603	96,467
Surplus	158,840	155,511
Retained earnings	<u>3,241,093</u>	<u>3,029,088</u>
Accumulated other comprehensive loss	<u>(310,975)</u>	<u>(397,889)</u>
	<u>3,185,561</u>	<u>2,883,177</u>
Less cost of shares in treasury, 34,404,212 shares on September 30, 2024 and 34,391,184 on December 31, 2023	<u>(436,145)</u>	<u>(435,403)</u>
Total shareholders' equity	<u>2,749,416</u>	<u>2,447,774</u>
Total liabilities and shareholders' equity	<u>\$ 15,892,312</u>	<u>\$ 15,066,189</u>

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		Nine Months Ended	
	September 30, 2024	2023	September 30, 2024	2023
Interest income:				
Loans, including fees	\$ 175,532	\$ 158,534	\$ 512,225	\$ 453,700
Investment securities:				
Taxable	40,105	34,598	113,505	96,582
Tax-exempt	1,534	1,561	4,619	4,708
Other interest income	5,486	9,482	20,069	35,458
Total interest income	<u>222,657</u>	<u>204,175</u>	<u>650,418</u>	<u>590,448</u>
Interest expense:				
Savings deposits	20,869	15,042	61,416	41,514
Time deposits	25,607	15,610	70,333	34,067
Securities sold under repurchase agreements	6,173	4,143	16,732	9,580
Other borrowings	74	71	213	213
Junior subordinated deferrable interest debentures	<u>1,992</u>	<u>1,981</u>	<u>5,943</u>	<u>6,106</u>
Total interest expense	<u>54,715</u>	<u>36,847</u>	<u>154,637</u>	<u>91,480</u>
Net interest income	167,942	167,328	495,781	498,968
Credit loss expense	<u>8,602</u>	<u>10,476</u>	<u>30,351</u>	<u>27,879</u>
Net interest income after provision for credit losses	<u>159,340</u>	<u>156,852</u>	<u>465,430</u>	<u>471,089</u>
Non-interest income:				
Service charges on deposit accounts	18,660	19,311	55,018	54,939
Other service charges, commissions and fees				
Banking	14,762	14,314	43,880	42,761
Non-banking	2,308	2,302	7,475	6,837
Investment securities transactions, net	(1)	(3)	(1)	(3)
Other investments income, net	4,180	3,598	8,852	3,653
Other income	<u>3,933</u>	<u>5,863</u>	<u>14,380</u>	<u>15,262</u>
Total non-interest income	<u>\$ 43,842</u>	<u>\$ 45,385</u>	<u>\$ 129,604</u>	<u>\$ 123,449</u>

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2024	2023	September 30, 2024	2023
Non-interest expense:				
Employee compensation and benefits	\$ 37,543	\$ 34,773	\$ 109,039	\$ 100,926
Occupancy	7,746	6,268	20,109	18,598
Depreciation of bank premises and equipment	5,594	5,488	16,938	16,362
Professional fees	4,131	4,123	12,034	11,051
Deposit insurance assessments	1,731	1,744	5,126	7,575
Net operations, other real estate owned	1,136	(1,638)	1,463	(3,278)
Advertising	1,397	1,360	4,679	3,913
Software and software maintenance	4,820	5,081	15,783	14,978
Other	12,117	14,001	34,795	36,638
Total non-interest expense	76,215	71,200	219,966	206,763
Income before income taxes	126,967	131,037	375,068	387,775
Provision for income taxes	27,195	27,773	80,985	82,383
Net income	\$ 99,772	\$ 103,264	\$ 294,083	\$ 305,392
Basic earnings per common share:				
Weighted average number of shares outstanding	62,190,993	62,053,563	62,172,928	62,089,779
Net income per common share	\$ 1.60	\$ 1.66	\$ 4.73	\$ 4.92
Fully diluted earnings per common share:				
Weighted average number of shares outstanding	62,309,574	62,195,486	62,289,708	62,227,379
Net income per common share	\$ 1.60	\$ 1.66	\$ 4.72	\$ 4.91

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net income	\$ 99,772	\$ 103,264	\$ 294,083	\$ 305,392
Other comprehensive income (loss), net of tax:				
Net change in unrealized holding gains (losses) on securities available for sale arising during period (net of tax effects of \$30,007, \$(16,721), \$23,104, and \$(19,862))	112,884	(62,902)	86,913	(74,717)
Reclassification adjustment for losses on securities available for sale included in net income (net of tax effects of \$0, \$1, \$0 and \$1)	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>
Total other comprehensive income (loss), net of tax	<u>112,885</u>	<u>(62,900)</u>	<u>86,914</u>	<u>(74,715)</u>
Comprehensive income	<u><u>\$ 212,657</u></u>	<u><u>\$ 40,364</u></u>	<u><u>\$ 380,997</u></u>	<u><u>\$ 230,677</u></u>

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Three and Nine Months ended September 30, 2024 and 2023

(in Thousands, except per share amounts)

	Number of Shares	Common Stock	Surplus	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at June 30, 2024	96,580	\$ 96,580	\$ 158,171	\$ 3,182,368	\$ (423,860)	\$ (435,898)	\$ 2,577,361
Net income	—	—	—	99,772	—	—	99,772
Dividends:							
Payable (\$.66 per share)	—	—	—	(41,047)	—	—	(41,047)
Purchase of treasury stock (3,744 shares)	—	—	—	—	—	(247)	(247)
Exercise of stock options	23	23	622	—	—	—	645
Stock compensation expense recognized in earnings	—	—	47	—	—	—	47
Other comprehensive income, net of tax:							
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments	—	—	—	—	112,885	—	112,885
Balance at September 30, 2024	<u>96,603</u>	<u>\$ 96,603</u>	<u>\$ 158,840</u>	<u>\$ 3,241,093</u>	<u>\$ (310,975)</u>	<u>\$ (436,145)</u>	<u>\$ 2,749,416</u>

	Number of Shares	Common Stock	Surplus	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at June 30, 2023	96,432	\$ 96,432	\$ 154,522	\$ 2,858,544	\$ (482,312)	\$ (435,195)	\$ 2,191,991
Net income	—	—	—	103,264	—	—	103,264
Dividends:							
Payable (\$.63 per share)	—	—	—	(39,096)	—	—	(39,096)
Purchase of treasury stock (2,000 shares)	—	—	—	—	—	(84)	(84)
Exercise of stock options	12	12	348	—	—	—	360
Stock compensation expense recognized in earnings	—	—	76	—	—	—	76
Other comprehensive loss, net of tax:							
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments	—	—	—	—	(62,900)	—	(62,900)
Balance at September 30, 2023	<u>96,444</u>	<u>\$ 96,444</u>	<u>\$ 154,946</u>	<u>\$ 2,922,712</u>	<u>\$ (545,212)</u>	<u>\$ (435,279)</u>	<u>\$ 2,193,611</u>

	Number of Shares	Common Stock	Surplus	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2023	96,467	\$ 96,467	\$ 155,511	\$ 3,029,088	\$ (397,889)	\$ (435,403)	\$ 2,447,774
Net income	—	—	—	294,083	—	—	294,083
Dividends:							
Cash (\$1.32 per share)	—	—	—	(82,078)	—	—	(82,078)
Purchase of treasury stock (13,028 shares)	—	—	—	—	—	(742)	(742)
Exercise of stock options	136	136	3,160	—	—	—	3,296
Stock compensation expense recognized in earnings	—	—	169	—	—	—	169
Other comprehensive income, net of tax:							
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments	—	—	—	—	86,914	—	86,914
Balance at September 30, 2024	96,603	\$ 96,603	\$ 158,840	\$ 3,241,093	\$ (310,975)	\$ (436,145)	\$ 2,749,416
	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	—	—	—	305,392	—	—	305,392
Dividends:							
Cash (\$1.26 per share)	—	—	—	(78,247)	—	—	(78,247)
Purchase of treasury stock (110,062 shares)	—	—	—	—	—	(4,487)	(4,487)
Exercise of stock options	24	24	630	—	—	—	654
Stock compensation expense recognized in earnings	—	—	255	—	—	—	255
Other comprehensive loss, net of tax:							
Net change in unrealized gains and losses on available for sale securities, net of reclassification adjustments	—	—	—	—	(74,715)	—	(74,715)
Balance at September 30, 2023	96,444	\$ 96,444	\$ 154,946	\$ 2,922,712	\$ (545,212)	\$ (435,279)	\$ 2,193,611

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,	
	2024	2023
Operating activities:		
Net income	\$ 294,083	\$ 305,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense	30,351	27,879
Specific reserve, other real estate owned	371	2,510
Depreciation of bank premises and equipment	16,938	16,362
Gain on sale of bank premises and equipment	(353)	(198)
Loss (gain) on sale of other real estate owned	166	(6,833)
Accretion of investment securities discounts	(1,977)	(1,431)
Amortization of investment securities premiums	4,185	5,244
Investment securities transactions, net	1	3
Unrealized (gain) loss on equity securities with readily determinable fair values	(121)	200
Stock based compensation expense	169	255
Earnings from affiliates and other investments	(5,562)	(367)
Deferred tax expense	10,259	4,747
Increase in accrued interest receivable	(7,573)	(11,872)
Increase in other assets	(5,546)	(38,158)
Increase in other liabilities	23,675	37,927
Net cash provided by operating activities	<u>359,066</u>	<u>341,660</u>
Investing activities:		
Proceeds from maturities of securities	2,075	51,167
	3,750	2,045
Proceeds from sales and calls of available for sale securities		
Purchases of available for sale securities	(610,182)	(980,571)
Principal collected on mortgage backed securities	581,867	474,282
Net increase in loans	(562,585)	(471,695)
Purchases of other investments	(33,077)	(25,431)
Distributions from other investments	29,158	8,773
Purchases of bank premises and equipment	(15,793)	(19,079)
Proceeds from sales of bank premises and equipment	583	269
Proceeds from sales of other real estate owned	1,249	7,777
Net cash used in investing activities	<u>\$ (602,955)</u>	<u>\$ (952,463)</u>

