INTERNATIONAL BANCSHARES CORP
Form 10-Q
August 08, 2011

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 June 30, 2011

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	67,522,606 shares outstanding at August 1, 2011

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 221,922	$ 197,814
Total cash and cash equivalents	221,922	197,814
Investment securities:		
Held-to-maturity (Market value of $2,450 on June 30, 2011 and $2,450 on December 31, 2010)	2,450	2,450
Available-for-sale (Amortized cost of $4,933,681 on June 30, 2011 and $5,041,847 on December 31, 2010)	5,067,648	5,086,457
Total investment securities	5,070,098	5,088,907
Loans, net of unearned discounts	5,256,183	5,410,003
Less allowance for probable loan losses	(78,481)	(84,482)
Net loans	5,177,702	5,325,521
Bank premises and equipment, net	460,933	468,950
Accrued interest receivable	33,969	35,660
Other investments	358,552	360,955
Identified intangible assets, net	14,705	17,309
Goodwill, net	282,532	282,532
Other assets	199,930	165,821
Total assets	$ 11,820,343	$ 11,943,469

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

Liabilities and Shareholders Equity	June 30, 2011	December 31, 2010
Liabilities:		
Deposits:		
Demand non-interest bearing	$ 1,746,356	$ 1,639,076
Savings and interest bearing demand	2,672,263	2,522,842
Time	3,368,266	3,437,640
Total deposits	7,786,885	7,599,558
Securities sold under repurchase agreements	1,423,589	1,433,270
Other borrowed funds	755,901	1,026,780
Junior subordinated deferrable interest debentures	190,726	201,117
Other liabilities	101,179	223,527
Total liabilities	10,258,280	10,484,252
Commitments, Contingent Liabilities and Other Tax Matters (Note 10)		
Shareholders equity:		
Series A Cumulative perpetual preferred shares, $.01 par value, $1,000 per share liquidation value. Authorized 25,000,000 shares; issued 216,000 shares on June 30, 2011, net of discount of $6,712 and issued 216,000 shares on December 31, 2010, net of discount of $7,932	209,288	208,068
Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 95,717,948 shares on June 30, 2011 and 95,711,285 shares on December 31, 2010	95,718	95,711
Surplus	162,575	162,276
Retained earnings	1,261,403	1,214,743
Accumulated other comprehensive income (including $(7,285) and $(6,870) of comprehensive loss related to other-than-temporary impairment for non-credit related issues)	86,388	28,777
	1,815,372	1,709,575
Less cost of shares in treasury, 28,195,342 shares on June 30, 2011 and 28,016,059 shares on December 31, 2010	(253,309)	(250,358)
Total shareholders equity	1,562,063	1,459,217
Total liabilities and shareholders equity	$ 11,820,343	$ 11,943,469

See accompanying notes to consolidated financial statements.

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INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest income:				
Loans, including fees	$ 74,574	$ 78,766	$ 149,254	$ 159,380
Investment securities:				
Taxable	29,208	32,348	59,463	69,681
Tax-exempt	2,386	1,783	4,514	3,416
Other interest income	1,676	183	1,751	425
Total interest income	107,844	113,080	214,982	232,902
Interest expense:				
Savings deposits	2,232	2,410	4,494	4,891
Time deposits	8,145	12,822	16,915	25,875
Securities sold under repurchase agreements	10,613	11,235	21,199	22,287
Other borrowings	445	129	1,095	440
Junior subordinated interest deferrable debentures	2,998	3,047	6,035	6,077
Total interest expense	24,433	29,643	49,738	59,570
Net interest income	83,411	83,437	165,244	173,332
(Credit) provision for probable loan losses	(1,917)	1,429	2,163	8,658
Net interest income after (credit) provision for probable loan losses	85,328	82,008	163,081	164,674
Non-interest income:				
Service charges on deposit accounts	23,918	24,954	48,700	49,234
Other service charges, commissions and fees				
Banking	14,412	12,167	27,438	23,787
Non-banking	1,177	1,855	2,669	3,523
Gain on investment securities transactions, net	1,445	2,573	2,861	30,837
Other investments, net	4,220	4,116	9,576	7,473
Other income	2,692	3,735	4,986	6,144
Total non-interest income	47,864	49,400	96,230	120,998

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income, continued (Unaudited)

