INTERNATIONAL BANCSHARES CORP
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission file number 000-09439

INTERNATIONAL BANCSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Texas	**74-2157138**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1200 San Bernardo Avenue, Laredo, Texas 78042-1359

(Address of principal executive offices)

(Zip Code)

(956) 722-7611

(Registrant s telephone number, including area code)

None

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

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	**Shares Issued and Outstanding**

Common Stock, $1.00 par value	66,374,382 shares outstanding at November 2, 2015

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 241,682	$ 255,146
Investment securities:		
Held-to-maturity (Market value of $2,400 on September 30, 2015 and $2,400 on December 31, 2014)	2,400	2,400
Available-for-sale (Amortized cost of $4,492,261 on September 30, 2015 and $4,894,428 on December 31, 2014)	4,532,783	4,911,963
Total investment securities	4,535,183	4,914,363
Loans	5,922,972	5,679,245
Less allowance for probable loan losses	(65,260)	(64,828)
Net loans	5,857,712	5,614,417
Bank premises and equipment, net	521,499	526,423
Accrued interest receivable	29,439	31,461
Other investments	468,986	440,670
Identified intangible assets, net	356	797
Goodwill	282,532	282,532
Other assets	114,828	130,711
Total assets	$ 12,052,217	$ 12,196,520

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

		September 30, 2015		December 31, 2014
Liabilities and Shareholders Equity				
Liabilities:				
Deposits:				
Demand non-interest bearing	$	3,089,266	$	2,930,253
Savings and interest bearing demand		2,981,034		3,025,680
Time		2,396,480		2,482,692
Total deposits		8,466,780		8,438,625
Securities sold under repurchase agreements		831,012		858,350
Other borrowed funds		803,550		1,073,944
Junior subordinated deferrable interest debentures		161,416		175,416
Other liabilities		131,822		69,527
Total liabilities		10,394,580		10,615,862
Shareholders equity:				
Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 95,856,588 shares on September 30, 2015 and 95,783,977 shares on December 31, 2014		95,857		95,784
Surplus		167,567		165,520
Retained earnings		1,648,630		1,585,389
Accumulated other comprehensive income (including $(4,332) on September 30, 2015 and $(4,881) on December 31, 2014 of comprehensive loss related to other-than-temporary impairment for non-credit related issues)		26,161		11,397
		1,938,215		1,858,090
Less cost of shares in treasury, 29,455,316 shares on September 30, 2015 and 29,324,567 December 31, 2014		(280,578)		(277,432)
Total shareholders equity		1,657,637		1,580,658
Total liabilities and shareholders equity	$	12,052,217	$	12,196,520

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest income:				
Loans, including fees	$ 77,176	$ 71,026	$ 222,546	$ 208,934
Investment securities:				
Taxable	20,620	24,149	67,760	76,873
Tax-exempt	2,901	2,744	8,423	8,995
Other interest income	27	39	105	133
Total interest income	100,724	97,958	298,834	294,935
Interest expense:				
Savings deposits	891	898	2,669	2,684
Time deposits	2,807	2,976	8,514	9,115
Securities sold under repurchase agreements	6,041	6,150	18,097	18,474
Other borrowings	375	488	1,219	1,608
Junior subordinated interest deferrable debentures	1,019	1,063	3,088	3,201
Total interest expense	11,133	11,575	33,587	35,082
Net interest income	89,591	86,383	265,247	259,853
Provision for probable loan losses	8,832	2,816	18,976	8,539
Net interest income after provision for probable loan losses	80,759	83,567	246,271	251,314
Non-interest income:				
Service charges on deposit accounts	20,627	22,514	59,669	67,026
Other service charges, commissions and fees				
Banking	11,028	10,880	34,556	33,791
Non-banking	2,091	2,083	5,057	5,143
Investment securities transactions, net		(6,446)	(428)	1,283
Other investments, net	4,400	5,641	12,117	17,008
Other income	4,876	1,811	9,029	11,873
Total non-interest income	43,022	36,483	120,000	136,124

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Non-interest expense:				
Employee compensation and benefits	$ 31,962	$ 32,326	$ 93,364	$ 92,560
Occupancy	7,143	7,865	20,003	22,729
Depreciation of bank premises and equipment	6,240	5,937	18,798	18,083
Professional fees	3,448	3,416	10,715	10,343
Deposit insurance assessments	1,511	1,515	4,441	4,512
Net expense, other real estate owned	1,678	(55)	4,074	1,704
Amortization of identified intangible assets	161	117	441	2,246
Advertising	1,857	1,928	5,887	5,713
Early termination fee securities sold under repurchase agreements	3,510		3,510	11,000
Impairment charges (Total other-than-temporary impairment losses, $(26), net of $223, $(8), net of $(281), $150, net of $850, and $(115), net of $(667), included in other comprehensive income)	249	273	700	552
Other	17,139	16,835	48,859	47,043
Total non-interest expense	74,898	70,157	210,792	216,485
Income before income taxes	48,883	49,893	155,479	170,953
Provision for income taxes	16,864	16,660	53,723	56,356
Net income	$ 32,019	$ 33,233	$ 101,756	$ 114,597
Basic earnings per common share:				
Weighted average number of shares outstanding:	66,449,974	66,860,997	66,430,440	66,971,555
Net income	$ .48	$ .50	$ 1.53	$ 1.71
Fully diluted earnings per common share:				
Weighted average number of shares outstanding:	66,661,841	67,016,937	66,633,913	67,119,213
Net income	$ .48	$ .50	$ 1.53	$ 1.71