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2024	2023
Financing activities:		
Net decrease in non-interest bearing demand deposits	\$ (308,918)	\$ (629,637)
Net increase (decrease) in savings and interest bearing demand deposits	208,835	(388,433)
Net increase in time deposits	376,584	274,672
Net increase in securities sold under repurchase agreements	175,842	73,090
Net decrease in other borrowed funds	(152)	(148)
Redemption of long-term debt	—	(25,774)
Purchase of treasury stock	(742)	(4,487)
Proceeds from stock transactions	3,296	654
Payments of cash dividends	(82,078)	(78,247)
Net cash provided by (used in) financing activities	372,667	(778,310)
Increase (decrease) in cash and cash equivalents	128,778	(1,389,113)
Cash and cash equivalents at beginning of period	651,058	2,087,724
Cash and cash equivalents at end of period	\$ 779,836	\$ 698,611
Supplemental cash flow information:		
Interest paid	\$ 149,295	\$ 77,834
Income taxes paid	49,239	69,799
Non-cash investing and financing activities:		
Purchases of available-for-sale securities not yet settled	\$ 60,000	\$ —
Net transfers from loans to other real estate owned	3,200	554

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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 "Special Cautionary Notice Regarding Forward-Looking Information" 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 ("US GAAP") and to general practices within the banking industry. Our consolidated financial statements include the accounts of International Bancshares Corporation, and our five 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 five wholly-owned non-bank subsidiaries, IBC Trading Company, Premier Tierra Holdings, Inc., IBC Charitable and Community Development Corporation, IBC Capital Corporation, and Diamond Beach Holdings, LLC. Our consolidated financial statements are unaudited but include all adjustments that, 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, 2023, furnished to the U.S. Securities and Exchange Commission ("SEC") on April 22, 2024 (our "2023 Annual Report"). Our consolidated statement of condition at December 31, 2023 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by 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.

Note 2 — Fair Value Measurements

FASB ASC Topic 820, "Fair Value Measurements" ("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 September 30, 2024 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value September 30, 2024	Fair Value Measurements at Reporting Date Using (in Thousands)			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		<i>Measured on a recurring basis:</i>			
Assets:					
Available for sale debt securities					
Residential mortgage-backed securities	\$ 4,855,607	\$ —	\$ 4,855,607	\$ —	
States and political subdivisions	156,976	—	156,976	—	
Equity Securities	5,538	5,538	—	—	
	<u>\$ 5,018,121</u>	<u>\$ 5,538</u>	<u>\$ 5,012,583</u>	<u>\$ —</u>	

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, 2023 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value December 31, 2023	Fair Value Measurements at Reporting Date Using (in Thousands)			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		<i>Measured on a recurring basis:</i>			
Assets:					
Available for sale securities					
Residential mortgage-backed securities	\$ 4,660,099	\$ —	\$ 4,660,099	\$ —	
States and political subdivisions	162,242	—	162,242	—	
Equity Securities	5,417	5,417	—	—	
	<u>\$ 4,827,758</u>	<u>\$ 5,417</u>	<u>\$ 4,822,341</u>	<u>\$ —</u>	

Available-for-sale 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). Our policy is to recognize transfers between levels

at the end of each reporting period, if applicable. There were no transfers between levels of the fair value hierarchy during the nine months ended September 30, 2024.

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period ended September 30, 2024 by level within the fair value measurement hierarchy:

Assets/Liabilities Measured at Fair Value Period ended September 30, 2024	Fair Value Measurements at Reporting Date Using (in thousands)					Net Provision During Period
	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		
<i>Measured on a non-recurring basis:</i>						
Assets:						
Watch List—Doubtful loans	\$ 55,479	\$ —	\$ —	\$ 55,479	\$ 10,985	
Other real estate owned	2,627	—	—	2,627	371	

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

Assets/Liabilities Measured at Fair Value Year ended December 31, 2023	Fair Value Measurements at Reporting Date Using (in thousands)					Net Provision During Period
	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		
<i>Measured on a non-recurring basis:</i>						
Assets:						
Watch List—Doubtful loans	\$ 46,124	\$ —	\$ —	\$ 46,124	\$ 10,221	
Other real estate owned	307	—	—	307	2,538	

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 tabular disclosures above include only those loans or other real estate owned that had a change in the provision for credit loss during the reporting period or for which a new specific provision for credit loss was established during the reporting period. The fair value of Watch List—Doubtful loans is derived in accordance with FASB ASC Subtopic 326-10, "Financial Instruments – Credit Losses - Overall". 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 are applicable regulatory guidelines, including regulatory appraisal laws and the Uniform Standards of Professional Appraisal Practice, which are incorporated into our lending policy. All collateral dependent loans are evaluated in accordance with our lending policy to assess if a third-party appraisal is required to be obtained as part of our credit underwriting and monitoring process. Collateral dependent loans that do not meet the requirements for a third-party appraisal are required to undergo an internal evaluation by our in-house independent appraisal staff.

Our determination to either seek an appraisal or to perform an internal evaluation is performed by our credit quality committee, which analyzes the existing collateral values of the doubtful loans and identifies obsolete appraisals or internal evaluations. The credit quality 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. The

ultimate decision on the appropriate action is made by our independent credit administration team. A new appraisal is not required if an internal evaluation, as performed by our in-house independent appraisal staff, 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.

As of September 30, 2024, we had \$ 99,835,000 of doubtful commercial collateral-dependent loans, of which \$38,167,000 had an appraisal performed within the immediately preceding rolling twelve-month period, and of which \$520,000 had an internal evaluation performed within the immediately preceding rolling twelve-month period. As of December 31, 2023, we had approximately \$46,491,000 of doubtful commercial collateral-dependent loans, of which \$1,272,000 had an appraisal performed within the immediately preceding rolling twelve-month period and of which \$35,061,000 had an internal evaluation performed within the immediately preceding rolling twelve-month period.

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 nine months ended September 30, 2024 and the twelve months ended December 31, 2023, we recorded \$0, \$2,228,000, and \$0, respectively, in charges to the ACL in connection with loans transferred to other real estate owned. For the three and nine months ended September 30, 2024 and the twelve months ended December 31, 2023, we recorded \$355,000, \$371,000, and \$2,538,000, 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 September 30, 2024 and December 31, 2023 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 established by 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 or 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 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 September 30, 2024 and December 31, 2023, the carrying amount of fixed rate performing loans was \$1,211,321,000 and \$1,199,347,000, respectively, and the estimated fair value was \$1,112,046,000 and \$1,073,892,000, 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 September 30, 2024 and December 31, 2023. 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 September 30, 2024 and December 31, 2023, the carrying amount of time deposits was \$2,801,761,000 and \$2,425,177,000, respectively, and the estimated fair value was \$2,797,797,000 and \$2,428,681,000, 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 September 30, 2024 and December 31, 2023.

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 September 30, 2024 and December 31, 2023.

Other Borrowed Funds

We currently have long-term borrowings issued from the Federal Home Loan Bank ("FHLB"). The long-term borrowings outstanding at September 30, 2024 and December 31, 2023 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 September 30, 2024 and December 31, 2023, the carrying amount of the fixed rate long-term FHLB borrowings was \$10,593,000 and \$10,745,000, respectively, and the estimated fair value was \$10,593,000 and \$10,745,000, 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 September 30, 2024 and December 31, 2023 is as follows:

	September 30, 2024	December 31, 2023
	(Dollars in Thousands)	
Commercial, financial and agricultural	\$ 4,922,980	\$ 4,802,622
Real estate - mortgage	983,211	938,901
Real estate - construction	2,457,144	2,091,622
Consumer	48,329	45,121
Foreign	175,361	180,695
Total loans	<u>\$ 8,587,025</u>	<u>\$ 8,058,961</u>

Note 4 — Allowance for Credit Losses

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. Risk management begins with a strong and conservative lending policy that specifies lending limits that are well below allowable regulatory limits, provides highly restrictive lending authority to lending officers, and promotes judicious lending terms and diversification. 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 a borrower that is directly related to the business activities of the borrower's company such as equipment, accounts receivable and inventory. The borrower's abilities to generate revenues from equipment purchases, collect accounts receivable, and turn inventory into sales are risk factors in the repayment of the loan. A small portion of this loan category is related to loans secured by oil and gas production and loans secured by aircraft.