(Dollars in Thousands, except per share data)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Non-interest expense:				
Employee compensation and benefits	$ 32,620	$ 32,498	$ 64,655	$ 64,162
Occupancy	9,015	8,724	17,616	17,242
Depreciation of bank premises and equipment	7,931	8,969	16,258	17,981
Professional fees	3,689	3,781	7,575	7,763
Deposit insurance assessments	2,592	2,668	5,049	5,212
Net expense, other real estate owned	8,150	905	9,264	1,885
Amortization of identified intangible assets	1,323	1,324	2,626	2,625
Advertising	1,840	2,453	3,627	5,067
Litigation expense				21,803
Impairment charges (Total other-than-temporary impairment charges, $(254), net of $(420), $17, net of ($241), $1,055, net of $640, and $4,045, net of $(3,416) included in other comprehensive income)	166	258	415	7,461
Other	16,616	17,884	32,322	33,842
Total non-interest expense	83,942	79,464	159,407	185,043
Income before income taxes	49,250	51,944	99,904	100,629
Provision for income taxes	16,626	17,936	33,759	34,575
Net income	32,624	34,008	66,145	66,054
Preferred Stock Dividends	3,315	3,277	6,620	6,545
Net income available to common shareholders	$ 29,309	$ 30,731	$ 59,525	$ 59,509
Basic earnings per common share:				
Weighted average number of shares outstanding:	67,628,223	68,063,899	67,664,567	68,083,089
Net income	$ .43	$ .45	$ .88	$ .87
Fully diluted earnings per common share:				
Weighted average number of shares outstanding:	67,689,784	68,163,864	67,734,494	68,184,767
Net income	$ .43	$ .45	$ .88	$ .87

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 32,624	$ 34,008	$ 66,145	$ 66,054
Other comprehensive income, net of tax				
Net unrealized holding gains on securities available for sale arising during period (tax effects of $29,866, $9,567, $31,877 and $9,746)	55,465	17,766	59,201	18,099
Reclassification adjustment for gains on securities available for sale included in net income (tax effects of $(505), $(901), $(1,001) and $(10,793))	(940)	(1,672)	(1,860)	(20,044)
Reclassification adjustment for impairment charges on available for sale securities included in net income (tax effects of $58, $90, $145 and $2,611)	108	168	270	4,850
Comprehensive income	$ 87,257	$ 50,270	$ 123,756	$ 68,959

See accompanying notes to consolidated financial statements.

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating activities:		
Net income	$ 66,145	$ 66,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable loan losses	2,163	8,658
Accretion of time deposit discounts	(7)	(7)
Depreciation of bank premises and equipment	16,258	17,981
Gain on sale of bank premises and equipment	(332)	(192)
Accretion of investment securities discounts	(870)	(793)
Amortization of investment securities premiums	10,223	4,940
Investment securities transactions, net	(2,861)	(30,837)
Impairment charges on available-for-sale investment securities	415	7,461
Amortization of junior subordinated debenture discounts	9	18
Amortization of identified intangible assets	2,626	2,625
Stock based compensation expense	195	297
Earnings from affiliates and other investments	(8,980)	(6,490)
Deferred tax benefit	(2,283)	(10,374)
Decrease in accrued interest receivable	1,691	2,599
Net decrease (increase) in other assets	7,149	5,867
Net increase in other liabilities	2,942	28,448
Net cash provided by operating activities	94,483	96,255
Investing activities:		
Proceeds from maturities of securities	500	600
Proceeds from sales and calls of available for sale securities	774,856	1,051,172
Purchases of available for sale securities	(1,331,496)	(1,238,690)
Principal collected on mortgage-backed securities	497,445	458,264
Net decrease in loans	104,376	89,232
Purchases of other investments	(2,173)	(1,014)
Distributions of other investments	13,556	43,912
Purchases of bank premises and equipment	(9,018)	(8,553)
Proceeds from sale of bank premises and equipment	1,109	1,678
Net cash provided by investing activities	49,155	396,601