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net income	$ 32,019	$ 33,233	$ 101,756	$ 114,597
Other comprehensive income (loss), net of tax				
Net unrealized holding gains (losses) on securities available for sale arising during period (tax effects of $9,409, $(7,888), $7,855 and $23,898)	17,474	(14,649)	14,587	44,382
Reclassification adjustment for gains (losses) on securities available for sale included in net income (tax effects of $0, $2,256, $(150) and $(449))		4,190	(278)	(834)
Reclassification adjustment for impairment charges on available for sale securities included in net income (tax effects of $87, $96, $245 and $193)	162	177	455	359
	17,636	(10,282)	14,764	43,907
Comprehensive income	$ 49,655	$ 22,951	$ 116,520	$ 158,504

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, 2015	2014
Operating activities:		
Net income	$ 101,756	$ 114,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable loan losses	18,976	8,539
Specific reserve, other real estate owned	918	371
Depreciation of bank premises and equipment	18,798	18,083
Loss (gain) on sale of bank premises and equipment	256	(3,955)
Gain on sale of other real estate owned	(197)	(314)
Accretion of investment securities discounts	(1,337)	(2,161)
Amortization of investment securities premiums	21,197	20,096
Investment securities transactions, net	428	(1,283)
Impairment charges on available-for-sale investment securities	700	552
Amortization of identified intangible assets	441	2,246
Stock based compensation expense	872	766
Earnings from affiliates and other investments	(9,853)	(10,455)
Deferred tax expense (benefit)	1,274	(2,993)
Decrease in accrued interest receivable	2,022	2,081
Net decrease (increase) in other assets	9,372	(4,779)
Net increase in other liabilities	14,358	8,300
Net cash provided by operating activities	179,981	149,691
Investing activities:		
Proceeds from maturities of securities	1,075	
Proceeds from sales and calls of available for sale securities	30,282	621,588
Purchases of available for sale securities	(310,030)	(648,910)
Principal collected on mortgage-backed securities	659,852	582,631
Net increase in loans	(269,207)	(470,723)
Purchases of other investments	(14,587)	(12,930)
Distributions received on other investments	15,307	23,311
Purchases of bank premises and equipment	(15,830)	(42,089)
Proceeds from sales of other real estate owned	12,727	10,251
Proceeds from sale of bank premises and equipment	1,700	8,419
Net cash provided by investing activities	$ 111,289	$ 71,548

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Financing activities:		
Net increase in non-interest bearing demand deposits	$ 159,013	$ 227,784
Net (decrease) increase in savings and interest bearing demand deposits	(44,646)	71,928
Net decrease in time deposits	(86,212)	(129,064)
Net decrease in securities sold under repurchase agreements	(27,338)	(87,970)
Net decrease in other borrowed funds	(270,394)	(236,769)
Purchase of treasury stock	(3,146)	(11,717)
Repayment of long-term debt	(14,000)	(10,310)
Proceeds from stock transactions	1,248	405
Payments of dividends on common stock	(19,259)	(16,741)
Net cash used in financing activities	(304,734)	(192,454)
(Decrease) increase in cash and cash equivalents	(13,464)	28,785
Cash and cash equivalents at beginning of period	255,146	274,785
Cash and cash equivalents at end of period	$ 241,682	$ 303,570
Supplemental cash flow information:		
Interest paid	$ 33,549	$ 35,764
Income taxes paid	46,218	64,912
Non-cash investing and financing activities:		
Net transfer from loans to other real estate owned	6,936	(2,406)
Dividends declared, not yet paid on common stock	19,256	18,021

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The accounting and reporting policies of International Bancshares Corporation (Corporation) and Subsidiaries (the Corporation and Subsidiaries collectively referred to herein as the Company) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, International Bank of Commerce, Laredo (IBC), Commerce Bank, International Bank of Commerce, Zapata, International Bank of Commerce, Brownsville and the Corporation s wholly-owned non-bank subsidiaries, IBC Subsidiary Corporation, IBC Life Insurance Company, IBC Trading Company, Premier Tierra Holdings, Inc., IBC Charitable and Community Development Corporation, and IBC Capital Corporation. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto in the Company s latest Annual Report on Form 10-K. The consolidated statement of condition at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications have been made to make prior periods comparable. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 or any future period.

The Company operates as one segment. The operating information used by the Company s chief executive officer for purposes of assessing performance and making operating decisions about the Company is the consolidated statements presented in this report. The Company has four active operating subsidiaries, namely, the bank subsidiaries, otherwise known as International Bank of Commerce, Laredo, Commerce Bank, International Bank of Commerce, Zapata and International Bank of Commerce, Brownsville. The Company applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), FASB ASC 280, Segment Reporting , in determining its reportable segments and related disclosures.

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements. During this period, the Company did not have any material recognizable or non-recognizable subsequent events.

