

# INTERNATIONAL BANCSHARES CORPORATION

1200 San Bernardo Avenue  
Laredo, Texas 78040

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 20, 2013

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the "Annual Meeting") of International Bancshares Corporation (the "Company") will be held at **IBC's Annex Building, at 2416 Jacaman Rd., Laredo, Texas 78041 on Monday, May 20, 2013 at 5:00 p.m.** for the following purposes:

- (1) To elect nine (9) directors of the Company to serve until the next Annual Meeting of Shareholders and until their successors shall have been duly elected and qualified;
- (2) To ratify the appointment of McGladrey LLP as independent auditors for the fiscal year ending December 31, 2013;
- (3) To consider and vote on a non-binding advisory resolution to approve the compensation of the Company's named executives as described in the Compensation Discussion and Analysis and the tabular disclosure regarding named executive officer compensation in the Proxy Statement;
- (4) To consider an advisory vote regarding the frequency of the advisory approval of the Company's executive compensation;
- (5) To consider and vote on a proposal to approve the 2013 Management Incentive Plan;
- (6) To consider and vote on a proposal to amend the Articles of Incorporation of the Company to provide for a majority vote standard in uncontested director elections; and
- (7) To transact such other business as may lawfully come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on April 1, 2013 are entitled to notice of and to vote at the Annual Meeting and any postponements or adjournments thereof. The Company's 2012 Annual Report is being furnished with this Proxy Statement to shareholders of record as of the close of business on April 1, 2013. The Annual Report does not constitute a part of this Proxy Statement or proxy solicitation material.

Pursuant to rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. The enclosed Proxy Statement and the Annual Report are available on our website at [www.ibt.com](http://www.ibt.com), under the heading "Investors" in the section for "SEC Filings." Additionally, and in accordance with SEC rules, you may access our Proxy Statement and Form 10-K at <https://materials.proxyvote.com/459044>, which does not have "cookies" that identify visitors to the site.

In order to ensure the representation of a quorum at the Annual Meeting, shareholders who do not expect to attend the Annual Meeting in person are urged to sign the enclosed proxy and return it promptly to the Trust Division, International Bank of Commerce, P. O. Drawer 1359, Laredo, Texas 78042-1359. A return envelope is enclosed for that purpose.

INTERNATIONAL BANCSHARES  
CORPORATION



Dennis E. Nixon  
*President and Chairman*

Dated: April 19, 2013

# **INTERNATIONAL BANCSHARES CORPORATION**

**1200 San Bernardo Avenue**

**Laredo, Texas 78040**

## **PROXY STATEMENT**

### ***SOLICITATION AND REVOCATION OF PROXIES, AVAILABILITY OF PROXY MATERIALS AND VOTING OF PROXIES AND SHARES***

#### ***Solicitation and Revocation of Proxies***

The Board of Directors of International Bancshares Corporation, a Texas corporation (the “Company”) is soliciting proxies to be used at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on Monday, May 20, 2013 at 5:00 p.m., local time, at IBC Annex, **at 2416 Jacaman Rd., Laredo, Texas 78041**. The Company will pay for the cost of the proxy preparation and solicitation, including the reasonable charges and expenses of brokerage firms, banks or other nominees for forwarding proxy materials to street name holders.

It is expected that the solicitation of proxies will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company. No additional compensation will be paid to employees for such services. Any shareholder giving a proxy has the power to revoke it at any time prior to the voting of the proxy by giving notice in person or in writing to the Secretary of the Company at 1200 San Bernardo Avenue, Laredo, Texas 78040 or by appearing at the Annual Meeting, giving notice of revocation of the proxy and voting in person. The approximate date on which this Proxy Statement and the accompanying form of proxy are first sent or given to shareholders is April 19, 2013.

#### ***Important Notice Regarding Availability of Proxy Materials For Annual Meeting To Be Held On May 20, 2013***

Pursuant to rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This Proxy Statement and our Annual Report are available on our website at [www.ibc.com](http://www.ibc.com), under the heading “Investors” in the section for “SEC Filings.” Additionally, and in accordance with SEC rules, you may access our Proxy Statement and form 10-K at <https://materials.proxyvote.com/459044>, which does not have “cookies” that identify visitors to the site, and thus protects your privacy.

