INTERNATIONAL BANCSHARES CORP
Form 10-Q
November 06, 2013

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, 2013

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	67,204,987 shares outstanding at November 1, 2013

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands, except per share amounts)

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 302,514	$ 283,100
Investment securities:		
Held-to-maturity (Market value of $2,400 on September 30, 2013 and $2,400 on December 31, 2012)	2,400	2,400
Available-for-sale (Amortized cost of $5,470,103 on September 30, 2013 and $5,423,189 on December 31, 2012)	5,448,750	5,525,015
Total investment securities	5,451,150	5,527,415
Loans	5,052,161	4,775,004
Less allowance for probable loan losses	(67,829)	(58,193)
Net loans	4,984,332	4,716,811
Bank premises and equipment, net	492,375	481,287
Accrued interest receivable	28,983	31,034
Other investments	386,302	372,739
Identified intangible assets, net	4,368	7,819
Goodwill	282,532	282,532
Other assets	144,102	179,936
Total assets	$ 12,076,658	$ 11,882,673

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands, except per share amounts)

	September 30, 2013	December 31, 2012
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand non-interest bearing	$ 2,651,632	$ 2,465,750
Savings and interest bearing demand	2,759,122	2,867,151
Time	2,702,052	2,954,312
Total deposits	8,112,806	8,287,213
Securities sold under repurchase agreements	1,001,137	1,129,679
Other borrowed funds	1,289,493	749,027
Junior subordinated deferrable interest debentures	190,726	190,726
Other liabilities	67,145	90,320
Total liabilities	10,661,307	10,446,965
Shareholders equity:		
Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 95,736,255 shares on September 30, 2013 and 95,724,517 shares on December 31, 2012	95,736	95,725
Surplus	163,744	163,287
Retained earnings	1,428,057	1,369,543
Accumulated other comprehensive (loss) income (including $(5,991) and $(6,811) of comprehensive loss related to other- than-temporary impairment for non-credit related issues)	(13,677)	65,662
	1,673,860	1,694,217
Less cost of shares in treasury, 28,537,180 shares on September 30, 2013 and 28,537,180 December 31, 2012	(258,509)	(258,509)
Total shareholders equity	1,415,351	1,435,708
Total liabilities and shareholders equity	$ 12,076,658	$ 11,882,673

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, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest income:				
Loans, including fees	$ 66,482	$ 67,254	$ 194,633	$ 202,990
Investment securities:				
Taxable	21,821	23,388	60,941	71,128
Tax-exempt	3,318	2,972	9,439	8,682
Other interest income	29	161	71	440
Total interest income	91,650	93,775	265,084	283,240
Interest expense:				
Savings deposits	885	1,074	2,852	4,176
Time deposits	3,644	5,910	12,067	18,650
Securities sold under repurchase agreements	7,162	8,811	22,042	29,380
Other borrowings	454	195	1,033	541
Junior subordinated interest deferrable debentures	862	1,430	3,191	5,378
Total interest expense	13,007	17,420	41,185	58,125
Net interest income	78,643	76,355	223,899	225,115
Provision for probable loan losses	5,800	5,349	17,561	16,741
Net interest income after provision for probable loan losses	72,843	71,006	206,338	208,374
Non-interest income:				
Service charges on deposit accounts	25,026	23,748	72,363	69,601
Other service charges, commissions and fees				
Banking	11,327	9,492	31,362	28,980
Non-banking	2,092	2,038	4,668	4,971
Investment securities transactions, net		32,935	9,601	35,527
Other investments, net	3,871	3,650	19,503	11,431
Other income	2,165	2,144	6,941	7,493
Total non-interest income	44,481	74,007	144,438	158,003

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Non-interest expense:				
Employee compensation and benefits	$ 30,627	$ 30,541	$ 91,602	$ 90,152
Occupancy	7,604	8,032	22,596	24,873
Depreciation of bank premises and equipment	6,433	6,618	19,677	20,335
Professional fees	3,669	4,279	11,344	11,820
Deposit insurance assessments	1,683	2,289	5,061	5,346
Net expense, other real estate owned	1,360	3,065	4,724	5,631
Amortization of identified intangible assets	1,156	1,163	3,451	3,463
Advertising	1,795	1,713	5,664	5,510
Early termination fee securities sold under repurchase agreements		31,550	12,303	31,550
Impairment charges (Total other-than-temporary impairment losses, $(13), net of $(560), $(402), net of $(641), $(27), net of $(1,273), and $947, net of $300, included in other comprehensive loss)	573	239	1,300	647
Other	15,327	16,955	47,080	47,351
Total non-interest expense	70,227	106,444	224,802	246,678
Income before income taxes	47,097	38,569	125,974	119,699
Provision for income taxes	15,271	12,691	38,566	37,584
Net income	31,826	25,878	87,408	82,115
Preferred stock dividends		3,845		10,543
Net income available to common shareholders	$ 31,826	$ 22,033	$ 87,408	$ 71,572
Basic earnings per common share:				
Weighted average number of shares outstanding:	67,197,847	67,225,701	67,192,112	67,246,793
Net income	$ .47	$ .33	$ 1.30	$ 1.06
Fully diluted earnings per common share:				
Weighted average number of shares outstanding:	67,333,442	67,301,701	67,301,863	67,326,856
Net income	$ .47	$ .33	$ 1.30	$ 1.06