Note 2 Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; it also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 Inputs Observable inputs other than Level 1 prices, 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, 2015 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value September 30, 2015	Fair Value Measurements at Reporting Date Using (Dollars in Thousands) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Assets:				
Available for sale securities				
Residential mortgage-backed securities	$ 4,197,674	$	$ 4,175,914	$ 21,760
States and political subdivisions	306,005		306,005	
Other	29,104	29,104		
	$ 4,532,783	$ 29,104	$ 4,481,919	$ 21,760

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, 2014 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value December 31, 2014	Fair Value Measurements at Reporting Date Using (Dollars in Thousands) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Assets:				
Available for sale securities				
Residential mortgage-backed securities	$ 4,600,372	$	$ 4,576,309	$ 24,063
States and political subdivisions	282,276		282,276	
Other	29,315	29,315		
	$ 4,911,963	$ 29,315	$ 4,858,585	$ 24,063

Investment securities available-for-sale are classified within level 2 and level 3 of the valuation hierarchy, with the exception of certain equity investments that are classified within level 1. For investments classified as level 2 in the fair value hierarchy, the Company obtains fair value measurements for investment securities 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. Investment securities classified as level 3 are non-agency mortgage-backed securities. The non-agency mortgage-backed securities held by the Company are traded in inactive markets and markets that have experienced significant decreases in volume and level of activity, as evidenced by few recent transactions, a significant decline or absence of new issuances, price quotations that are not based on comparable securities transactions and wide bid-ask spreads among other factors. As a result of the inability to use quoted market prices to determine fair value for these securities, the Company determined that fair value, as determined by level 3 inputs in the fair value hierarchy, is more appropriate for financial reporting and more consistent with the expected performance of the investments. For the investments classified within level 3 of the fair value hierarchy, the Company used a discounted cash flow model to determine fair value. Inputs in the model included both historical performance and expected future performance based on information currently available.

Assumptions used in the discounted cash flow model as of September 30, 2015 and December 31, 2014 were applied separately to those portions of the bond where the underlying residential mortgage loans had been performing under original contract terms for at least the prior 24 months and those where the underlying residential mortgages had not been meeting the original contractual obligation for the same period. Unobservable inputs included in the model are estimates on future principal prepayment rates, and default and loss severity rates. For that portion of the bond where the underlying residential mortgage had been meeting the original contract terms for at least 24 months, the Company used the following estimates in the model: (i) a voluntary prepayment rate of 7%, (ii) a 1% default rate, (iii) a loss severity rate of 25%, and (iv) a discount rate of 13%. The assumptions used in the model for the rest of the bond included the following estimates: (i) a voluntary prepayment rate of 2 %, (ii) a default rate of 4.5%, (iii) a loss severity rate that started at 60% for the first year (2012) then declines by 5% for the following five years (2013, 2014, 2015, 2016 and 2017) and remains at 25% thereafter (2018 and beyond), and (iv) a discount rate of 13%. The estimates used in the model to determine fair value are based on observable historical data of the underlying collateral. The model anticipates that the housing market will gradually improve and that the underlying collateral will eventually all perform in accordance with the original contract terms on the bond. Should the number of loans in the underlying collateral that default and go into foreclosure or the severity of the losses in the underlying collateral significantly change, the results of the model would be impacted. The Company will continue to evaluate the actual historical performance of the underlying collateral and will modify the assumptions used in the model as necessary.

The following table presents a reconciliation of activity for such mortgage-backed securities on a net basis (Dollars in Thousands):

Balance at December 31, 2014	$	24,063
Principal paydowns		(2,453)
Total unrealized losses included in:		
Other comprehensive income		850
Impairment realized		(700)
Balance at September 30, 2015	$	21,760

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

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period ended September 30, 2015 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value September 30, 2015	Fair Value Measurements at Reporting Date Using (Dollars in Thousands) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net (Credit) Provision During Period
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$ 15,207	$	$	$ 15,207	$ (9,038)
Other real estate owned	7,633			7,633	918

The following table represents financial instruments measured at fair value on a non-recurring basis as of and for the period ended December 31, 2014 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value December 31, 2014	Fair Value Measurements at Reporting Date Using (Dollars in Thousands) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net (Credit) Provision During the Period
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$ 29,501	$	$	$ 29,501	$ (1,557)
Other real estate owned	6,112			6,112	597

The Company s assets measured at fair value on a non-recurring basis are limited to impaired loans and other real estate owned. Impaired loans are classified within level 3 of the valuation hierarchy. The fair value of impaired loans is derived in accordance with FASB ASC 310, Receivables . Impaired loans are primarily comprised of collateral-dependent commercial loans. Understanding that as the primary sources of loan repayments decline, the secondary repayment source comes into play and correctly evaluating the fair value of that secondary source, the collateral, becomes even more important. Re-measurement of the impaired loan to fair value is done through a specific valuation allowance included in the allowance for probable loan losses. The fair value of impaired loans is based on the fair value of the collateral, as determined through either an appraisal or evaluation process. The basis for the Company s appraisal and appraisal review process is based on regulatory guidelines and strives to comply with all regulatory appraisal laws, regulations and the Uniform Standards of Professional Appraisal Practice. All appraisals and evaluations are as is (the property s highest and best use) valuations based on the current conditions of the property/project at that point in time. The determination of the fair value of the collateral is based on the net realizable value, which is the appraised value less any closing costs, when applicable. As of September 30, 2015, the Company had $47,339,000 of impaired commercial collateral dependent loans, of which $35,502,000 had an appraisal performed within the immediately preceding twelve months, and of which $2,958,000 had an evaluation performed within the immediately preceding twelve months. As of December 31, 2014, the Company had $65,551,000 of impaired commercial collateral dependent loans, of which $52,092,000 had an appraisal performed within the immediately preceding twelve months and of which $5,307,000 had an evaluation performed within the immediately preceding twelve months.

