

PUBLIC DISCLOSURE

June 24, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

International Bank of Commerce
Certificate Number: 24961

908 North U.S. Highway 83
Zapata, Texas 78076

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Dallas Regional Office

600 North Pearl Street, Suite 700
Dallas, Texas 75201

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio (LTD) is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the institution's assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment areas, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

The Community Development Test is rated Outstanding.

The institution's community development (CD) performance demonstrates excellent responsiveness to CD needs in its assessment areas through CD loans, qualified investments (QIs), and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for CD in the institution's assessment areas.

DESCRIPTION OF INSTITUTION

International Bank of Commerce, Zapata, Texas (IBC Zapata) began operations in 1984 in Zapata, Texas. The bank received a Satisfactory rating at its previous March 11, 2021, Federal Deposit Insurance Corporation (FDIC) Performance Evaluation based on the Federal Financial Institutions Examination Council's (FFIEC) Intermediate Small Institution CRA Examination Procedures.

International Bancshares Corporation, Laredo, Texas, wholly owns IBC Subsidiary Corporation, Laredo, Texas. In turn, IBC Subsidiary Corporation wholly owns IBC Zapata as well as International Bank of Commerce, Laredo, Texas; International Bank of Commerce, Brownsville, Texas; International Bank of Commerce, Oklahoma City, Oklahoma; and Commerce Bank, Laredo, Texas. During the evaluation period, IBC Zapata operated from 9 full-service offices throughout its assessment areas in Texas. The bank has not opened any offices or participated in any merger or acquisition activity since the previous evaluation, but closed one office in Freer, Texas located in a middle-income census tract.

With a primary business focus on commercial loans, IBC Zapata's loan products include commercial, residential, construction, agricultural, and consumer loans. The bank also offers a variety of deposit services including consumer and commercial checking and savings accounts, debit and gift cards, and merchant processing for commercial customers. The CD Services describes the availability of alternative banking services.

Assets totaled \$479.5 million as of March 30, 2024, and included total loans of \$136.0 million, total securities of \$278.9 million, and total deposits of \$420.4 million. As seen in the following table, the mix of outstanding loans reflects an inconsistent distribution to that shown for originated loans under the Scope of Evaluation. The typically larger dollar amount and longer maturities for residential loans generally account for their prominence in outstanding loans.

Loan Portfolio Distribution as of 03/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	16,382	12.0
Secured by Farmland	15,057	11.1
Secured by 1-4 Family Residential Properties	53,588	39.4
Secured by Multifamily (5 or more) Residential Properties	530	0.4
Secured by Nonfarm Nonresidential Properties	20,709	15.2
Total Real Estate Loans	106,266	78.1
Commercial and Industrial Loans	17,407	12.8
Agricultural Production and Other Loans to Farmers	3,745	2.8
Consumer Loans	7,879	5.8
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	713	0.5
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	136,010	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREAS

IBC Zapata designated two noncontiguous, non-metropolitan statistical area (Non-MSA) assessment areas (AAs). The Bee Non-MSA AA encompasses all of Bee County, which consists of nine census tracts. The Zapata Non-MSA AA consists of contiguous Jim Hogg, Jim Wells, Kleberg, Starr, and Zapata counties encompassing 46 census tracts. For presentation purposes, examiners will combine both AAs into the Texas Non-MSA AA and apply full-scope procedures. The combined Texas Non-MSA AA conforms to CRA regulatory requirements. IBC Zapata closed the Freer Branch on December 30, 2021, and removed Duval County from its assessment area.

Economic and Demographic Data

The Texas Non-MSA AA's 55 census tracts consist of 8 low-, 22 moderate-, 17 middle-, and 7 upper-income tracts, with 1 undesignated income tract based on the 2020 U.S. Census data. Further, the middle-income geographies all received distressed designations, primarily based on the poverty levels. Apart from Kleberg County, the unemployment rate also contributed to the distressed designation.

IBC Zapata's main office is located on the Mexico border approximately 50 miles south of Laredo, Texas. As a result, the bank attracts a considerable volume of foreign Mexican National deposits, which may provide a source of loan funding typically well in excess of any loan demand from these individuals. The nature of existing tax laws and the needs of the depositors themselves may make these deposits a less reliable source of loan funding.