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, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income	$ 31,826	$ 25,878	$ 87,408	$ 82,115
Other comprehensive income, net of tax				
Net unrealized holding gains (losses) on securities available for Sale arising during period (tax effects of $609, $10,897, $(39,816) and $11,292)	1,132	20,238	(73,943)	20,971
Reclassification adjustment for gains on securities available for sale included in net income (tax effects of $0, $(11,527), $(3,360)and $(12,434))		(21,408)	(6,241)	(23,093)
Reclassification adjustment for impairment charges on available for sale securities included in net income (tax effects of $201, $84, $455 and $226)	372	155	845	421
	1,504	(1,015)	(79,339)	(1,701)
Comprehensive income	$ 33,330	$ 24,863	$ 8,069	$ 80,414

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, 2013	2012
Operating activities:		
Net income	$ 87,408	$ 82,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable loan losses	17,561	16,741
Specific reserve, other real estate owned	478	2,032
Depreciation of bank premises and equipment	19,677	20,335
Gain on sale of bank premises and equipment	(626)	(734)
Gain on sale of other real estate owned	(201)	(239)
Accretion of investment securities discounts	(2,844)	(2,346)
Amortization of investment securities premiums	35,666	20,290
Investment securities transactions, net	(9,601)	(35,527)
Impairment charges on available-for-sale investment securities	1,300	647
Amortization of identified intangible assets	3,451	3,463
Stock based compensation expense	322	366
Earnings from affiliates and other investments	(16,085)	(8,836)
Deferred tax (benefit) expense	(2,325)	2,267
Decrease in accrued interest receivable	2,051	1,516
Net decrease (increase) in other assets	16,624	(271)
Net increase in other liabilities	7,535	16,793
Net cash provided by operating activities	160,391	118,612
Investing activities:		
Proceeds from maturities of held-to-maturity securities		1,125
Proceeds from sales and calls of available for sale securities	178,124	1,279,963
Purchases of available for sale securities	(1,274,574)	(2,383,774)
Principal collected on mortgage-backed securities	1,025,015	955,550
Net (increase) decrease in loans	(285,453)	86,501
Purchases of other investments	(1,637)	(2,956)
Distributions received on other investments	4,159	8,845
Purchases of bank premises and equipment	(30,792)	(23,650)
Proceeds from sales of other real estate owned	19,303	25,643
Proceeds from sale of bank premises and equipment	653	3,795
Net cash used in investing activities	(365,202)	(48,958)

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Financing activities:		
Net increase in non-interest bearing demand deposits	$ 185,882	$ 182,477
Net decrease in savings and interest bearing demand deposits	(108,029)	(22,938)
Net decrease in time deposits	(252,260)	(114,460)
Net decrease in securities sold under repurchase agreements	(128,542)	(175,017)
Net increase in other borrowed funds	540,466	120,900
Purchase of treasury stock		(1,092)
Redemption of senior preferred shares		(40,000)
Proceeds from stock transactions	146	43
Payments of dividends on common stock	(13,438)	(13,450)
Payments of dividends on preferred stock		(7,911)
Net cash provided by (used in) financing activities	224,225	(71,448)
Increase (decrease) in cash and cash equivalents	19,414	(1,794)
Cash and cash equivalents at beginning of period	283,100	261,885
Cash and cash equivalents at end of period	$ 302,514	$ 260,091
Supplemental cash flow information:		
Interest paid	$ 43,405	$ 60,651
Income taxes paid	45,480	22,271
Non-cash investing and financing activities:		
Accrued dividends, preferred shares		1,100
Dividends declared, not yet paid on common stock	15,456	13,445
Net transfer from loans to other real estate owned	(371)	55,694
Purchases of available-for-sale securities not yet settled		442,240

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, IBC Capital Corporation and Premier Tierra Holdings, Inc. 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, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications have been made to make prior periods comparable.

The Company operates as one segment. The operating information used by the Company s chief executive officer for purposes of assessing performance and making operating decisions about the Company is the consolidated statements presented in this report. The Company has four active operating subsidiaries, namely, the bank subsidiaries, otherwise known as International Bank of Commerce, Laredo, Commerce Bank, International Bank of Commerce, Zapata and International Bank of Commerce, Brownsville.