The determination to either seek an appraisal or to perform an evaluation begins in weekly credit quality meetings, where the committee analyzes the existing collateral values of the impaired loans and where obsolete appraisals are identified. In order to determine whether the Company would obtain a new appraisal or perform an internal evaluation to determine the fair value of the collateral, the credit committee reviews the existing appraisal to determine if the collateral value is reasonable in view of the current use of the collateral and the economic environment related to the collateral. If the analysis of the existing appraisal does not find that the collateral value is reasonable under the current circumstances, the Company would obtain a new appraisal on the collateral or perform an internal evaluation of the collateral. The ultimate decision to get a new appraisal rests with the independent credit administration group. A new appraisal is not required if an internal evaluation, as performed by in-house experts, is able to appropriately update the original appraisal assumptions to reflect current market conditions and provide an estimate of the collateral s market value for impairment analysis. The internal evaluations must be in writing and contain sufficient information detailing the analysis, assumptions and conclusions and they must support performing an evaluation in lieu of ordering a new appraisal.

Other real estate owned is comprised of real estate acquired by foreclosure and deeds in lieu of foreclosure. Other real estate owned is carried at the lower of the recorded investment in the property or its fair value less estimated costs to sell such property (as determined by independent appraisal) within level 3 of the fair value hierarchy. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for probable loan losses, if necessary. The fair value is reviewed periodically and subsequent write downs are made accordingly through a charge to operations. Other real estate owned is included in other assets on the consolidated financial statements. For the nine months ended September 30, 2015 and the twelve months ended December 31, 2014, respectively the Company recorded $1,017,000 and $367,000 in charges to the allowance for probable loan losses in connection with loans transferred to other real estate owned. For the nine months ended September 30, 2015 and the twelve months ended December 31, 2014, respectively, the Company recorded $918,000 and $597,000 in adjustments to fair value in connection with other real estate owned.

The fair value estimates, methods, and assumptions for the Company s financial instruments at September 30, 2015 and December 31, 2014 are outlined below.

Cash and Cash Equivalents

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Time Deposits with Banks

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

Investment Securities Held-to-Maturity

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

Investment Securities

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

Loans

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

For variable rate performing loans, the carrying amount approximates the fair value. For fixed rate performing loans, except residential mortgage loans, the fair value is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources or the primary origination market. Fixed rate performing loans are within Level 3 of the fair value hierarchy. At September 30, 2015, and December 31, 2014, the carrying amount of fixed rate performing loans was $1,379,521,000 and $1,352,147,000 respectively, and the estimated fair value was $1,308,766,000 and $1,285,648,000, 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, 2015 and December 31, 2014. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is based on currently offered rates. Time deposits are within Level 3 of the fair value hierarchy. At September 30, 2015 and December 31, 2014, the carrying amount of time deposits was $2,396,480,000 and $2,482,692,000, respectively, and the estimated fair value was $2,395,133,000 and $2,480,390,000, respectively.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements include both short and long-term maturities. Due to the contractual terms of the short-term instruments, the carrying amounts approximated fair value at September 30, 2015 and December 31, 2014. The fair value of the long-term instruments is based on established market spreads using option adjusted spread methodology. Long-term repurchase agreements are within level 3 of the fair value hierarchy. At September 30, 2015 and December 31, 2014, the carrying amount of long-term repurchase agreements was $560,000,000 and $610,000,000, respectively, and the estimated fair value was $518,148,000 and $558,097,100, respectively.

Junior Subordinated Deferrable Interest Debentures

The Company currently has 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, 2015 and December 31, 2014.

Other Borrowed Funds

The Company currently has short-term borrowings issued from the Federal Home Loan Bank (FHLB). Due to the contractual terms of the short-term borrowings, the carrying amounts approximated fair value at September 30, 2015 and December 31, 2014. The Company had one long-term borrowing outstanding at December 31, 2014, which was paid off in the second quarter of 2015. The fair value of long-term borrowings is based on established market spreads for similar types of borrowings. The long-term borrowings were included in Level 2 of the fair value hierarchy. At December 31, 2014, the carrying amount of the long-term FHLB borrowings was $6,244,000 and the estimated fair value was $6,645,000, 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 the Company s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s 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, 2015 and December 31, 2014 is as follows:

	September 30, 2015	December 31, 2014
	(Dollars in Thousands)	
Commercial, financial and agricultural	$ 3,073,381	$ 3,107,584

Real estate mortgage		948,700		910,326
Real estate construction		1,655,249		1,414,977
Consumer		58,286		61,137
Foreign		187,356		185,221
Total loans	$	5,922,972	$	5,679,245

Note 4 - Allowance for Probable Loan Losses

The allowance for probable loan losses primarily consists of the aggregate loan loss allowances of the bank subsidiaries. The allowances are established through charges to operations in the form of provisions for probable loan losses. Loan losses or recoveries are charged or credited directly to the allowances. The allowance for probable loan losses of each bank subsidiary is maintained at a level considered appropriate by management, based on estimated probable losses in the loan portfolio. The allowance for probable loan losses is derived from the following elements: (i) allowances established on specific impaired loans, which are based on a review of the individual characteristics of each loan, including the customer s ability to repay the loan, the underlying collateral values, and the industry in which the customer operates, (ii) allowances based on actual historical loss experience for similar types of loans in the Company s loan portfolio, and (iii) allowances based on general economic conditions, changes in the mix of loans, company resources, border risk and credit quality indicators, among other things. All segments of the loan portfolio continue to be impacted by the prolonged economic downturn. Loans secured by real estate could be impacted negatively by the continued economic environment and resulting decrease in collateral values. Consumer loans may be impacted by continued and prolonged unemployment rates..