Construction and land development loans. This category includes loans for the development of unimproved land to lot development for both residential and commercial use and vertical construction across residential and commercial real estate classes. These loans carry the risk of repayment when projects incur cost overruns, have an increase in the price of construction materials, encounter zoning, entitlement or 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 imposing 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 U.S. border for import/export operations, office space where the

borrower is the primary tenant, restaurants and other single-tenant retail spaces. Non-owner-occupied commercial properties include hotels, retail centers, office and professional buildings, and leased warehouses. These loans carry the risk of repayment when market values deteriorate, the business experiences turnover in key management, the business is unable to attract or maintain stable occupancy levels, or the market experiences an exit of a specific business type that is significant to the local economy, such as a manufacturing plant. Our primary risk management tool is internal monitoring measured against internal concentration limits significantly lower than regulatory thresholds that are segmented by low-risk and high-risk characteristics, such as the borrower's equity, cash flow coverage, and non-amortizing versus amortizing status, further disaggregated by the length of time to pay in full. This monitoring is regularly reported to senior management and the board of directors. Risk management practices also extend to the management of the borrower's relationship and are designed to recognize degradation in the borrower's ability to repay under established terms well before the borrower may default. Loan and deposit activity by the borrower is monitored on a frequent basis, which may prompt a change in risk classification. Once a loan is moved to a more severe risk classification, the loan performance, and when applicable, a plan by the borrower to rectify issues are monitored and reviewed at least quarterly. Additionally, our credit administration team, who is independent from the lending team, reviews a substantial portion of the commercial lending portfolio annually, which includes a significant portion of the commercial real estate loan portfolio given the current mix of loans in our portfolio.

1-4 family mortgages. This category includes both first and second lien mortgages for the purposes of home purchases or refinancing 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 our credit quality committee to determine if a loan has any potential problems and 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 determine if a loan should be placed on our 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. Loans placed in the Economic Monitoring or Special Review categories reflect our opinion that the loans have potential weaknesses that require monitoring on a more frequent basis. Credits in those categories 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. Loans placed in the Watch List—Pass category and lower rated credits reflect our opinion that the credits contain weaknesses that represent a greater degree of risk, which warrants "extra attention." Credits placed in those categories 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. 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. Those credit obligations, even if apparently protected by collateral value, have shown defined weaknesses related to adverse financial, managerial, economic, market or political conditions that we believe may jeopardize repayment of principal and interest. Furthermore, there is a possibility that we may sustain some future loss if such weaknesses are not corrected. Loans placed in the Watch List—Doubtful category have shown defined weaknesses and reflect our belief that it is likely, based on current information and events, that we will be unable to collect all principal and/or interest amounts contractually due. Loans placed in the Watch List—Doubtful category 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 classified as Watch List—Doubtful, management evaluates these loans in accordance with FASB ASC Subtopic 326-20, “Financial Instruments – Credit Losses – Measured at Amortized Cost,” and, if deemed necessary, a specific reserve is allocated to the loan. The analysis of the amount of the specific reserve to be allocated is based on a variety of factors, including the borrower’s ability to pay, the economic conditions impacting the borrower’s industry and any collateral deficiency. If it is a collateral-dependent loan, the net realizable fair value of collateral will be evaluated for any deficiencies. Substantially all of our loans evaluated as Watch List—Doubtful 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 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 and non-accruals, (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 to our ACL calculation beginning in the second quarter of 2023. Because of the magnitude of large loans, they pose a higher risk of default. Recognizing this risk, and establishing an operational risk factor to capture that risk, is prudent action in the current economic environment. Large loans are usually part of a larger relationship with collateral that is pledged across the relationship. Defaulting on a larger loan may therefore jeopardize an entire relationship. The current economic environment has created challenges for borrowers to service their debt. Increasing capitalization 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 our 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 September 30, 2024												
	Domestic						Foreign						
	Commercial		Real Estate:			Commercial							
	Commercial	Other	Construction & Land	Real Estate: Commercial	Farmland & Commercial	Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Residential: Consumer	Consumer	Foreign	Total	
(Dollars in Thousands)													
Balance at June 30, 2024	\$ 27,255	\$ 54,840	\$ 44,888	\$ 3,528	\$ 5,806	\$ 10,639	\$ 314	\$ 1,339	\$ 148,609				
Losses charged to allowance	(2,329)	—	—	—	—	—	(42)	—	(2,371)				
Recoveries credited to allowance	1,231	—	6	—	2	13	6	1	1,259				
Net (losses) recoveries charged to allowance	(1,098)	—	6	—	2	13	(36)	1	(1,112)				
Credit loss expense	3,723	5,182	(510)	4	214	(70)	14	45	8,602				
Balance at September 30, 2024	<u>\$ 29,880</u>	<u>\$ 60,022</u>	<u>\$ 44,384</u>	<u>\$ 3,532</u>	<u>\$ 6,022</u>	<u>\$ 10,582</u>	<u>\$ 292</u>	<u>\$ 1,385</u>	<u>\$ 156,099</u>				

	Three Months Ended September 30, 2023												
	Domestic						Foreign						
	Commercial		Real Estate:			Commercial							
	Commercial	Other	Construction & Land	Real Estate: Commercial	Farmland & Commercial	Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Residential: Consumer	Consumer	Foreign	Total	
(Dollars in Thousands)													
Balance at June 30, 2023	\$ 27,645	\$ 53,064	\$ 38,688	\$ 4,106	\$ 5,092	\$ 10,442	\$ 286	\$ 1,180	\$ 140,503				
Losses charged to allowance	(2,373)	—	—	—	(43)	(118)	(35)	—	(2,569)				
Recoveries credited to allowance	518	—	6	—	7	63	2	—	596				
Net (losses) recoveries charged to allowance	(1,855)	—	6	—	(36)	(55)	(33)	—	(1,973)				
Credit loss expense	8,063	(1,967)	3,190	422	481	206	45	36	10,476				
Balance at September 30, 2023	<u>\$ 33,853</u>	<u>\$ 51,097</u>	<u>\$ 41,884</u>	<u>\$ 4,528</u>	<u>\$ 5,537</u>	<u>\$ 10,593</u>	<u>\$ 298</u>	<u>\$ 1,216</u>	<u>\$ 149,006</u>				

	Nine Months Ended September 30, 2024												
	Domestic						Foreign						
	Commercial		Real Estate:			Commercial							
	Commercial	Other	Construction & Land	Real Estate: Commercial	Farmland & Commercial	Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Residential: Consumer	Consumer	Foreign	Total	
(Dollars in Thousands)													
Balance at December 31, 2023	\$ 35,550	\$ 55,291	\$ 42,703	\$ 5,088	\$ 5,812	\$ 11,024	\$ 318	\$ 1,283	\$ 157,069				
Losses charged to allowance	(32,049)	(2,228)	—	—	(46)	—	(132)	—	(34,455)				
Recoveries credited to allowance	3,020	—	16	—	38	48	11	1	3,134				
Net (losses) recoveries charged to allowance	(29,029)	(2,228)	16	—	(8)	48	(121)	1	(31,321)				
Credit loss expense	23,359	6,959	1,665	(1,556)	218	(490)	95	101	30,351				
Balance at September 30, 2024	<u>\$ 29,880</u>	<u>\$ 60,022</u>	<u>\$ 44,384</u>	<u>\$ 3,532</u>	<u>\$ 6,022</u>	<u>\$ 10,582</u>	<u>\$ 292</u>	<u>\$ 1,385</u>	<u>\$ 156,099</u>				

Nine Months Ended September 30, 2023

	Domestic										Foreign	
	Commercial		Real Estate:									
	Other	Commercial	Construction & Land	Real Estate: Commercial	Real Estate: Farmland & Commercial		Residential: Multifamily		Residential: First Lien	Residential: Junior Lien	Consumer	Foreign
	Commercial	Development	Commercial	Commercial	Multifamily	Commercial	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	(7,136)	—	—	—	(43)	(283)	(122)	—	(7,584)			
Recoveries credited to allowance	1,699	837	17	—	15	155	16	—	2,739			
Net (losses) recoveries charged to allowance	(5,437)	837	17	—	(28)	(128)	(106)	—	(4,845)			
Credit loss expense	12,562	5,576	5,393	734	806	2,437	123	248	27,879			
Balance at September 30, 2023	<u>\$ 33,853</u>	<u>\$ 51,097</u>	<u>\$ 41,884</u>	<u>\$ 4,528</u>	<u>\$ 5,537</u>	<u>\$ 10,593</u>	<u>\$ 298</u>	<u>\$ 1,216</u>	<u>\$ 149,006</u>			

The increase in losses charged to the ACL for the nine months ended September 30, 2024 in the Commercial category can be attributed to a charge-down on one loan secured primarily by equipment and pipeline infrastructure used in the oil and gas industry. The credit has been classified as Watch List—Doubtful since the end of 2022 at which time, and going forward, we have evaluated our loss exposure and adjusted reserves accordingly. We also continued to attempt to work with our customer during that period; however, those negotiations came to a halt late in the third quarter of 2023 when the customer declared bankruptcy. In March 2024, the bankruptcy court awarded the winning bid at foreclosure for the assets collateralizing the loan to a principal owner of the business. The bid was not for the full carrying value of the loan and resulted in a charge-down of approximately \$25.6 million. The charge-down also impacted our provision for credit loss expense resulting in an increase of approximately \$4.3 million, before taxes, when compared to the same period of 2023. We expect to recover a portion of the charge-down by pursuing repayment from the guarantor of the credit through a binding arbitration process. We reduced the severity of some of the qualitative loss factors in certain pools of the portfolio for the March 31, 2024 ACL to encompass a slight improvement in economic uncertainty, resulting in a decrease in the required ACL. Upon further evaluation, no further changes to the qualitative loss factors were made for the September 30, 2024 ACL.