The largest industries in the Texas Non-MSA AA, by percentage of businesses, consist of services at 32.0 percent, non-classifiable establishments at 19.5 percent, and retail trade at 14.6 percent. Major employers in the area include the Naval Air Station in Kleberg County, Rio Grande City Independent School District in Starr County, Zapata Independent School District in Zapata County, and other neighboring school districts and county governments in the Texas Non-MSA AA. The below table provides a listing of the Texas Workforce Commission's unemployment rates for each county in the Texas Non-MSA AA as compared to the Texas and the national averages as of April 2024.

Unemployment Rates	
Area	%
Bee County	4.4
Jim Hogg County	4.4
Jim Wells County	4.5
Kleberg County	3.8
Starr County	8.6
Zapata County	6.1
State of Texas	3.5
National Average	3.5
Source: Texas Workforce Commission – April 2024	

The following table provides select demographic and economic data for the Texas Non-MSA AA.

Demographic Information of the Texas Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	55	14.5	40.0	30.9	12.7	1.8
Population by Geography	185,625	18.7	39.4	27.5	14.4	0.0
Housing Units by Geography	69,145	15.2	41.3	31.2	12.3	0.0
Owner-Occupied Units by Geography	37,056	16.4	40.2	30.8	12.7	0.0
Occupied Rental Units by Geography	18,022	14.3	43.2	28.5	13.9	0.0
Vacant Units by Geography	14,067	13.0	41.8	35.9	9.2	0.0
Businesses by Geography	11,255	13.7	43.6	29.0	13.7	0.0
Farms by Geography	431	3.7	32.5	37.4	26.5	0.0
Family Distribution by Income Level	39,650	32.1	20.1	15.6	32.1	0.0
Household Distribution by Income Level	55,078	33.8	17.6	15.3	33.3	0.0
Median Family Income Non-MSAs - TX		\$61,785	Median Housing Value Median Gross Rent Families Below Poverty Level			\$88,967 \$714 22.4%
Source: 2020 U.S. Census Data and 2023 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.						

Competition

According to the FDIC Deposit Market Share report as of June 30, 2023, 21 financial institutions operated 46 offices within the bank's assessment area, reflecting a moderate level of competition for financial services. Of these institutions, IBC Zapata ranked 1st in deposit market share by capturing

15.2 percent of the area's deposits. Additionally, credit unions, mortgage companies, and finance companies also operate in the area, heightening the competition level. Overall, the competition level allows for lending opportunities.

Community Contact

As part of the evaluation process, examiners obtain information from third parties knowledgeable of the assessment area to assist in identifying the credit and community development needs of the area. This information not only helps in identifying credit and community development needs and opportunities, but also assists in determining whether local financial institutions are responsive to those needs.

Examiners contacted a community member knowledgeable of the area's economic, demographic, and business environments to help assess the current economic conditions, community credit needs, and potential opportunities for bank involvement in the area. The contact indicated that economic conditions are weak with the area experiencing a high unemployment rate and continued border problems. Opportunities for financial institution participation include small business, commercial, and home mortgage loans, according to the contact. The contact also indicated that local financial institutions are proactive in meeting the area's community and surrounding area needs.

Credit and Community Development Needs and Opportunities

. Considering information obtained from the community contact, bank management, as well as demographic and economic information, examiners determined that the primary credit needs include small business lending along with residential, agricultural, construction, and consumer loans. The general overall economy serves to expand the area's credit needs and opportunities and the overall financial competition does not restrict available opportunities.

With respect to the area's CD needs, examiners considered that nearly one-fourth of the area's families reported incomes below the poverty level and that 52.2 percent of the area's families report either low or moderate incomes, suggesting a need for activities that aid in providing community services targeted to low- and moderate-income individuals. Other CD needs exist regarding activities that revitalize or stabilize qualifying geographies, as suggested by the 54.5 percent of the area's census tracts receiving low- or moderate-income designations. Further, a need exists to expand affordable housing stock in low- and moderate-income geographies and to low- and moderate-income individuals.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from March 11, 2021, to June 24, 2024, the date of the previous evaluation to this evaluation's date. To assess performance, examiners applied the FFIEC Intermediate Small Institution CRA Examination Procedures, which include the Lending Test and Community Development Test. The appendix lists the applicable tests' criteria. This evaluation does not consider any affiliate lending activity.