The Company 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, 2013 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using (in thousands)		
	Assets/Liabilities Measured at Fair Value September 30, 2013	**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	$ 5,172,186	$	$ 5,143,187	$ 28,999
States and political subdivisions	247,731		247,731	
Other	28,833	28,833		
Total	$ 5,448,750	$ 28,833	$ 5,390,918	$ 28,999

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, 2012 by level within the fair value measurement hierarchy:

[redacted]				
Measured on a recurring basis:				
[redacted]				
Available for sale securities				
[redacted]				
States and political subdivisions	238,675		238,675	
[redacted]				
Total	$ 5,525,015	$ 21,136	$ 5,471,019	$ 32,860

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.

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Assumptions used in the discounted cash flow model as of September 30, 2013 and December 31, 2012 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, 2012	$	32,860
Principal paydowns		(3,833)
Total unrealized gains (losses) included in:		
Other comprehensive loss		1,272
Impairment realized in earnings		(1,300)
Balance at September 30, 2013	$	28,999

Certain assets and liabilities are measured at fair value on a nonrecurring basis. They 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 assets measured at fair value on a non-recurring basis as of and for the period ended September 30, 2013 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using (in thousands)			
	Assets/Liabilities Measured at Fair Value September 30, 2013	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 Nine Months ended September 30, 2013
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$ 29,159	$	$	$ 29,159	$ 11,048
Other real estate owned	11,656			11,656	478

The following table represents assets measured at fair value on a non-recurring basis as of and for the year ended December 31, 2012 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using (in thousands)			
	Assets/Liabilities Measured at Fair Value December 31, 2012	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 Twelve Months ended December 31, 2012
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$ 11,981	$	$	$ 11,981	$ 295
Other real estate owned	18,749			18,749	

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. The fair value of impaired loans is based on the fair value of the collateral, as determined through an appraisal 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. 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. New or updated appraisals may be obtained as warranted after evaluation of any material deterioration in the performance of the project, the conditions for the geographic area where the property is located, the property type, differences between the current property conditions and the conditions assumed in prior appraisals or evaluations, or changes in project specifications. 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. Impaired loans are remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for probable loan losses based upon the fair value of the underlying collateral. As of September 30, 2013, the Company had $87,914,000 of impaired commercial collateral dependent loans, of which $70,548,000 had an appraisal or evaluation performed within the last twelve months. As of December 31, 2012, the Company had $73,646,000 of impaired commercial collateral dependent loans, of which $48,856,000 had an appraisal or evaluation performed within the last twelve months.

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, 2013 and the twelve months ended December 31, 2012, respectively the Company recorded $237,000 and $10,450,000 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, 2013 and twelve months ended December 31, 2012, respectively, the Company recorded $ 478,000 and $0 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, 2013 and December 31, 2012 are outlined below.

Cash and Due From Banks and Federal Funds Sold

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, 2013, and December 31, 2012, the carrying amount of fixed rate performing loans was $1,207,154,000 and $1,189,585,000 respectively, and the estimated fair value was $1,152,663,000 and $1,126,228,000, 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, 2013 and December 31, 2012. 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, 2013 and December 31, 2012, the carrying amount of time deposits was $2,702,052,000 and $2,954,312,000, respectively, and the estimated fair value was $2,695,908,000 and $2,962,190,000, 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, 2013 and December 31, 2012. 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, 2013 and December 31, 2012, respectively, the carrying amount of long-term repurchase agreements was $710,000,000 and $800,000,000 and the estimated fair value was $799,005,000 and $932,007,000, 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, 2013 and December 31, 2012.

Other Borrowed Funds

The company currently has short and long-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, 2013 and December 31, 2012. The fair value of the long-term borrowings is based on established market spreads for similar types of borrowings. The long-term borrowings are included in Level 2 of the fair value hierarchy. At September 30, 2013 and December 31, 2012, the carrying amount of the long-term FHLB borrowings was $8,993,000, and $6,527,000, respectively, and the estimated fair value was $8,993,000 and $7,073,000, 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, 2013 and December 31, 2012 is as follows:

	September 30, 2013	December 31, 2012
	(Dollars in Thousands)	
Commercial, financial and agricultural	$ 2,841,022	$ 2,525,380
Real estate mortgage	837,326	838,467
Real estate construction	1,119,342	1,147,669
Consumer	67,422	74,514
Foreign	187,049	188,974
Total loans	$ 5,052,161	$ 4,775,004

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:

	Quarter ended September 30, 2013								
	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,	$ 20,676	$ 11,624	$ 22,383	$ 623	$ 3,855	$ 4,047	$ 797	$ 1,046	$ 65,051
Losses charge to allowance	(3,540)	(2)			(22)	(149)	(130)	(2)	(3,845)
Recoveries credited to allowance	658	10	9		45	80	21		823
Net losses charged to allowance	(2,882)	8	9		23	(69)	(109)	(2)	(3,022)
Provision (credit) charged to operations	3,370	(10)	1,549	112	186	404	124	65	5,800
Balance at September 30,	$ 21,164	$ 11,622	$ 23,941	$ 735	$ 4,064	$ 4,382	$ 812	$ 1,109	$ 67,829