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 September 30, 2024 and December 31, 2023:

	September 30, 2024			
	Loans Individually Evaluated For Impairment		Loans Collectively Evaluated For Impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
(Dollars in Thousands)				
Domestic				
Commercial	\$ 1,282	\$ 400	\$ 1,691,180	\$ 29,480
Commercial real estate: other construction & land development	10,027	5,500	2,447,117	54,522
Commercial real estate: farmland & commercial	50,831	4,825	2,860,756	39,559
Commercial real estate: multifamily	38,246	660	280,685	2,872
Residential: first lien	48	—	514,179	6,022
Residential: junior lien	141	—	468,843	10,582
Consumer	—	—	48,329	292
Foreign	—	—	175,361	1,385
Total	\$ 100,575	\$ 11,385	\$ 8,486,450	\$ 144,714

	December 31, 2023			
	Loans Individually Evaluated For Impairment		Loans Collectively Evaluated For Impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
(Dollars in Thousands)				
Domestic				
Commercial	\$ 30,872	\$ 7,971	\$ 1,597,358	\$ 27,579
Commercial real estate: other construction & land development	15,701	4,320	2,075,921	50,971
Commercial real estate: farmland & commercial	299	—	2,793,254	42,703
Commercial real estate: multifamily	96	—	380,743	5,088
Residential: first lien	93	—	477,940	5,812
Residential: junior lien	—	—	460,868	11,024
Consumer	—	—	45,121	318
Foreign	—	—	180,695	1,283
Total	\$ 47,061	\$ 12,291	\$ 8,011,900	\$ 144,778

The increase in Commercial real estate: farmland & commercial loans individually evaluated for impairment at September 30, 2024 from December 31, 2023 can be attributed to one relationship secured by commercial buildings in which childcare centers are operated. The increase in Commercial real estate: multifamily loans individually evaluated for impairment at September 30, 2024 from December 31, 2023 can be attributed to two loans secured by apartments that

were downgraded to Watch List – Doubtful and put on non-accrual. The decrease in Commercial loans individually evaluated for impairment at September 30, 2024 can be attributed to the charge-down discussed above.

The table below provides additional information on loans accounted for on a non-accrual basis by loan class at September 30, 2024 and December 31, 2023:

	September 30, 2024		December 31, 2023	
	(Dollars in Thousands)			
	Total Non-Accrual Loans	Non-Accrual Loans with No Credit Allowance	Total Non-Accrual Loans	Non-Accrual Loans with No Credit Allowance
Domestic				
Commercial	\$ 1,282	\$ 398	\$ 30,872	\$ 122
Commercial real estate: other construction & land development	10,027	75	15,701	244
Commercial real estate: farmland & commercial	50,831	18,486	299	299
Commercial real estate: multifamily	38,246	25,142	96	96
Residential: first lien	133	133	202	202
Total non-accrual loans	\$ 100,519	\$ 44,234	\$ 47,170	\$ 963

We adopted the provisions of FASB ASU 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 by creditors 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 on our consolidated financial statements.

We occasionally provide modifications to borrowers experiencing financial difficulties. Modifications may include certain concessions that we must evaluate under ASU 2022-02 to determine the need for disclosure. Concessions to borrowers experiencing financial difficulties that would require disclosure include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction or a combination of these concessions. For the nine months ended September 30, 2024, we did not provide any modifications under these circumstances to any borrower experiencing financial difficulty.

The Subsidiary Banks charge-off that portion of any loan that management considers to represent a loss or that is classified as a "loss" by bank examiners. Management generally considers commercial and industrial or real estate loans 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 September 30, 2024 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 September 30, 2024 and December 31, 2023:

	September 30, 2024							Total Portfolio		
	30 - 59 Days	60 - 89 Days	90 Days or Greater	90 Days or greater & still accruing	Total Past Due	Current				
	(Dollars in Thousands)									
Domestic										
Commercial	\$ 3,723	\$ 1,319	\$ 3,419	\$ 3,131	\$ 8,461	\$1,684,001	\$1,692,462			
Commercial real estate: other construction & land development	4,147	—	9,952	—	14,099	2,443,045	2,457,144			
Commercial real estate: farmland & commercial	1,780	7,199	65,993	15,682	74,972	2,836,615	2,911,587			
Commercial real estate: multifamily	115	—	25,236	172	25,351	293,580	318,931			
Residential: first lien	3,785	2,116	3,104	3,019	9,005	505,222	514,227			
Residential: junior lien	959	1,686	1,458	1,458	4,103	464,881	468,984			
Consumer	293	46	26	26	365	47,964	48,329			
Foreign	2,740	—	339	339	3,079	172,282	175,361			
Total past due loans	\$17,542	\$12,366	\$ 109,527	\$ 23,827	\$139,435	\$8,447,590	\$8,587,025			
December 31, 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	\$ 2,387	\$ 1,583	\$ 30,238	\$ 539	\$34,208	\$1,594,022	\$1,628,230			
Commercial real estate: other construction & land development	3,460	—	10,245	—	13,705	2,077,917	2,091,622			
Commercial real estate: farmland & commercial	1,424	371	93	4	1,888	2,791,665	2,793,553			
Commercial real estate: multifamily	369	330	—	—	699	380,140	380,839			
Residential: first lien	1,812	1,439	2,545	2,437	5,796	472,236	478,032			
Residential: junior lien	1,273	613	1,701	1,701	3,587	457,282	460,869			
Consumer	263	11	27	27	301	44,820	45,121			
Foreign	1,884	848	889	889	3,621	177,074	180,695			
Total past due loans	\$12,872	\$ 5,195	\$ 45,738	\$ 5,597	\$63,805	\$7,995,156	\$8,058,961			

The increase in Commercial real estate: farmland & commercial loans past due 90 days or greater at September 30, 2024 can be attributed to one relationship secured by commercial buildings in which childcare centers are operated that is on non-accrual and one loan secured by a hotel. The increase in Commercial real estate: multifamily loans past due 90 days or greater at September 30, 2024 compared to December 31, 2023 can be primarily attributed to two loans secured by apartments that were placed on non-accrual. The decrease in Commercial loans past due 90 days or greater at September 30, 2024 can be primarily attributed to a loan secured by equipment and pipeline infrastructure used in the oil and gas industry as well as oil and gas production that was charged-down in the first quarter, as previously discussed.

A summary of the loan portfolio by credit quality indicator by loan class and by year of origination at September 30, 2024 and December 31, 2023 is presented below:

	2024	2023	2022	2021	2020	Prior	Total							
	(Dollars in Thousands)													
Balance at September 30, 2024														
Domestic														
Commercial														
Pass	\$ 713,573	\$ 453,452	\$ 135,745	\$ 244,823	\$ 40,567	\$ 89,944	\$1,678,104							
Watch List - Pass	—	11,435	—	—	—	—	11,435							
Watch List - Substandard	1,094	411	—	136	—	—	1,641							
Watch List - Doubtful	962	257	63	—	—	—	1,282							
Total Commercial	<u>\$ 715,629</u>	<u>\$ 465,555</u>	<u>\$ 135,808</u>	<u>\$ 244,959</u>	<u>\$ 40,567</u>	<u>\$ 89,944</u>	<u>\$1,692,462</u>							
Commercial														
Current-period gross writeoffs	\$ 3,874	\$ 2,476	\$ 25,651	\$ 31	\$ 14	\$ 3	\$ 32,049							
Commercial real estate: other construction & land development														
Pass	\$ 753,258	\$ 991,510	\$ 392,286	\$ 232,492	\$ 45,005	\$ 5,707	\$2,420,258							
Special Review	—	17,350	—	—	—	—	17,350							
Watch List - Substandard	9,408	101	—	—	—	—	9,509							
Watch List - Doubtful	75	—	9,952	—	—	—	10,027							
Total Commercial real estate: other construction & land development	<u>\$ 762,741</u>	<u>\$ 1,008,961</u>	<u>\$ 402,238</u>	<u>\$ 232,492</u>	<u>\$ 45,005</u>	<u>\$ 5,707</u>	<u>\$2,457,144</u>							
Commercial real estate: other construction & land development														
Current-period gross writeoffs	\$ —	\$ 1,146	\$ 1,082	\$ —	\$ —	\$ —	\$ 2,228							
Commercial real estate: farmland & commercial														
Pass	\$ 607,706	\$ 717,522	\$ 541,116	\$ 347,115	\$ 246,369	\$ 285,503	\$2,745,331							
Special Review	644	67,870	—	—	—	—	68,514							
Watch List - Pass	16,633	—	—	—	—	—	16,633							
Watch List - Substandard	12,561	—	15,424	—	2,278	15	30,278							
Watch List - Doubtful	50,831	—	—	—	—	—	50,831							
Total Commercial real estate: farmland & commercial	<u>\$ 688,375</u>	<u>\$ 785,392</u>	<u>\$ 556,540</u>	<u>\$ 347,115</u>	<u>\$ 248,647</u>	<u>\$ 285,518</u>	<u>\$2,911,587</u>							
Commercial real estate: multifamily														
Pass	\$ 59,183	\$ 16,737	\$ 90,421	\$ 22,426	\$ 59,934	\$ 31,984	\$ 280,685							
Watch List - Doubtful	13,104	25,064	78	—	—	—	38,246							
Total Commercial real estate: multifamily	<u>\$ 72,287</u>	<u>\$ 41,801</u>	<u>\$ 90,499</u>	<u>\$ 22,426</u>	<u>\$ 59,934</u>	<u>\$ 31,984</u>	<u>\$ 318,931</u>							
Residential: first lien														
Pass	\$ 152,250	\$ 109,558	\$ 84,328	\$ 59,635	\$ 30,316	\$ 77,696	\$ 513,783							
Watch List - Substandard	95	—	—	300	—	1	396							
Watch List - Doubtful	—	—	48	—	—	—	48							
Total Residential: first lien	<u>\$ 152,345</u>	<u>\$ 109,558</u>	<u>\$ 84,376</u>	<u>\$ 59,935</u>	<u>\$ 30,316</u>	<u>\$ 77,697</u>	<u>\$ 514,227</u>							
Residential: first lien														
Current-period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 46	\$ 46							
Residential: junior lien														
Pass	\$ 61,473	\$ 77,821	\$ 66,765	\$ 88,127	\$ 68,182	\$ 106,475	\$ 468,843							
Special Review							—							
Watch List- Doubtful	141	—	—	—	—	—	141							
Total Residential: junior lien	<u>\$ 61,614</u>	<u>\$ 77,821</u>	<u>\$ 66,765</u>	<u>\$ 88,127</u>	<u>\$ 68,182</u>	<u>\$ 106,475</u>	<u>\$ 468,984</u>							
Consumer														
Pass	\$ 32,306	\$ 12,701	\$ 1,344	\$ 512	\$ 71	\$ 1,395	\$ 48,329							
Total Consumer	<u>\$ 32,306</u>	<u>\$ 12,701</u>	<u>\$ 1,344</u>	<u>\$ 512</u>	<u>\$ 71</u>	<u>\$ 1,395</u>	<u>\$ 48,329</u>							
Consumer														
Current-period gross writeoffs	\$ 19	\$ 92	\$ 20	\$ —	\$ —	\$ 1	\$ 132							
Foreign														
Pass	\$ 101,540	\$ 41,947	\$ 17,871	\$ 7,545	\$ 1,680	\$ 4,778	\$ 175,361							
Total Foreign	<u>\$ 101,540</u>	<u>\$ 41,947</u>	<u>\$ 17,871</u>	<u>\$ 7,545</u>	<u>\$ 1,680</u>	<u>\$ 4,778</u>	<u>\$ 175,361</u>							
Foreign														
Current-period gross writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —							
Total Loans	<u>\$ 2,586,837</u>	<u>\$ 2,543,736</u>	<u>\$ 1,355,441</u>	<u>\$ 1,003,111</u>	<u>\$ 494,402</u>	<u>\$ 603,498</u>	<u>\$ 8,587,025</u>							