The Company s management continually reviews the allowance for loan losses of the bank subsidiaries using the amounts determined from the allowances established on specific impaired loans, the allowance established on quantitative historical loss percentages, and the allowance based on qualitative data to establish an appropriate amount to maintain in the Company s allowance for loan losses. Should any of the factors considered by management in evaluating the adequacy of the allowance for probable loan losses change, the Company s estimate of probable loan losses could also change, which could affect the level of future provisions for probable loan losses. While the calculation of the allowance for probable loan losses utilizes management s best judgment and all information available, the adequacy of the allowance is dependent on a variety of factors beyond the Company s control, including, among other things, the performance of the entire loan portfolio, the economy, changes in interest rates and the view of regulatory authorities towards loan classifications.

The loan loss provision is determined using the following methods. On a weekly basis, loan past due reports are reviewed by the credit quality committee to determine if a loan has any potential problems and if a loan should be placed on the Company s internal classified report. Additionally, the Company s credit department reviews the majority of the Company s 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, the Company will determine if a loan should be placed on an internal classified report because of issues related to the analysis of the credit, credit documents, collateral and/or payment history.

A summary of the transactions in the allowance for probable loan losses by loan class is as follows:

	Three Months Ended September 30, 2015								
	Domestic							Foreign	
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign	Total
	(Dollars in Thousands)								
Balance at June 30,	$ 18,902	$ 13,524	$ 17,885	$ 685	$ 3,434	$ 4,308	$ 625	$ 1,175	$ 60,538
Losses charge to allowance	(4,921)	(10)			(45)	(60)	(131)		(5,167)

Recoveries credited to allowance	770	98	7		4	155	21	2	1,057
Net (losses) recoveries charged to allowance	(4,151)	88	7		(41)	95	(110)	2	(4,110)
Provision charged to operations	5,774	654	1,733	120	287	130	127	7	8,832
Balance at September 30,	$ 20,525	$ 14,266	$ 19,625	$ 805	$ 3,680	$ 4,533	$ 642	$ 1,184	$ 65,260

Three Months Ended September 30, 2014

	Domestic							Foreign	
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign	Total
				(Dollars in Thousands)					
Balance at June 30,	$ 28,006	$ 13,006	$ 19,538	$ 786	$ 3,721	$ 4,736	$ 706	$ 1,038	$ 71,537
Losses charge to allowance	(2,920)	(43)	(38)		(131)	(242)	(146)		(3,520)
Recoveries credited to allowance	740	14	42		11	40	47		894
Net (losses) recoveries charged to allowance	(2,180)	(29)	4		(120)	(202)	(99)		(2,626)
Provision charged to operations	2,454	852	(701)	(41)	27	164	79	(18)	2,816
Balance at September 30,	$ 28,280	$ 13,829	$ 18,841	$ 745	$ 3,628	$ 4,698	$ 686	$ 1,020	$ 71,727

Nine Months Ended September 30, 2015

	Domestic							Foreign	
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign	Total
				(Dollars in Thousands)					
Balance at December 31,	$ 22,352	$ 12,955	$ 18,683	$ 846	$ 3,589	$ 4,683	$ 660	$ 1,060	$ 64,828
Losses charge to allowance	(20,303)	(695)	(356)		(136)	(162)	(544)		(22,196)
Recoveries credited to allowance	2,100	137	820		28	406	151	10	3,652
Net (losses) recoveries charged to allowance	(18,203)	(558)	464		(108)	244	(393)	10	(18,544)
Provision charged to operations	16,376	1,869	478	(41)	199	(394)	375	114	18,976
Balance at September 30,	$ 20,525	$ 14,266	$ 19,625	$ 805	$ 3,680	$ 4,533	$ 642	$ 1,184	$ 65,260

	Nine Months Ended September 30, 2014 Domestic							Foreign	
	Commercial	Commercial Real Estate: Other Construction & Land Development	Commercial Real Estate: Farmland & Commercial	Commercial Real Estate: Multifamily	Residential: First Lien	Residential: Junior Lien	Consumer	Foreign	Total
	(Dollars in Thousands)								
Balance at December 31,	$ 22,433	$ 12,541	$ 24,467	$ 776	$ 3,812	$ 4,249	$ 750	$ 1,133	$ 70,161
Losses charge to allowance	(7,780)	(442)	(208)		(261)	(395)	(555)	(50)	(9,691)
Recoveries credited to allowance	2,156	66	100		16	140	194	46	2,718
Net losses charged to allowance	(5,624)	(376)	(108)		(245)	(255)	(361)	(4)	(6,973)
Provision charged to operations	11,471	1,664	(5,518)	(31)	61	704	297	(109)	8,539
Balance at September 30,	$ 28,280	$ 13,829	$ 18,841	$ 745	$ 3,628	$ 4,698	$ 686	$ 1,020	$ 71,727

The allowance for probable loan losses is a reserve established through a provision for probable loan losses charged to expense, which represents management s best estimate of probable loan losses when evaluating loans (i) individually or (ii) collectively. The increase in losses charged to the allowance for probable loan losses for the nine months ended September 30, 2015 can be attributed to a charge down of a loan relationship that is mainly secured by multiple pieces of transportation equipment, the value of which fluctuates due to market factors and the amount and use of the equipment. The loan was classified as a Watch-List Impaired loan at December 31, 2014 and was included in the balance of loans individually evaluated for impairment with a specific reserve at December 31, 2014.