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Financing activities:		
Net increase in non-interest bearing demand deposits	$ 107,280	$ 44,561
Net increase in savings and interest bearing demand deposits	149,421	121,767
Net (decrease) increase in time deposits	(69,367)	135,544
Net (decrease) increase in securities sold under repurchase agreements	(9,681)	48,700
Net decrease in other borrowed funds	(270,879)	(804,125)
Repayment of long-term debt	(5,200)	
Purchase of treasury stock	(2,951)	(2,663)
Proceeds from stock transactions	110	1
Payments of dividends on common stock	(12,863)	(11,578)
Payments of dividends on preferred stock	(5,400)	(5,400)
Net cash used in financing activities	(119,530)	(473,193)
Increase in cash and cash equivalents	24,108	19,663
Cash and cash equivalents at beginning of period	197,814	224,638
Cash and cash equivalents at end of period	$ 221,922	$ 244,301
Supplemental cash flow information:		
Interest paid	52,494	$ 60,729
Income taxes paid	42,773	45,552
Accrued dividends, preferred shares	1,350	1,350
Sales of available-for-sale securities not yet settled		15,271
Net transfer from loans to other real estate owned	41,280	25,724
Purchases of available-for-sale securities not yet settled		28,269
Accrued partial redemption of trust preferred securities, IB Capital Trust I	5,200	

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, 2010 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

Fair value is defined 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 June 30, 2011 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value Measurements at Reporting Date Using (in thousands)		
Measured on a recurring basis:				
Assets:				
U.S. Treasury securities				
Available-for-sale	$ 828	$	$ 828	$
Residential mortgage-backed securities				
Available-for-sale	4,843,601		4,801,913	41,688
States and political subdivisions				
Available-for-sale	208,458		208,458	
Other				
Available-for-sale	14,761	14,761		

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, 2010 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value Measurements at Reporting Date Using (in thousands)		
Measured on a recurring basis:				
Assets:				
U.S. Treasury securities				
Available-for-sale	$ 1,327	$	$ 1,327	$
Residential mortgage-backed securities				
Available-for-sale	4,924,468		4,878,440	46,028
States and political subdivisions				
Available-for-sale	145,997		145,997	
Other				
Available-for-sale	14,665	14,665		

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 in-active markets and markets that have experienced significant decreases in volume and level of activity, as exhibited 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 included estimates on future principal prepayment rates, default and loss severity rates. The Company estimates that future principal prepayment rates will range from 4 5% and used a 13% discount rate. Default rates used in the model were 10 11% for the first year and 7% thereafter, and loss severity rates started at 60% for the first year and are declined by 10% for the following three years, and remains at 20% thereafter.

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

Balance at December 31, 2010	$	46,028
Principal paydowns, net of discount amortization		(3,285)
Total unrealized gains (losses) included in:		
Other comprehensive income		(640)
Net income		(415)
Balance at June 30, 2011	$	41,688

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 June 30, 2011 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using (in thousands)			
	Assets/Liabilities Measured at Fair Value Six months ended June 30, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Provision During Period**
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$ 25,855	$	$	$ 25,855	$ 814
Other real estate owned	31,042			31,042	7,633

The following table represents assets measured at fair value on a non-recurring basis as of and for the year ended December 31, 2010 by level within the fair value measurement hierarchy:

	Assets/Liabilities Measured at Fair Value Year ended December 31, 2010	Fair Value Measurements at Reporting Date Using (in thousands) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Provision During Period
Measured on a non-recurring basis:					
Assets:					
Impaired loans	$ 24,034	$	$	$ 24,034	$ (114)
Other real estate owned	52,319			52,319	719

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 Topic 310, Receivables . The fair value of impaired loans is based on the fair value of the collateral, as determined through an external appraisal process, discounted based on internal criteria. Impaired loans are primarily comprised of collateral-dependent commercial loans. 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.

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. Other real estate owned is included in other assets on the consolidated financial statements. For the six months ended June 30, 2011 and the twelve months ended December 31, 2010, the Company recorded $1,251,000 and $23,999,000 in charges to the allowance for probable loan losses in connection with other real estate owned. For the six months ended June 30, 2011 and the twelve months ended December 31, 2010, the Company recorded $7,633,000 and $719,000 in write downs in fair value in connection with other real estate owned.

The fair value estimates, methods, and assumptions for the Company s financial instruments at June 30, 2011 and December 31, 2010 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 based on quoted market prices or dealer quotes. Fair values are based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, probable tax ramifications, or estimated transaction costs. 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. At June 30, 2011, and December 31, 2010, the carrying amount of fixed rate performing loans was $1,342,693,000 and $1,337,827,000 respectively, and the estimated fair value was $1,266,119,000 and $1,226,413,000, 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 June 30, 2011 and December 31, 2010. 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. At June 30, 2011 and December 31, 2010, the carrying amount of time deposits was $3,368,266,000 and $3,437,640,000, respectively, and the estimated fair value was $3,379,746,000 and $3,449,980,000, 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 June 30, 2011 and December 31, 2010. The fair value of the long-term instruments is based on established market spreads. At June 30, 2011 and December 31, 2010, the carrying amount of long-term repurchase agreements was $1,000,000,000 and the estimated fair value was $1,127,908,000 and $1,123,774,000, respectively.