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

The decrease in Watch List – Doubtful Commercial loans at September 30, 2024 can be primarily attributed to the charge-down previously discussed. The decrease in Watch List – Substandard Commercial real estate: construction & land development loans at September 30, 2024 can be primarily attributed to a relationship secured by land being developed for single family homes being upgraded to Special Review. The decrease in Watch List – Substandard Commercial real estate: farmland & commercial loans at September 30, 2024 can be primarily attributed to a change in classification on two relationships. One relationship, which is secured by a retail center, was upgraded to Special Review.

The other relationship which is secured by a commercial building in which childcare centers are operated, was downgraded to Watch List – Doubtful. The increase in Watch List – Doubtful Commercial real estate: multifamily loans at September 30, 2024 compared to December 31, 2023 can be primarily attributed to two loans secured by apartments that were downgraded from Pass.

Note 5 — Stock Options

On April 5, 2012, our Board of Directors (the "Board") 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 2012 Plan for the nine months ended September 30, 2024 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, 2023	383,865	\$ 30.65		
Plus: Options granted	—	—		
Less:				
Options exercised	(135,899)	24.26		
Options expired	—	—		
Options forfeited	(20,937)	23.27		
Options outstanding at September 30, 2024	<u>227,029</u>	<u>35.15</u>	4.28	\$ 5,594
Options fully vested and exercisable at September 30, 2024	133,519	\$ 35.60	3.47	\$ 3,230

Stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2024 was \$47,000 and \$169,000, respectively. Stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2023 was \$76,000 and \$255,000, respectively. As of September 30, 2024, there was approximately \$ 263,000 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 1.4 years.

On April 18, 2022, the Board 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 SAR 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 September 30, 2024, a total of 459,639 SARs had been issued under the SAR Plan.

A summary of activity under the SAR Plan for the nine months ended September 30, 2024 is as follows:

	Number of stock appreciation rights	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value (\$)
(in Thousands)				
SARs outstanding at December 31, 2023	465,250	\$ 39.35		
Plus: SARs granted	8,000	53.91		
Less:				
SARs exercised	(2,111)	39.33		
SARs expired	—	—		
SARs forfeited	(11,500)	39.33		
SARs outstanding at September 30, 2024	<u>459,639</u>	<u>39.60</u>	7.79	9,278
SARs fully vested and exercisable at September 30, 2024	22,482	\$ 39.33	7.75	460

The fair value of the liability for payments due to SAR holders at September 30, 2024 and December 31, 2023 is approximately \$3,680,000 and \$1,464,000, respectively, as calculated using a Black-Sholes-Merton pricing 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 \$847,000 and \$2,271,000 for the three and nine months ended September 30, 2024, respectively. The expense recorded in connection with all grants under the SAR Plan totaled \$219,000 and \$649,000 for the three and nine months ended September 30, 2023, respectively. As of September 30, 2024, there was approximately \$8,813,000 in unrecognized liability related to non-vested SARs granted under the SAR Plan that will be recognized over a weighted average period of 7.8 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 September 30, 2024 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 September 30, 2024 are as follows:

	Held to Maturity				
	Amortized cost	Gross unrealized gains		Gross unrealized losses	Estimated fair value
		(Dollars in Thousands)	 		
Other securities	\$ 4,400	\$ —	\$ —	\$ 4,400	\$ 4,400
Total investment securities	\$ 4,400	\$ —	\$ —	\$ 4,400	\$ 4,400

	Available for Sale Debt Securities				
	Amortized cost	Gross unrealized gains		Gross unrealized losses	Estimated fair value
		(Dollars in Thousands)	 		
Residential mortgage-backed securities	\$ 5,253,172	\$ 20,882	\$ (418,446)	\$ 4,855,608	\$ 4,855,608
Obligations of states and political subdivisions	156,923	941	(888)	156,976	156,976
Total investment securities	\$ 5,410,095	\$ 21,823	\$ (419,334)	\$ 5,012,584	\$ 5,012,584

(1) Included in the carrying value of residential mortgage-backed securities are \$986,323 of mortgage-backed securities issued by Ginnie Mae and \$3,869,285 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, 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	<u><u>\$ 3,400</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 3,400</u></u>	<u><u>\$ 3,400</u></u>

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

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

The amortized cost and estimated fair value of investment securities at September 30, 2024, 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	\$ 1,325	\$ 1,325	\$ —	\$ —
Due after one year through five years	3,075	3,075	—	—
Due after five years through ten years	—	—	1,446	1,441
Due after ten years	—	—	155,477	155,535
Residential mortgage-backed securities	—	—	5,253,172	4,855,608
Total investment securities	<u><u>\$ 4,400</u></u>	<u><u>\$ 4,400</u></u>	<u><u>\$ 5,410,095</u></u>	<u><u>\$ 5,012,584</u></u>

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 \$1,832,243,000 and \$1,626,862,000, respectively, at September 30, 2024.

Proceeds from the sales and calls of available-for-sale debt securities were \$ 2,030,000 and \$3,750,000 for the three and nine months ended September 30, 2024, respectively, which included \$0 and \$0 of mortgage-backed securities, respectively. Gross gains of \$0 and \$0 and gross losses of \$1 and \$1 were realized on the sales and calls for the three and nine months ended September 30, 2024, respectively. Proceeds from the sales and calls of available-for-sale debt securities were \$1,595,000 and \$2,045,000 for the three and nine months ended September 30, 2023, respectively, which

included \$0 and \$0 of mortgage-backed securities, respectively. Gross gains of \$0 and \$0 and gross losses of \$ 3 and \$3 were realized on the sales and calls for the three and nine months ended September 30, 2023, respectively.

Gross unrealized losses on debt investment securities and the fair value of those related securities, aggregated by investment category and length of time that individual debt securities have been in a continuous unrealized loss position at September 30, 2024, were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in Thousands)					
Available for sale:						
Residential mortgage-backed securities	\$ 77,574	\$ (178)	\$3,557,172	\$ (418,268)	\$3,634,746	\$ (418,446)
Obligations of states and political subdivisions	42,567	(265)	59,005	(623)	101,572	(888)
	<u>\$ 120,141</u>	<u>\$ (443)</u>	<u>\$3,616,177</u>	<u>\$ (418,891)</u>	<u>\$3,736,318</u>	<u>\$ (419,334)</u>

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

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

Equity securities with readily determinable fair values consist primarily of Community Reinvestment Act funds. At September 30, 2024 and December 31, 2023, the balance in equity securities with readily determinable fair values recorded at fair value were \$5,538,000 and \$5,417,000, respectively. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the three and nine months ended September 30, 2024 and the three and nine months ended September 30, 2023:

	Three Months Ended September 30, 2024 (Dollars in Thousands)
<hr/>	
Net gains recognized during the period on equity securities	\$ 201
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	—
<hr/>	
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	\$ 201

	<u>Three Months Ended September 30, 2023 (Dollars in Thousands)</u>
Net losses recognized during the period on equity securities	\$ (142)
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	<u>\$ (142)</u>

	<u>Nine Months Ended September 30, 2024 (Dollars in Thousands)</u>
Net gains recognized during the period on equity securities	\$ 121
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	—
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	<u>\$ 121</u>

	<u>Nine Months Ended September 30, 2023 (Dollars in Thousands)</u>
Net losses recognized during the period on equity securities	\$ (200)
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	<u>\$ (200)</u>

Other investments include equity and merchant banking investments held by our Subsidiary Banks and non-banking subsidiary 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 LIHTC projects. We are a limited partner in the partnerships and are not required to consolidate the entities in our consolidated financial statements. Investments in LIHTC projects totaled \$186,916,000 and \$200,245,000 at September 30, 2024 and December 31, 2023, respectively, and are included in other investments on the consolidated financial statements. Unfunded commitments to LIHTC projects totaled \$22,741,000 at September 30, 2024 and \$34,126,000 at December 31, 2023 and are included in other liabilities on the consolidated financial statements. Tax credits and other tax benefits, as well as amortization expense associated with investments in qualified low-income housing partnerships are accounted for using the proportional amortization method of accounting. There was a total of \$5,633,000 and \$16,899,000 in estimated tax credits related to these investments for the three and nine months ended September 30, 2024, respectively, and \$6,219,000 and \$18,655,000 in estimated amortization related to these investments for the three and nine months ended September 30, 2024, respectively. There were no impairment losses recorded on tax equity investments during the three and nine months ended September 30, 2024 or September 30, 2023, respectively.