Activities Reviewed

Intermediate Small Institution procedures require examiners to determine the bank's major product lines for review. As an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans. The following table shows lending activity for 2023, which reflects a decrease in commercial loan volume and an increase in agricultural lending since the last evaluation due to loan demand.

Loans Originated or Purchased				
Loan Category	\$(000s)	%	#	%
Construction and Land Development	12,449	20.0	19	1.9
Secured by Farmland	13,017	21.0	20	2.1
Secured by 1-4 Family Residential Properties	4,842	7.8	14	1.4
Multi-Family (5 or more) Residential Properties	0	0.0	0	0.0
Commercial Real Estate Loans	4,788	7.7	20	2.1
Commercial and Industrial Loans	15,923	25.7	315	32.1
Agricultural Loans	3,589	5.8	54	5.5
Consumer Loans	7,452	12.0	538	54.9
Other Loans	0	0.0	0	0.0
Total Loans	62,060	100.0	980	100.0
<i>Source: Bank Data (2023)</i>				

Considering the dollar volume of loans originated, as well as management's stated business strategy, examiners determined that the bank's major product line consists of commercial loans at 33.4 percent of total loans by dollar volume during 2023, followed by farm lending at 26.8 percent. Since none of the other loan categories typically considered, including mortgage lending at 7.8 percent by dollar volume and consumer loans at 12.0 percent, represent a major product line and would not materially affect any conclusions or ratings, this evaluation does not discuss them.

Consequently, this evaluation considers the universe of 710 small business loans totaling approximately \$24.0 million originated in 2021, the universe of 463 small business loans totaling approximately \$17.8 million originated in 2022, and the universe of 391 small business loans totaling approximately \$20.7 million originated in 2023 when reviewing the bank's assessment area concentration performance. This evaluation also considers universe of 91 small farm loans totaling approximately \$4.2 million originated in 2021, the universe of 85 small farm loans totaling approximately \$3.0 million originated in 2022, and the universe of 89 small farm loans totaling approximately \$3.8 million originated in 2023 when reviewing the bank's assessment area concentration performance. The evaluation presents only the 2023 data regarding the bank's geographic and borrower profile distribution performances since no trends exist between the different years' data that materially affect applicable conclusions or ratings.

D&B data for 2023 provides a standard of comparison for the small business and small farm loans evaluated. Small business loans represent a majority of the loan categories reported by number and dollar volume and therefore received more weight when arriving at overall conclusions.

For the Community Development Test, bank management provided data on CD loans, QIs, and CD services since the prior CRA evaluation dated March 11, 2021. The evaluation discusses and presents information on the bank's CD activities within the designated assessment area, as well as the broader regional, statewide, and nationwide area, consistent with the Intermediate Small Institution CRA Examination Procedures.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

IBC Zapata demonstrated a satisfactory record regarding the Lending Test. Excellent borrower profile performance hampered by reasonable geographic distribution performance primarily supports this conclusion. Additionally, the bank demonstrated a reasonable LTD ratio and originated a majority of loans in the bank's Texas Non-MSA AA.

Loan-to-Deposit Ratio

The LTD ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio averaged 32.2 percent over the past 13 calendar quarters from March 31, 2021, to March 31, 2024, lower than the 49.8 percent average ratio reported at the previous evaluation. The ratio ranged from a low of 27.9 percent as of March 31, 2023, to a high of 37.2 percent as of March 31, 2021, with a downward trend noted.

Although still reflective of reasonable performance, examiners noted that IBC Zapata's average, net LTD ratio was somewhat affected by the bank's larger volume of foreign deposits and public funds. Further, and as noted previously, the Texas Non-MSA AA suffered from more limited loan demand during the period of review, in part due to continued loss and declining oil and gas exploration as well higher unemployment and population loss.

Examiners identified and listed in the following table five comparable banks. Two comparisons similar to the bank's asset size and lending focus showed average, net LTD ratios ranging from 32.7 percent to 60.4 percent, one similar to IBC Zapata's ratio. The three smaller asset sized but local area comparisons showed an average, net LTD from 34.4 percent to 55.3 percent, also somewhat similar to IBC Zapata's ratio.