The table below provides additional information on the balance of loans individually or collectively evaluated for impairment and their related allowance, by loan class as of September 30, 2015 and December 31, 2014:

	September 30, 2015 (Dollars in Thousands)			
	Loans Individually Evaluated for Impairment		Loans Collectively Evaluated for Impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	$ 31,265	$ 1,174	$ 981,126	$ 19,351
Commercial real estate: other construction & land development	6,349	100	1,648,900	14,166
Commercial real estate: farmland & commercial	9,642	482	1,943,066	19,143
Commercial real estate: multifamily	812		107,470	805
Residential: first lien	5,294		403,982	3,680
Residential: junior lien	1,028		538,396	4,533
Consumer	1,243		57,043	642
Foreign	749		186,607	1,184

Total	$	56,382	$	1,756	$	5,866,590	$	63,504

	December 31, 2014 (Dollars in Thousands)			
	Loans individually evaluated for impairment		Loans collectively evaluated for impairment	
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	$ 40,175	$ 9,112	$ 1,049,311	$ 13,240
Commercial real estate: other construction & land development	10,876	1,890	1,404,101	11,065
Commercial real estate: farmland & commercial	14,166	1,219	1,887,233	17,464
Commercial real estate: multifamily	835		115,864	846
Residential: first lien	5,840		416,186	3,589
Residential: junior lien	2,895		485,405	4,683
Consumer	1,384		59,753	660
Foreign			185,221	1,060
Total	$ 76,171	$ 12,221	$ 5,603,074	$ 52,607

During the second quarter of 2015, the Company charged down a portion of an impaired loan relationship that is mainly secured by multiple pieces of transportation equipment, the value of which fluctuates due to market factors. The Company also foreclosed upon two other real-estate secured commercial impaired loans. The transactions and their impact to the Company s loan portfolio, including the allowance for probable loan losses, non-accrual loans and impaired loans with a related allowance for September 30, 2015 compared to December 31, 2014 are illustrated in the various associated tables on the following pages.

The table below provides additional information on loans accounted for on a non-accrual basis by loan class at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(Dollars in Thousands)	
Domestic		
Commercial	$ 31,213	$ 40,121
Commercial real estate: other construction & land development	3,797	8,621
Commercial real estate: farmland & commercial	7,379	11,903
Commercial real estate: multifamily	792	835
Residential: first lien	322	527
Residential: junior lien	16	1,523
Consumer	36	29
Foreign	356	
Total non-accrual loans	$ 43,911	$ 63,559

Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans are measured based on (1) the present value of expected future cash flows discounted at the loan s effective interest rate; (2) the loan s observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company s impaired loans are measured at the fair value of the collateral. In limited cases the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

The following tables detail key information regarding the Company s impaired loans by loan class at September 30, 2015 and December 31, 2014:

	September 30, 2015						
				Quarter to Date		Year to Date	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)						
Loans with Related Allowance							
Domestic							
Commercial	$ 10,288	$ 21,840	$ 1,174	$ 11,247	$	$ 15,634	$
Commercial real estate: other construction & land development	169	169	100	170		1,136	
Commercial real estate: farmland & commercial	3,513	3,726	482	3,517	23	4,046	69
Total impaired loans with related allowance	$ 13,970	$ 25,735	$ 1,756	$ 14,934	$ 23	$ 20,816	$ 69

	September 30, 2015		Quarter to Date		Year to Date	
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
			(Dollars in Thousands)			
Loans with No Related Allowance						
Domestic						
Commercial	$ 20,977	$ 21,909	$ 21,291	$ 1	$ 20,623	$ 3
Commercial real estate: other construction & land development	6,180	6,206	6,045	20	6,561	57
Commercial real estate: farmland & commercial	6,129	7,263	6,203		7,253	
Commercial real estate: multifamily	812	812	819		832	1
Residential: first lien	5,294	5,353	5,315	65	5,375	188
Residential: junior lien	1,028	1,050	1,075	15	1,255	54
Consumer	1,243	1,244	1,263	1	1,201	2
Foreign	749	749	632	4	480	13
Total impaired loans with no related allowance	$ 42,412	$ 44,586	$ 42,643	$ 106	$ 43,580	$ 318

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
			(Dollars in Thousands)		
Loans with Related Allowance					
Domestic					
Commercial	$ 19,944	$ 20,026	$ 9,112	$ 19,313	$
Commercial real estate: other construction & land development	6,714	6,949	1,890	7,183	
Commercial real estate: farmland & commercial	5,107	5,257	1,219	6,790	92
Total impaired loans with related allowance	$ 31,765	$ 32,232	$ 12,221	$ 33,286	$ 92

	December 31, 2014			
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)			
Loans with No Related Allowance				
Domestic				
Commercial	$ 20,231	$ 20,260	$ 18,563	$ 4
Commercial real estate: other construction & land development	4,162	4,270	4,882	74
Commercial real estate: farmland & commercial	9,059	10,562	8,664	
Commercial real estate: multifamily	835	835	363	
Residential: first lien	5,840	6,034	6,293	273
Residential: junior lien	2,895	2,915	3,035	90
Consumer	1,384	1,386	1,402	3
Foreign				
Total impaired loans with no related allowance	$ 44,406	$ 46,262	$ 43,202	$ 444

The following tables detail key information regarding the Company s average recorded investment in and interest recognized on impaired loans by loan class at September 30, 2014:

	September 30, 2014			
	Quarter to Date		Year to Date	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)			
Loans with Related Allowance				
Domestic				
Commercial	$ 17,677	$	$ 17,550	$
Commercial real estate: other construction & land development	7,329		7,326	
Commercial real estate: farmland & commercial	7,519	23	6,839	69
Total impaired loans with related allowance	$ 32,525	$ 23	$ 31,715	$ 69