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 September 30, 2024, other borrowed funds totaled \$10,593,000 compared to \$10,745,000 at December 31, 2023.

Note 8 — Junior Subordinated Interest Deferrable Debentures

As of September 30, 2024, we had four statutory business trusts under the laws of the State of Delaware (the "Trusts"), for the purpose of issuing trust preferred securities. The four 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 September 30, 2024 and December 31, 2023, the principal amount of Debentures outstanding totaled \$108,868,000, respectively.

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 20 consecutive quarterly periods on each of the Trusts. If interest payments on any Debenture is 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 September 30, 2024 and December 31, 2023, the total \$108,868,000, 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 September 30, 2024:

	Junior Subordinated Deferrable Interest Debentures (Dollars in Thousands)	Repricing Frequency	Interest Rate	Interest		Optional Redemption Date ⁽²⁾
				Rate Index ⁽¹⁾	Maturity Date	
Trust IX	\$ 41,238	Quarterly	7.21 % SOFR + 1.62		October 2036	October 2011
Trust X	21,021	Quarterly	7.16 % SOFR + 1.65		February 2037	February 2012
Trust XI	25,990	Quarterly	7.21 % SOFR + 1.62		July 2037	July 2012
Trust XII	20,619	Quarterly	6.73 % SOFR + 1.45		September 2037	September 2012
	<u>\$ 108,868</u>					

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

(2) The Capital and Common Securities may be redeemed in whole or in part on any interest payment date after the Optional Redemption Date (as defined in the respective Indenture).

Note 9 — Common Stock and Dividends

We paid cash dividends of \$0.66 per share on February 28 and August 28, 2024, respectively, to record holders of our common stock on February 15 and August 14, 2024, respectively. We paid cash dividends of \$0.63 per share on February 28 and August 25, 2023, respectively, to record holders of our common stock on February 15 and August 11, 2023, respectively.

In April 2009, the Board 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 20, 2024, the Board extended and increased the repurchase program to purchase up to \$150 million of common stock during the 12-month period commencing on March 15, 2024. 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 third quarter of 2024, the Board 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 November 4, 2024, a total of 13,711,689 shares had been repurchased under all programs at a cost of \$ 415,258,000. 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 our counsel, that any material loss in such actions, individually or in the aggregate, is remote or the damages sought, even if fully recovered, would not be considered material to our consolidated financial position or results of operations. 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 Reserve Board ("FRB") and the Federal Deposit Insurance Corporation ("FDIC") established a new, comprehensive capital framework for U.S. banking organizations known as "Basel III," consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the Basel III capital reforms and various related capital provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), which require bank holding companies and their subsidiary banks to maintain substantially more capital, with greater emphasis on common equity. The Basel III final capital framework requires a minimum ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 capital to risk-weighted assets above the minimum requirement, but below the conservation buffer, will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall and the institution's "eligible retained income" (meaning, four-quarter trailing income, net of distributions and tax effects not reflected in net income). 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 methodologies for calculating risk-weighted assets to enhance risk sensitivity. We believe that as of September 30, 2024, we continue to meet all fully phased-in capital adequacy requirements.

In November 2017, the Office of the Comptroller of the Currency, 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 the FASB's Current Expected Credit Loss ("CECL") methodology (the FASB Standard relating to current expected credit loss) and its potential impact on regulatory capital. Pursuant to the rules issued by the federal bank regulatory agencies in February 2019 and March 2020, banking organizations were given options to phase in the adoption of CECL over a three-year transition period through December 31, 2022 or over a five-year transition period through December 31, 2024. Rather than electing to make one of the phase-in options, we immediately recognized the capital impact upon adopting CECL accounting standards on January 1, 2020, which resulted in an increase in our ACL and a one-time cumulative-effect adjustment to retained earnings upon adjustment.

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

As of September 30, 2024, our capital levels continue to exceed all capital adequacy requirements under the Basel III capital rules as currently applicable to us.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA") was enacted, which, among other things, includes a simplified capital rule change that 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 FRB's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (the "Small BHC Policy Statement"), which eases limitations on the issuance of debt by holding companies. In August 2018, the FRB issued an interim final rule expanding the applicability of its Small BHC Policy Statement. While holding companies that meet the conditions of the Small BHC 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 Basel III's risk-based capital rules (e.g., the required assignment of a 150% risk weight to certain exposures), certain commercial real estate loans that were formally classified as high volatility commercial real estate ("HVCRE") will not be subject to heightened risk weights if they meet certain criteria. Also, while acquisition, development, and construction loans will generally be subject to heightened risk weights, certain exceptions will apply. In September 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 22.18% on September 30, 2024 and 21.72% on December 31, 2023. We had a Tier 1 capital-to-average-total-asset (leverage) ratio of 18.33% and 17.46%, risk-weighted Tier 1 capital ratio of 22.85% and 22.39%, and risk-weighted total capital ratio of 24.10% and 23.65% at September 30, 2024 and December 31, 2023, 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 September 30, 2024, 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 September 30, 2024, 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 "Special Cautionary Notice Regarding Forward-Looking Information" 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, 2023, which are included in our 2023 Annual Report. Operating results for the three months and nine months ended September 30, 2024 are not necessarily indicative of the results for the year ending December 31, 2024, 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, 2023, filed with the SEC on February 26, 2024, and 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 ACL 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 or system failures or breaches of our network security, as well as other cybersecurity 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 ("PCAOB"), the FASB and other accounting standards setters.
- The costs and effects of regulatory developments or regulatory or other governmental inquiries or actions, 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 its authority to prohibit unfair, deceptive, or abusive acts or practices concerning fees charged by financial institutions and Regulation E, which prohibits financial institutions from charging certain consumer overdraft fees on ATM and one-time debit card transactions, as well as the effect of any other regulatory or legal developments that limit overdraft services or related fees.
- Monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the FRB.
- The reduction of income and possible increase in required capital levels related to the adoption of legislation and the implementing rules and regulations, including those that establish debit card interchange fee standards and prohibit network exclusivity arrangements and routing restrictions.
- The increase in required capital levels related to the implementation of capital and liquidity rules of the federal banking agencies that address or are impacted by the Basel III capital and liquidity standards.
- The enhanced due diligence burden imposed on banks related to their inability to rely on credit ratings under the Dodd-Frank Act.
- The failure or circumvention of our internal controls and risk management, policies and procedures.

Forward-looking statements speak only as of the date on which such statements are made. It is not possible to foresee or identify all such factors. We make no commitment to update any forward-looking statement, or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking statement, unless required by law.

Overview

We are headquartered in Laredo, Texas with 166 facilities and 256 ATMs, and we 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

	September 30, 2024	December 31, 2023	Percent Increase (Decrease)
	(Dollars in Thousands)		
Assets	\$ 15,892,312	\$ 15,066,189	5.5 %
Net loans	8,430,926	7,901,892	6.7
Deposits	12,101,055	11,824,554	2.3
Securities sold under repurchase agreements	706,258	530,416	33.2
Other borrowed funds	10,593	10,745	(1.4)
Junior subordinated deferrable interest debentures	108,868	108,868	—
Shareholders' equity	2,749,416	2,447,774	12.3

Consolidated Statements of Income Information

	Three Months Ended		Percent Increase (Decrease)	Nine Months Ended		Percent Increase (Decrease)	
	September 30,			September 30, 2024	September 30, 2023		
	(Dollars in Thousands)	2024	2023				
Interest income	\$ 222,657	\$ 204,175	9.1 %	\$ 650,418	\$ 590,448	10.2 %	
Interest expense	54,715	36,847	48.5	154,637	91,480	69.0	
Net interest income	167,942	167,328	0.4	495,781	498,968	(0.6)	
Provision for probable loan losses	8,602	10,476	(17.9)	30,351	27,879	8.9	
Non-interest income	43,842	45,385	(3.4)	129,604	123,449	5.0	
Non-interest expense	76,215	71,200	7.0	219,966	206,763	6.4	
Net income	99,772	103,264	(3.4)%	294,083	305,392	(3.7)%	
Per common share:							
Basic	\$ 1.60	\$ 1.66	(3.6)%	\$ 4.73	\$ 4.92	(3.9)%	
Diluted	1.60	1.66	(3.6)	4.72	4.91	(3.9)	

Net Income

Net income for the three months ended September 30, 2024 decreased by 3.4% compared to the same period of 2023. Net income for the nine months ended September 30, 2024 decreased by 3.7% compared to the same period of 2023. Net income for the first nine months of 2024 continues to be positively impacted by an increase in interest income earned on our investment and loan portfolios driven primarily by both an increase in the size of our investment and loan portfolios, and the current rate environment, which remains elevated as a result of FRB actions to raise interest rates in 2022 and 2023. Net interest income has been negatively impacted by an increase in interest expense, primarily driven by increases on rates paid on deposits. We continue to closely monitor and adjust rates paid on deposits to remain competitive to grow and retain deposits. Net income for the nine months ended September 30, 2024 was negatively impacted by an increase in our non-interest expenses driven by inflation and increased salary and compensation costs in order to attract and retain staff.