LTD Ratio Comparison		
Bank	Total Assets as of 03/31/2024 (\$000s)	Average Net LTD Ratio (%)
International Bank of Commerce, Zapata, Texas	479,542	32.2
Citizens State Bank, Roma, Texas	83,280	55.3
SouthTrust Bank, NA, George West, Texas	579,084	60.4
The First National Bank of Hebbronville, Hebbronville, Texas	85,937	34.4
The Karnes County National Bank, Karnes City, Texas	499,805	32.7
Zapata National Bank, Zapata, Texas	87,983	44.4
<i>Source: Reports of Condition and Income (03/31/2021 – 03/31/2024)</i>		

Assessment Area Concentration

A majority of loans and other lending-related activities are in the institution's assessment area. As reflected in the below table, the bank originated a majority of its small business and small farm loans, by number and dollar volume, inside its assessment area.

Lending Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Amount of Loans \$(000s)				
Loan Category	Inside		Outside		Total #	Inside		Outside		Total \$(000s)
	#	%	#	%		\$	%	\$	%	
Small Business										
2021	600	84.5	110	15.5	710	18,233	75.9	5,776	24.1	24,009
2022	398	86.0	65	14.0	463	14,124	79.3	3,686	20.7	17,810
2023	320	81.8	71	18.2	391	15,033	72.5	5,716	27.5	20,749
Subtotal	1,318	84.3	246	15.7	1,564	47,390	75.7	15,178	24.3	62,568
Small Farm										
2021	78	85.7	13	14.3	91	3,305	77.8	944	22.2	4,249
2022	69	81.2	16	18.8	85	2,559	86.3	405	13.7	2,964
2023	70	78.7	19	21.3	89	2,721	71.7	1,072	28.3	3,793
Subtotal	217	81.9	48	18.1	265	8,585	78.0	2,421	22.0	11,006
Total	1,535	83.9	294	16.1	1,829	55,975	76.1	17,599	23.9	73,574
Source: Bank Data (2021, 2022, and 2023)										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Reasonable performance regarding small business outweighed excellent performance regarding small farm loans in the Texas Non-MSA AA to support this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable performance. Reasonable performance in the low-income geographies lifted the poor performance in the moderate-income

geographies to support this conclusion. Examiners focused on the bank's percentage of loans, by number, granted in low- and moderate-income geographies relative to the percent of businesses.

The following table shows that within low-income census tracts, the bank's lending percentage lands slightly above, by 1.9 percentage points, the percentage of businesses, reflecting reasonable performance. The table further shows that within moderate-income geographies, the bank's level of lending falls 8.0 percentage points below the D&B level, reflecting poor performance. Examiners placed more weigh on performance in moderate- income census tracts where demographic data indicated more lending opportunities.

Geographic Distribution of Small Business Loans Texas Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	13.7	50	15.6	2,985	19.9
Moderate	43.6	114	35.6	4,732	31.5
Middle	29.0	151	47.2	7,020	46.7
Upper	13.7	5	1.6	296	2.0
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	320	100.0	15,033	100.0
<i>Source: 2023 D&B Data; Bank Data; (2023) Due to rounding, totals may not equal 100.0%</i>					

Small Farm Loans

The geographic distribution of small farm loans reflects excellent performance. Excellent performance in moderate-income census tracts and reasonable performance in low-income census tracts support this conclusion. Examiners focused on the bank's percentage of loans, by number, granted in low- and moderate-income geographies relative to the percent of farms.

The following table shows that within low-income census tracts, the bank's lending percentage lands above, by 2.0 percentage points, the percentage of farms, reflecting reasonable performance. The table further shows that within moderate-income geographies, the bank's level of lending exceeds the D&B level by 14.6 percentage points, reflecting excellent performance. Examiners placed more weigh on performance in moderate- income census tracts where demographic data indicated more lending opportunities.

Geographic Distribution of Small Farm Loans Texas Non-MSA AA					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	3.7	4	5.7	80	2.9
Moderate	32.5	33	47.1	1,296	47.6
Middle	37.4	32	45.7	1,299	47.7
Upper	26.5	1	1.4	46	1.7
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	70	100.0	2,721	100.0
<i>Source: 2023 D&B Data; Bank Data (2023); Due to rounding, totals may not equal 100.0%</i>					

Borrower Profile

The distribution of borrowers reflects, given the demographics of the assessment areas, excellent penetration among businesses and farms of different sizes. Excellent performances regarding small business and small farm loans in the Texas Non-MSA AA supports this conclusion.