Junior Subordinated Deferrable Interest Debentures

The Company currently has fixed and 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 June 30, 2011 and December 31, 2010. The fair value of the fixed rate junior subordinated deferrable interest debentures is based on established market spreads to the debentures. At June 30, 2011 and December 31, 2010, the carrying amount of fixed rate junior subordinated deferrable interest debentures was $128,868,000 and $139,259,000, respectively, and the estimated fair value was $70,259,000 and $74,103,000, respectively.

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 June 30, 2011 and December 31, 2010. The fair value of the long-term borrowings is based on established market spreads for similar types of borrowings. At June 30, 2011 and December 31, 2010, the carrying amount of the long-term FHLB borrowings was $6,726,000 and $6,780,000, respectively, and the estimated fair value was $6,726,000 and $6,780,000, 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 net loans, by loan type at June 30, 2011 and December 31, 2010 is as follows:

	June 30, 2011	December 31, 2010
	(Dollars in Thousands)	
Commercial, financial and agricultural	$ 2,658,034	$ 2,615,878
Real estate mortgage	943,978	948,982

Real estate construction		1,297,647		1,473,471
Consumer		108,113		126,047
Foreign		248,411		245,625
Total loans	$	5,256,183	$	5,410,003

Note 4 - Allowance for Probable Loan Losses

The allowance for probable loan losses consists of the aggregate loan loss allowances of the subsidiaries that hold loans. 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 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 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 the customer operates in (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 loss of the subsidiaries using the amounts determined from the allowances established on specific loans, allowance established on quantitative historical percentages, allowance based on qualitative data, and the loans charged off and recoveries to establish an appropriate amount to maintain in the Company s allowance for loan loss. If the basis of the Company s assumptions change, the allowance for loan loss would either decrease or increase and the Company would increase or decrease the provision for loan loss charged to operations accordingly. 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 specific loan loss provision is determined using the following methods. On a weekly basis, loan past due reports are reviewed by the servicing loan officer to determine if a loan has any potential problem 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 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, any analysis on 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:

	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,	$ 22,046	$ 26,695	$ 16,340	$ 53	$ 10,059	$ 2,611	$ 6,241	$ 437	$ 84,482
Losses charge to allowance	(6,818)	(1,218)	(645)		(659)	(566)	(570)	(13)	(10,490)
	1,671	74	194		4	264	118	1	2,326

Recoveries credited to allowance									
Net losses charged to allowance	(5,147)	(1,144)	(451)		(655)	(302)	(452)	(12)	(8,164)
(Credit) provision charged to operations	3,728	(5,475)	5,439	801	(3,294)	3,224	(3,411)	1,150	2,163
Balance at June 30,	$ 20,627	$ 20,076	$ 21,328	$ 854	$ 6,110	$ 5,533	$ 2,378	$ 1,575	$ 78,481

	June 30, 2010 (Dollars in Thousands)
Balance at December 31,	$ 95,393
Losses charged to allowance	(14,298)
Recoveries credited to allowance	615
Net losses charged to allowance	(13,683)
Provision charged to operations	8,658
Balance at June 30,	$ 90,368

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 Company s provision for probable loan losses decreased from December 31, 2010 to June 30, 2011 mainly due to a decrease in the Company s charge-off experience over the last year and a decrease in the loan portfolio. While the Texas and Oklahoma economies are performing better and appear to be recovering faster than other parts of the country, Texas and Oklahoma are not completely immune to the problems associated with the U.S. economy.

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 June 30, 2011 and December 31, 2010:

	June 30, 2011 (Dollars in Thousands)			
	Loans individually evaluated for impairment		Loans collectively evaluated for impairment	
	(Dollars in Thousands)			
	Recorded Investment	Allowance	Recorded Investment	Allowance
Domestic				
Commercial	$ 23,365	$ 7,937	$ 799,557	$ 12,690
Commercial real estate: other construction & land development	32,674	371	1,264,973	19,705
Commercial real estate: farmland & commercial	31,340	4,334	1,691,043	16,994
Commercial real estate: multifamily	440		112,289	854
Residential: first lien	1,799			