Net Interest Income

	Three Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)
	2024	2023		2024	2023	
Interest Income:						
Loans, including fees	\$ 175,532	\$ 158,534	10.7 %	\$ 512,225	\$ 453,700	12.9 %
Investment securities:						
Taxable	40,105	34,598	15.9	113,505	96,582	17.5
Tax-exempt	1,534	1,561	(1.7)	4,619	4,708	(1.9)
Other interest income	5,486	9,482	(42.1)	20,069	35,458	(43.4)
Total interest income	222,657	204,175	9.1	650,418	590,448	10.2
Interest expense:						
Savings deposits	20,869	15,042	38.7	61,416	41,514	47.9
Time deposits	25,607	15,610	64.0	70,333	34,067	106.5
Securities sold under Repurchase agreements	6,173	4,143	49.0	16,732	9,580	74.7
Other borrowings	74	71	4.2	213	213	—
Junior subordinated interest deferrable debentures	1,992	1,981	0.6	5,943	6,106	(2.7)
Total interest expense	54,715	36,847	48.5	154,637	91,480	69.0
Net interest income	\$ 167,942	\$ 167,328	0.4 %	\$ 495,781	\$ 498,968	(0.6)%

The change in net interest income for the three and nine months ended September 30, 2024 can be attributed to an increase in interest income earned on our investment and loan portfolios. The increase in interest income is being driven by both an increase in the size of our investment and loan portfolios and the current rate environment, which remains elevated as a result of FRB actions to raise interest rates in 2022 and 2023. The recent small rate reduction in September 2024 is expected to have a minimal impact. The increase in interest income is being offset by an increase in interest expense as a result of changes in rates we are paying on deposits to remain competitive with rates offered by our competitors. 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 46 for the September 30, 2024 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 September 30, (Dollars in Thousands)		Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)
	2024	2023		2024	2023	
Service charges on deposit accounts	\$ 18,660	\$ 19,311	(3.4)%	\$ 55,018	\$ 54,939	0.1 %
Other service charges, commissions and fees						
Banking	14,762	14,314	3.1	43,880	42,761	2.6
Non-banking	2,308	2,302	0.3	7,475	6,837	9.3
Investment securities transactions, net	(1)	(3)	(66.7)	(1)	(3)	(66.7)
Other investment income (loss), net	4,180	3,598	16.2	8,852	3,653	142.3
Other income	3,933	5,863	(32.9)	14,380	15,262	(5.8)
Total non-interest income	<u>\$ 43,842</u>	<u>\$ 45,385</u>	<u>(3.4)%</u>	<u>\$ 129,604</u>	<u>\$ 123,449</u>	<u>5.0 %</u>

Total non-interest income for the three months ended September 30, 2024 decreased by 3.4% compared to the same period of 2023 and increased 5.0% for the nine months ended September 30, 2024 compared to the same period of 2023. Non-interest income for the three and nine months ended September 30, 2023 was negatively impacted due to losses recorded on merchant banking investments and is reflected in other investments, net in the table above.

Non-Interest Expense

	Three Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)	Nine Months Ended September 30, (Dollars in Thousands)		Percent Increase (Decrease)
	2024	2023		2024	2023	
Employee compensation and benefits	\$ 37,543	\$ 34,773	8.0 %	\$ 109,039	\$ 100,926	8.0 %
Occupancy	7,746	6,268	23.6	20,109	18,598	8.1
Depreciation of bank premises and equipment	5,594	5,488	1.9	16,938	16,362	3.5
Professional fees	4,131	4,123	0.2	12,034	11,051	8.9
Deposit insurance assessments	1,731	1,744	(0.7)	5,126	7,575	(32.3)
Net operations, other real estate owned	1,136	(1,638)	(169.4)	1,463	(3,278)	(144.6)
Advertising	1,397	1,360	2.7	4,679	3,913	19.6
Software and software maintenance	4,820	5,081	(5.1)	15,783	14,978	5.4
Other	<u>12,117</u>	<u>14,001</u>	<u>(13.5)</u>	<u>34,795</u>	<u>36,638</u>	<u>(5.0)</u>
Total non-interest expense	<u>\$ 76,215</u>	<u>\$ 71,200</u>	<u>7.0 %</u>	<u>\$ 219,966</u>	<u>\$ 206,763</u>	<u>6.4 %</u>

Non-interest expense increased by 7.0% for the three months ended September 30, 2024 compared to the same period of 2023 and increased by 6.4% for the nine months ended September 30, 2024 compared to the same period of 2023. Non-interest expense continues to be primarily impacted by an increase in our employee compensation and benefits as we continue to adjust our compensation programs to retain our workforce and remain competitive in the current employment market. We also 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 ACL decreased 0.6% to \$156,099,000 at September 30, 2024 from \$157,069,000 at December 31, 2023. The decrease is primarily due to a charge-down of a credit secured by assets in the oil and gas industry in the first quarter of 2024. The provision for credit losses charged to expense decreased 17.9% to \$8,602,000 for the three months ended September 30, 2024 compared to \$10,476,000 for the same period of 2023. The provision for credit losses charged to

expense increased 8.9% for the nine months ended September 30, 2024 to \$30,351,000 compared to \$27,879,000 for the same period of 2023. The credit loss charged to expense for the nine months ended September 30, 2024 has increased from the same period of 2023 in order to absorb the impact of the charge-down. We reduced the severity of some of the qualitative loss factors in certain pools of the portfolio for the March 31, 2024 ACL to encompass a slight improvement in economic uncertainty, resulting in a decrease in the required ACL. Upon further evaluation, no further changes to the qualitative loss factors were made for the September 30, 2024 ACL. The ACL was 1.82% of total loans at September 30, 2024 and 1.95% of total loans at December 31, 2023.

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 6.6% to \$8,587,025,000 at September 30, 2024, from \$8,058,961,000 at December 31, 2023. Commercial real estate loans have historically been the largest category in our loan portfolio and comprise approximately 66% and 65% of total loans at September 30, 2024 and December 31, 2023, respectively. The loans in this category primarily include owner- and non-owner-occupied commercial buildings such as shopping centers, warehouses, hotels and office buildings and are primarily geographically concentrated in central and south Texas and throughout Oklahoma. Commercial real estate loans generally carry a lower risk of loss; however, they may also be significantly more affected by changes in real estate markets or the general economy. We regularly monitor commercial real estate loan concentrations and also have processes and procedures in place to monitor economic conditions that may adversely affect our commercial real estate portfolio.

Deposits

Deposits increased by 2.3% to \$12,101,055,000 at September 30, 2024, compared to \$11,824,554,000 at December 31, 2023. Deposits have continued to fluctuate as a result of increased general activities by customers, increased competition for deposits by the federal government, and aggressive competitors' pricing. We have closely monitored the rates paid on deposits by competitors and have made changes to our pricing accordingly in order to remain competitive in an effort to retain deposits. 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 September 30, 2024, we had \$15,892,312,000 of consolidated assets, of which approximately \$175,361,000, or 1.1%, was related to loans outstanding to borrowers domiciled in foreign countries, compared to \$180,695,000, or 1.2%, at December 31, 2023. Of the \$175,361,000, 74.7% is directly or indirectly secured by U.S. assets, certificates of deposits and real estate; 6.6% is secured by foreign real estate or other assets; and 18.7% 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. Risk management begins with a strong and conservative lending policy that specifies lending limits that are well below allowable regulatory limits, provides highly restrictive lending authority to lending officers, and promotes judicious lending terms and diversification. 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 a borrower that is directly related to the business activities of the borrower's company such as equipment, accounts receivable and inventory. The borrower's abilities to generate revenues from equipment purchases, collect accounts receivable, and turn inventory into sales are risk factors in the repayment of the loan. A small portion of this loan category is related to loans secured by oil and gas production and loans secured by aircraft.

Construction and land development loans. This category includes loans for the development of unimproved land to lot development for both residential and commercial use and vertical construction across residential and commercial real estate classes. These loans carry the risk of repayment when projects incur cost overruns, have an increase in the price of construction materials, encounter zoning, entitlement or 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 imposing 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 U.S. border for import/export operations, office space where the borrower is the primary tenant, restaurants and other single-tenant retail spaces. Non-owner-occupied commercial properties include hotels, retail centers, office and professional buildings, and leased warehouses. These loans carry the risk of repayment when market values deteriorate, the business experiences turnover in key management, the business is unable to attract or maintain stable occupancy levels, or the market experiences an exit of a specific business type that is significant to the local economy, such as a manufacturing plant. Our primary risk management tool is internal monitoring measured against internal concentration limits significantly lower than regulatory thresholds that are segmented by low-risk and high-risk characteristics, such as the borrower's equity, cash flow coverage, and non-amortizing versus amortizing status, further disaggregated by the length of time to pay in full. This monitoring is regularly reported to senior management and the board of directors. Risk management practices also extend to the management of the borrower's relationship and are designed to recognize degradation in the borrower's ability to repay under established terms well before the borrower may default. Loan and deposit activity by the borrower is monitored on a frequent basis, which may prompt a change in risk classification. Once a loan is moved to a more severe risk classification, the loan performance and, when applicable, a plan by the borrower to rectify issues are monitored and reviewed at least quarterly. Additionally, our credit administration team, who is independent from the lending team, reviews a substantial portion of the commercial lending portfolio annually.

which includes a significant portion of the commercial real estate loan portfolio given the current mix of loans in our portfolio.