	September 30, 2014			
	Quarter to Date		Year to Date	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(Dollars in Thousands)			
Loans with No Related Allowance				
Domestic				
Commercial	$ 21,265	$ 1	$ 19,557	$ 3
Commercial real estate: other construction & land development	4,192	19	5,121	56
Commercial real estate: farmland & commercial	8,418		8,643	
Commercial real estate: multifamily	256		270	
Residential: first lien	5,648	64	6,028	191
Residential: junior lien	2,992	22	3,080	69
Consumer	1,408	1	1,407	3
Foreign	420	5	426	14
Total impaired loans with no related allowance	$ 44,599	$ 112	$ 44,532	$ 336

A portion of the impaired loans have adequate collateral and credit enhancements not requiring a related allowance for loan loss. The level of impaired loans is reflective of the economic weakness that has been created by the financial crisis and the subsequent economic downturn. Management is confident the Company s loss exposure regarding these credits will be significantly reduced due to the Company s long-standing practices that emphasize secured lending with strong collateral positions and guarantor support. Management is likewise confident the reserve for probable loan losses is adequate. The Company has no direct exposure to sub-prime loans in its loan portfolio, but the sub-prime crisis has affected the credit markets on a national level, and as a result, the Company has experienced an increasing amount of impaired loans; however, management s decision to place loans in this category does not necessarily mean that the Company will experience significant losses from these loans or significant increases in impaired loans from these levels.

Management of the Company recognizes the risks associated with these impaired loans. However, management s decision to place loans in this category does not necessarily mean that losses will occur. In the current environment, troubled loan management can be protracted because of the legal and process problems that delay the collection of an otherwise collectable loan. Additionally, management believes that the collateral related to these impaired loans and/or the secondary support from guarantors mitigates the potential for losses from impaired loans.

The following table details loans accounted for as troubled debt restructuring, segregated by loan class. Loans accounted for as troubled debt restructuring are included in impaired loans.

	September 30, 2015	December 31, 2014
	(Dollars in Thousands)	
Domestic		
Commercial	$ 2,420	$ 2,500
Commercial real estate: other construction & land development	2,553	2,254
Commercial real estate: farmland & commercial	2,853	2,861
Commercial real estate: multifamily	21	
Residential: first lien	4,972	5,313

Residential: junior lien		1,012		1,371
Consumer		1,208		1,354
Foreign		393		
Total troubled debt restructuring	$	15,432	$	15,653

The bank subsidiaries charge off that portion of any loan which management considers to represent a loss as well as that portion of any other loan which is classified as a loss by bank examiners. Commercial and industrial or real estate loans are generally considered by management to represent a loss, in whole or part, when an exposure beyond any collateral coverage is apparent and when no further collection of the loss portion is anticipated based on the borrower s financial condition and general economic conditions in the borrower s industry. Generally, unsecured consumer loans are charged-off when 90 days past due.

While management of the Company considers 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 allowance for probable loan losses can be made only on a subjective basis. It is the judgment of the Company s management that the allowance for probable loan losses at September 30, 2015 was adequate to absorb probable losses from loans in the portfolio at that date.

The following table presents information regarding the aging of past due loans by loan class at September 30, 2015 and December 31, 2014:

	September 30, 2015						
	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	$ 7,460	$ 1,318	$ 24,206	$ 653	$ 32,984	$ 979,407	$ 1,012,391
Commercial real estate: other construction & land development	2,847	1,930	7,292	3,791	12,069	1,643,180	1,655,249
Commercial real estate: farmland & commercial	2,862	1,783	3,180	1,653	7,825	1,944,883	1,952,708
Commercial real estate: multifamily	49	135	812	21	996	107,286	108,282
Residential: first lien	3,926	1,897	5,908	5,628	11,731	397,545	409,276
Residential: junior lien	814	388	370	370	1,572	537,852	539,424
Consumer	855	201	422	389	1,478	56,808	58,286
Foreign	1,310	230	938	582	2,478	184,878	187,356
Total	$ 20,123	$ 7,882	$ 43,128	$ 13,087	$ 71,133	$ 5,851,839	$ 5,922,972

	December 31, 2014						
	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	$ 4,103	$ 2,665	$ 40,665	$ 2,890	$ 47,433	$ 1,042,053	$ 1,089,486
Commercial real estate: other construction & land development	596	10	8,707	439	9,313	1,405,664	1,414,977
Commercial real estate: farmland & commercial	2,905	7,131	10,724	1,711	20,760	1,880,639	1,901,399
Commercial real estate: multifamily	351		856	21	1,207	115,492	116,699
Residential: first lien	5,895	1,864	4,267	3,901	12,026	410,000	422,026
Residential: junior lien	899	231	1,931	431	3,061	485,239	488,300
Consumer	896	216	507	482	1,619	59,518	61,137
Foreign	1,616	98	113	113	1,827	183,394	185,221
Total past due loans	$ 17,261	$ 12,215	$ 67,770	$ 9,988	$ 97,246	$ 5,581,999	$ 5,679,245