Small Business Loans

The distribution of small business loans based on the borrowers' profiles reflects excellent performance. An excellent record of lending to businesses with gross annual revenues of \$1 million or less primarily supports this conclusion. Examiners focused on the bank's overall level of lending to businesses with gross annual revenues of \$1 million or less when arriving at this conclusion. The companies' gross annual revenues define the borrowers' profiles for this review.

The following table shows that the bank originated approximately nine out of every ten loans to businesses with gross annual revenues of \$1 million or less, reflecting an excellent level. Examiners noted that D&B data reflected 84.6 percent of businesses reporting gross annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenue Category Texas Non-MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	84.6	296	92.5	10,377	69.0
> \$1,000,000	2.7	24	7.5	4,656	31.0
Revenue Not Available	12.7	0	0.0	0	0.0
Total	100.0	320	100.0	15,033	100.0
<i>Source: 2023 D&B Data; Bank Data (2023)</i>					

Small Farm Loans

The distribution of small farm loans based on the borrowers' profiles reflects excellent performance. An excellent record of lending to farms with gross annual revenues of \$1 million or less primarily supports this conclusion. Examiners focused on the bank's overall level of lending to farms with gross annual revenues of \$1 million or less when arriving at this conclusion. The farms' gross annual revenues define the borrowers' profiles for this review.

The following table shows that the bank originated more than nine out of every ten loans to farms with gross annual revenues of \$1 million or less, reflecting an excellent level. Examiners noted that D&B data reflected 94.7 percent of farms reporting gross annual revenues of \$1 million or less.

Distribution of Small Farm Loans by Gross Annual Revenue Category Texas Non-MSA AA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
≤ \$1,000,000	94.7	68	97.1	2,439	89.6
> \$1,000,000	1.6	2	2.9	282	10.4
Revenue Not Available	3.7	0	0.0	0	0.0
Total	100.0	70	100.0	2,721	100.0
<i>Source: 2023 D&B Data; Bank Data (2023)</i>					

Response to Complaints

The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

IBC Zapata demonstrated an outstanding record regarding the Community Development Test. The institution's CD performance demonstrates excellent responsiveness to CD needs in its assessment areas through CD loans, QIs, and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for CD in the institution's assessment area.

Community Development Loans

IBC Zapata originated 8 CD loans totaling approximately \$17.3 million during the evaluation period. This level of activity represents 3.7 percent of average total assets of \$470.4 million and 13.5 percent of average net loans of \$127.7 million since the prior CRA evaluation. These levels decreased from the 5.2 percent of average total assets and 14.4 percent of average net loans reported at the previous evaluation.

The CD loans proved responsive to the areas' needs given that they primarily address revitalization or stabilization needs. As seen in the following table, 84.1 percent by dollar volume address activities that revitalize or stabilize low-income, moderate-income, and distressed or underserved middle-income geographies, which demonstrates the bank's responsiveness to an identified CD need. The bank also provided loan modifications to customers experiencing financial hardships, demonstrating responsiveness to community needs. The following table illustrates the bank's CD lending activity by year and purpose, which all benefited the Texas Non-MSA AA.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2021 (Partial)	0	0	0	0	0	0	3	5,049	3	5,049
2022	0	0	0	0	0	0	3	7,200	3	7,200
2023	0	0	0	0	0	0	1	2,275	1	2,275
YTD 2024	0	0	0	0	1	2,752	0	0	1	2,752
Total	0	0	0	0	1	2,752	7	14,524	8	17,276
<i>Source: Bank Data</i>										

The following provides an example of a CD loan in the Texas Non-MSA AA.

- **Revitalize or Stabilize** – In 2021, the bank renewed and extended a \$2.0 million loan to finance the construction and operation of a grocery and retail hardware store in a low-income census tract within Starr County. The activity revitalizes or stabilizes a qualifying geography by employing and serving local residents, ultimately retaining existing businesses and residents.

Qualified Investments

The bank made use of 94 QIs totaling approximately \$20.4 million. The total dollar volume equates to 4.3 percent of average total assets and 7.4 percent of average securities of \$275.9 million, since the prior evaluation. These levels increased significantly from the 165 QIs totaling approximately \$3.6 million, equating to 0.8 percent of average total assets and 1.7 percent of average securities, recorded at the prior evaluation.

Despite the low activity in the bank's assessment area, the bank displayed a high number of QI activities that benefitted the broader statewide/regional area.