1-4 family mortgages. This category includes both first and second lien mortgages for the purposes of home purchases or refinancing 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 our credit quality committee to determine if a loan has any potential problems and 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 determine if a loan should be placed on our 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. Loans placed in the Economic Monitoring or Special Review categories reflect our opinion that the loans have potential weaknesses that require monitoring on a more frequent basis. Credits in those categories 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. Loans placed in the Watch List—Pass category and lower rated credits reflect our opinion that the credits contain weaknesses that represent a greater degree of risk, which warrants “extra attention.” Credits placed in those categories 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. 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. Those credit obligations, even if apparently protected by collateral value, have shown defined weaknesses related to adverse financial, managerial, economic, market or political conditions that we believe may jeopardize repayment of principal and interest. Furthermore, there is a possibility that we may sustain some future loss if such weaknesses are not corrected. Loans placed in the Watch List—Doubtful category have shown defined weaknesses and reflect our belief that it is likely, based on current information and events, that we will be unable to collect all principal and/or interest amounts contractually due. Loans placed in the Watch List—Doubtful category 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 classified as Watch List—Doubtful, management evaluates these loans in accordance with FASB ASC Subtopic 326-20, “Financial Instruments – Credit Losses – Measured at Amortized Cost,” and, if deemed necessary, a specific reserve is allocated to the loan. The analysis of the amount of the specific reserve to be allocated is based on a variety of factors, including the borrower’s ability to pay, the economic conditions impacting the borrower’s industry and any collateral deficiency. If it is a collateral-dependent loan, the net realizable fair value of collateral will be evaluated for any deficiencies. Substantially all of our loans evaluated as Watch List—Doubtful 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 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 and non-accruals, (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 to our ACL calculation beginning in the second quarter of 2023. Because of the magnitude of large loans, they pose a higher risk of default. Recognizing this risk, and establishing an operational risk factor to capture that risk, is prudent action in the current economic environment. Large loans are usually part of a larger relationship with collateral that is pledged across the relationship. Defaulting on a larger loan may therefore jeopardize an entire relationship. The current economic environment has created challenges for borrowers to service their debt. Increasing capitalization 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 our 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 2024 and 2023 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. The following table summarizes our short-term balancing capacities net of balances outstanding:

	September 30, 2024
	(in Thousands)
Unsecured fed funds lines available from commercial banks	\$ 50,000
Unused borrowings capacity from FHLB ⁽¹⁾	\$ 2,718,662
Unused borrowings capacity under Federal Reserve discount window	\$ 510,848
Unpledged investment securities ⁽²⁾	\$ 3,476,049

(1) FHLB borrowings are collateralized by a blanket floating lien on certain real estate secured loans and mortgage finance assets

(2) Market value

We maintain an adequate level of capital as a margin of safety for our depositors and shareholders. At September 30, 2024, shareholders' equity was \$2,749,416,000 compared to \$2,447,774,000 at December 31, 2023. 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 Federal Reserve Board ("FRB") and the Federal Deposit Insurance Corporation ("FDIC") established a new, comprehensive capital framework for U.S. banking organizations known as "Basel III," consisting of minimum requirements that increase both the quantity and quality of capital held by banking organizations. The final rules are a result of the implementation of the Basel III capital reforms and various related capital provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), which require bank holding companies and their subsidiary banks to maintain substantially more capital, with greater emphasis on common equity. The Basel III final capital framework requires a minimum ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets, effectively resulting in a minimum ratio of CET1 capital to risk-weighted assets of at least 7% upon full implementation. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 capital to risk-weighted assets above the minimum requirement, but below the conservation buffer, will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall and the institution's "eligible retained income" (meaning, four-quarter trailing income, net of distributions and tax effects not reflected in net income). 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 methodologies for calculating risk-weighted assets to enhance risk sensitivity. We believe that as of September 30, 2024, we continue to meet all fully phased-in capital adequacy requirements.

In November 2017, the Office of the Comptroller of the Currency, 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 the FASB's Current Expected Credit Loss ("CECL") methodology (the FASB Standard relating to current expected credit loss) and its potential impact on regulatory capital. Pursuant to the rules issued by the federal bank regulatory agencies in February 2019 and March 2020, banking organizations were given options to phase in the adoption of CECL over a three-year transition period through December 31, 2022 or over a five-year transition period through December 31, 2024. Rather than electing to make one of the phase-in options, we immediately recognized the capital impact upon adopting CECL accounting standards on January 1, 2020, which resulted in an increase in our ACL and a one-time cumulative-effect adjustment to retained earnings upon adjustment.

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

As of September 30, 2024, our capital levels continue to exceed all capital adequacy requirements under the Basel III capital rules as currently applicable to us.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRCPA") was enacted, which, among other things, includes a simplified capital rule change that 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 FRB’s Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (the “Small BHC Policy Statement”), which eases limitations on the issuance of debt by holding companies. In August 2018, the FRB issued an interim final rule expanding the applicability of its Small BHC Policy Statement. While holding companies that meet the conditions of the Small BHC 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 Basel III’s risk-based capital rules (e.g., the required assignment of a 150% risk weight to certain exposures), certain commercial real estate loans that were formally classified as high volatility commercial real estate (“HVCRE”) will not be subject to heightened risk weights if they meet certain criteria. Also, while acquisition, development, and construction loans will generally be subject to heightened risk weights, certain exceptions will apply. In September 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 22.18% on September 30, 2024 and 21.72% on December 31, 2023. We had a Tier 1 capital-to-average-total-asset (leverage) ratio of 18.33% and 17.46%, risk-weighted Tier 1 capital ratio of 22.85% and 22.39%, and risk-weighted total capital ratio of 24.10% and 23.65% at September 30, 2024 and December 31, 2023, 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 September 30, 2024, 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 September 30, 2024, 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 September 30, 2024 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)**

September 30, 2024	Rate/Maturity					(Dollars in Thousands)
	3 Months or Less	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	
	(Dollars in Thousands)					
Rate sensitive assets						
Investment securities	\$ 252,711	\$ 661,701	\$ 3,951,133	\$ 156,977	\$ 5,022,522	
Loans, net of non-accruals	7,117,702	189,175	442,442	737,187	8,486,506	
Total earning assets	\$ 7,370,413	\$ 850,876	\$ 4,393,575	\$ 894,164	\$ 13,509,028	
Cumulative earning assets	\$ 7,370,413	\$ 8,221,289	\$ 12,614,864	\$ 13,509,028		
Rate sensitive liabilities						
Time deposits	\$ 1,114,941	\$ 1,524,023	\$ 162,794	\$ 3	\$ 2,801,761	
Other interest bearing deposits	4,577,367	—	—	—	4,577,367	
Securities sold under repurchase agreements	695,158	11,100	—	—	706,258	
Other borrowed funds	—	—	—	10,593	10,593	
Junior subordinated deferrable interest debentures	108,868	—	—	—	108,868	
Total interest bearing liabilities	\$ 6,496,334	\$ 1,535,123	\$ 162,794	\$ 10,596	\$ 8,204,847	
Cumulative sensitive liabilities	\$ 6,496,334	\$ 8,031,457	\$ 8,194,251	\$ 8,204,847		
Repricing gap	\$ 874,079	\$ (684,247)	\$ 4,230,781	\$ 883,568	\$ 5,304,181	
Cumulative repricing gap	874,079	189,832	4,420,613	5,304,181		
Ratio of interest-sensitive assets to liabilities	1.13	0.55	26.99	84.39	1.65	
Ratio of cumulative, interest-sensitive assets to liabilities	1.13	1.02	1.54	1.65		

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the nine months ended September 30, 2024, 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 15 through 19 of our 2023 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, 2023, filed with the SEC on February 26, 2024.

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

In April 2009, the Board 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 20, 2024, the Board extended and increased the repurchase program to purchase up to \$150 million of common stock during the 12-month period commencing on March 15, 2024. 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 third quarter of 2024, the Board 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 November 4, 2024, a total of 13,711,689 shares had been repurchased under all programs at a cost of \$415,258,000. 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. The following table includes information about common stock share repurchases for the quarter ended September 30, 2024.

	Total Number of Shares Purchased as Part of a Publicly-Announced Program	Approximate Dollar Value of Shares Available for Repurchase(1)
Total Number of Shares Purchased	Average Price Paid Per Share	
July 1 – July 31, 2024	1,852	\$ 67.56
August 1 – August 31, 2024	—	—
September 1 – September 30, 2024	1,892	63.66
Total	3,744	\$ 65.59

(1) The repurchase program was extended and increased on February 20, 2024 and allows for the purchase of up to an additional \$150,000,000 of common stock through March 15, 2025.

Item 5. Other Information

During the quarter ended September 30, 2024, 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, 2023, furnished to the SEC on April 22, 2024](#)

[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)

++ 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 months ended September 30, 2024 and September 30, 2023; (iii) the Condensed Consolidated Balance Sheet as of September 30, 2024 and December 31, 2023; and (iv) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2024 and September 30, 2023.

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: November 7, 2024 /s/ Dennis E. Nixon
Dennis E. Nixon
President

Date: November 7, 2024 /s/ Judith I. Wawroski
Judith I. Wawroski
Treasurer

**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: November 7, 2024

/s/ Dennis E. Nixon

Dennis E. Nixon
President (Chief Executive Officer)

**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: November 7, 2024

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

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 September 30, 2024, 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: November 7, 2024

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.

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 September 30, 2024 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: November 7, 2024

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.