The Company s internal classified report is segregated into the following categories: (i) Special Review Credits, (ii) Watch List - Pass Credits, or (iii) Watch List - Substandard Credits. The loans placed in the Special Review Credits category reflect the Company s opinion that the loans reflect potential weakness which requires monitoring on a more frequent basis. The Special Review Credits are reviewed and discussed on a regular basis with the credit department and the lending staff to determine if a change in category is warranted. The loans placed in the Watch List - Pass Credits category reflect the Company s opinion that the credit contains weaknesses which represent a greater degree of risk, which warrant extra attention. The Watch List Pass Credits are reviewed and discussed on a regular basis with the credit department and the lending staff to determine if a change in category is warranted. The loans placed in the Watch List Substandard Credits classification are considered to be potentially inadequately protected by the current sound worth and debt service capacity of the borrower or of any pledged collateral. These credit obligations, even if apparently protected by collateral value, have shown defined weaknesses related to adverse financial, managerial, economic, market or political conditions which may jeopardize repayment of principal and interest. Furthermore, there is the possibility that some future loss could be sustained by the Company if such weaknesses are not corrected. For loans that are classified as impaired, management evaluates these credits in accordance with the provisions of ASC 310-10, Receivables, and, if deemed necessary, a specific reserve is allocated to the credit. The specific reserve allocated under ASC 310-10, is based on (i) the present value of expected future cash flows discounted at the loan s effective interest rate; (ii) the loan s observable market price; or (iii) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company s loans evaluated as impaired under ASC 310-10 are measured using the fair value of collateral method. In limited cases, the Company may use other methods to determine the specific reserve of a loan under ASC 310-10 if such loan is not collateral dependent.

The allowance based on historical loss experience on the Company s remaining loan portfolio, which includes the Special Review Credits, Watch List - Pass Credits, and Watch List - Substandard Credits is determined by segregating the remaining loan portfolio into certain categories such as commercial loans, installment loans, international loans, loan concentrations and overdrafts. Installment loans are then further segregated by number of days past due. A historical loss percentage, adjusted for (i) management s evaluation of changes in lending policies and procedures, (ii) current economic conditions in the market area served by the Company, (iii) other risk factors, (iv) the effectiveness of the internal loan review function, (v) changes in loan portfolios, and (vi) the composition and concentration of credit volume is applied to each category. Each category is then added together to determine the allowance allocated under ASC 450-20.

A summary of the loan portfolio by credit quality indicator by loan class at September 30, 2015 and December 31, 2014 is as follows:

	September 30, 2015				
	Pass	Special Review	Watch List - Pass	Watch List - Substandard	Watch List - Impaired
	(Dollars in Thousands)				
Domestic					
Commercial	$ 867,908	$	$ 22,793	$ 90,425	$ 31,265
Commercial real estate: other construction & land development	1,586,892	327	12,278	49,403	6,349
Commercial real estate: farmland & commercial	1,800,442	5,397	37,293	99,934	9,642
Commercial real estate: multifamily	107,335			135	812
Residential: first lien	400,468			3,514	5,294
Residential: junior lien	538,140			256	1,028
Consumer	57,033			10	1,243
Foreign	186,607				749
Total	$ 5,544,825	$ 5,724	$ 72,364	$ 243,677	$ 56,382

	December 31, 2014				
	Pass	Special Review	Watch List - Pass	Watch List - Substandard	Watch List - Impaired
	(Dollars in Thousands)				
Domestic					
Commercial	$ 961,490	$ 38,382	$ 3,793	$ 45,646	$ 40,175
Commercial real estate: other construction & land development	1,353,971	1,005	10,428	38,697	10,876
Commercial real estate: farmland & commercial	1,754,741	11,674	23,453	97,365	14,166
Commercial real estate: multifamily	115,729			135	835
Residential: first lien	412,668	3,500		18	5,840
Residential: junior lien	484,968			437	2,895
Consumer	59,622			131	1,384
Foreign	185,221				
Total	$ 5,328,410	$ 54,561	$ 37,674	$ 182,429	$ 76,171

The decrease in Special Review credits for September 30, 2015 compared to December 31, 2014 can be attributed to the re-classification of a commercial loan relationship secured mainly by all assets, including contract rights of the borrower, to the Watch-List Substandard category. The decrease in Watch-List Impaired loans at September 30, 2015 compared to December 31, 2014 can be attributed to the charge down of a loan relationship that is mainly secured by multiple pieces of transportation equipment, the value of which fluctuates due to market factors, and the foreclosure of two other real estate secured commercial impaired loans. The increase in Watch-List Pass loans at September 30, 2015 compared to December 31, 2014 can be attributed to the a commercial loan relationship that is mainly secured by all assets, including contract rights, and oil and gas leases and a commercial loan relationship secured by a retail shopping center.

Note 5 Stock Options

On April 5, 2012, the Board of Directors adopted the 2012 International Bancshares Corporation Stock Option Plan (the 2012 Plan). There are 800,000 shares available for stock option grants under the 2012 Plan. Under the 2012 Plan, both qualified incentive stock options (ISOs) and non-qualified stock options (NQSOs) may be granted. 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. As of September 30, 2015, 168,500 shares were available for future grants under the 2012 Plan.

A summary of option activity under the stock option plans for the nine months ended September 30, 2015 is as follows:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)		Aggregate Intrinsic Value ($) (Dollars in Thousands)
Options outstanding at December 31, 2014	993,889	$	18.94			
Plus: Options granted	56,500		24.24			
Less:						
Options exercised	72,611		17.73			
Options expired	44,075		26.73			
Options forfeited	37,221		17.85			
Options outstanding at September 30, 2015	896,482		19.00	6.86	$	5,411
Options fully vested and exercisable at September 30, 2015	184,965	$	13.59	3.35	$	2,115

Stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2015 was approximately $289,000 and $872,000, respectively. Stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2014 was approximately $301,000 and $766,000, respectively. As of September 30, 2015, there was approximately $3,263,000 of total unrecognized stock-based compensation cost related to non-vested options granted under the Company plans that will be recognized over a weighted average period of 2.0 years.

Note 6 - Investment Securities

The Company classifies debt and equity securities into one of three categories: held-to maturity, available-for-sale, or trading. Such 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 include