The following table indicates that by dollar volume, 98.1 percent of the QIs supported affordable housing activities. . The following table illustrates the bank's qualified investments and donations by area and purpose.

Qualified Investments by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Texas Non-MSA AA	1	3,000	84	375	5	6	0	0	90	3,381
Statewide/Regional	4	16,982	0	0	0	0	0	0	4	16,982
Total	5	19,982	84	375	5	6	0	0	94	20,363
<i>Source: Bank Data</i>										

The following provides an example of a QI in the Texas Non-MSA AA.

- ***Affordable Housing*** – The bank invested \$3 million into a CRA investment fund during the evaluation period. The fund’s investment advisor identifies, purchases, and earmarks CRA-qualified securities in the fund related to the bank’s assessment area. Thus, the investments support affordable housing for low- and moderate-income individuals in the Texas Non-MSA AA.

Community Development Services

The following table shows that the bank provided 81 CD services since the prior evaluation. This level decreased from the 574 CD services recorded at the prior evaluation. The services all involve bank personnel’s use of their technical expertise to benefit organizations or projects with a primary purpose of CD, as defined by the CRA regulation.

The table also shows that 90.1 percent of the services benefited community service organizations that serve low- and moderate-income individuals, which demonstrates the bank’s responsiveness to an identified CD need. Additionally, certain activities reflect a leadership role and a heightened level of effort by IBC Zapata along with its affiliated institutions in initiating or developing those activities. As noted below, these activities include the development of the We Do More Rx Card that provides discounts on prescription drugs and involved coordinating with the nationally recognized Pharmacy Benefit Manager that has over 54,000 participating pharmacies. The following table illustrates the bank’s CD services by year and purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2021 (Partial)	0	3	0	0	3
2022	0	20	5	0	25
2023	0	35	2	0	37
YTD 2024	0	15	1	0	16
Total	0	73	8	0	81
<i>Source: Bank Data</i>					

The following provides examples of CD services in the Texas Non-MSA AA.

- ***Community Services*** – In a leadership role, IBC Zapata and its affiliated institutions developed the We Do More Rx Card. The card, targeted to low- and moderate-income bank customers, provides discounts on all Food and Drug Administration-approved prescription drugs that amount to savings on average of 15.0 percent of the cash price for brand name drugs and 40.0 percent off generic drugs. The activity provides community services by addressing health matters targeted to low- and moderate-income individuals.
- ***Community Services*** –Bank employees provided financial education to various local high school, middle school, and elementary school students targeted to low- and moderate-income individuals. The bank employees used the Money Smart, Get Smart About Credit, and the

bank's own version of Money Smart called Money Buzz, to teach the basics of handling money and finances, including how to create positive relationships with financial institutions.

As shown in the following table, the bank operates two branches in low-income census tracts and five branches in moderate-income census tracts. The percentage of branches in low- and moderate census tracts exceeds demographic data.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	8	14.5	34,657	18.7	2	22.2	4	22.2
Moderate	22	40.0	73,069	39.4	5	55.6	10	55.6
Middle	17	30.9	51,088	27.5	0	0.0	2	11.1
Upper	7	12.7	26,811	14.4	2	22.2	2	11.1
NA	1	1.8	0	0.0	0	0	0	0
Total	55	100.0	185,625	100.0	9	100.0	18	100.0
<i>Source: 2020 U.S. Census; Bank Data</i>								

Besides its full-service office locations, the bank provides excellent alternative delivery systems that help avail its services to low- and moderate-income individuals or geographies. IBC Zapata has nine branch locations, including three that are opened seven days a week with extended hours at other branches. Further, as noted in the table above, IBC Zapata operates 14 ATMs in low- and moderate-income areas. Due to IBC Zapata's affiliation with its holding company, its customers also receive free access to all branch locations and ATMs that make up the International Bancshares Corporation network. As of December 31, 2023, this network includes 166 branch locations and 256 ATMs.

In addition to its ATMs, the bank provides other alternative delivery systems consisting of online banking and bill pay, IBC mobile, a mobile banking product that provides many of these same services from any mobile device, and IBC Voice, which provides free 24-hour customer access to accounts via a local telephone number. Additionally, the bank offers IBC Link, which is a delivery system that addresses various needs of commercial customers, including small businesses, such as transferring funds between accounts, reconciling account balances, and performing wire transfers.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.