#### ***Voting of Proxies and Shares***

Only holders of record of common stock, par value \$1.00 per share (“Common Stock”), of the Company at the close of business on April 1, 2013 (the “Record Date”), shall be entitled to vote at the Annual Meeting. There were 67,188,380 shares of Common Stock issued and outstanding on the Record Date held of record by approximately 2,436 shareholders. Each owner of record on the Record Date is entitled to one vote for each share of Common Stock held.

All shares entitled to vote represented by a properly executed and unrevoked proxy received in time for the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions given, but, in the absence of instructions to the contrary, such shares will be voted affirmatively. Persons empowered as Proxies will also be empowered to vote in their discretion upon such other matters as may properly come before the meeting or any adjournment or postponement thereof. Each of the Proxies will have the power to appoint his substitute. Any of the Proxies, or their respective substitutes, who shall be present and acting at the Annual Meeting, shall have and may exercise all the powers granted to the Proxies. If any nominee for director shall be unable to serve, which is not now contemplated, the proxies will be voted for such substitute nominee(s) as the Board of Directors recommends.

If you hold your shares in nominee or street name, a “voting instruction form” is the document used to designate your proxy to vote your shares. If your shares are held in street name by a broker, the broker will vote your shares only if you give your broker instructions on the “voting instruction form.” If you do not tell your broker how to vote, your broker may vote your shares in favor of ratification of the auditor appointment, but may not vote your shares in favor of the non-binding advisory resolution to approve the executive compensation program, the proposal regarding the frequency of the advisory approval of the executive compensation program, the election of directors, the proposal to approve the 2013 International Bancshares Corporation Management Incentive Plan, the proposal to amend the Company’s Articles of Incorporation to provide for a majority vote standard in uncontested director elections, or any other item of business that is not considered a “routine” matter. Under New York Stock Exchange (NYSE) Rule 452, brokers are entitled to vote shares held by them for customers on matters deemed “routine” under applicable rules, even though the brokers have not received voting instructions from their customers. Although the Company is listed on the NASDAQ Global Select Market, Rule 452 affects shareholders of the Company since most of the common stock held in “street name” is held with NYSE member brokers. Your broker will return a proxy card without voting on non-routine matters if you do not give voting instructions with respect to these matters. This is referred to as a “broker non-vote.” However, your broker is not required to vote your shares if you do not provide instructions. We encourage you to vote on all matters proposed in this proxy statement.

A quorum for the transaction of business at the Annual Meeting requires representation, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Common Stock. The judges of election will treat abstentions and broker non-votes as shares that are present for purposes of determining the presence of a quorum for the transaction of business at the Annual Meeting. A quorum with respect to any specific proposal to be voted on at the Annual Meeting requires representation, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Common Stock entitled to vote on the proposal. Abstentions will be treated as present and entitled to vote with respect to any proposal submitted to the shareholders for a vote for purposes of determining both the presence of a quorum with respect to such proposal and the approval of such proposal. If a broker indicates on a proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, the holder(s) of such shares will not be considered as present and entitled to vote with respect to such matter for purposes of determining either the presence of a quorum with respect to such matter or the approval of such matter. With respect to any proposal other than the election of directors, and the advisory vote on the frequency of the advisory approval of the Company’s executive compensation, such proposal shall be determined by the affirmative vote of the holders of a majority of the shares of Common Stock represented, in person or by proxy, at the Annual Meeting and entitled to vote thereon. Thus, abstentions with respect to any such matter will have the same legal effect as a vote against such matter, while broker non-votes will not affect the outcome of such matter. With respect to the election of directors, the directors shall be elected by a plurality vote of the holders of shares of Common Stock present at the Annual Meeting and entitled to vote thereon. Plurality vote means that the nominees receiving the most votes will be elected regardless of the number of votes each nominee receives. With respect to the advisory vote on the frequency of the advisory approval of the Company’s executive compensation, the frequency option (1, 2 or 3 years) that receives the highest number of votes cast by shareholders will be deemed to be the frequency that is preferred by the shareholders of the Company. The Company will consider the frequency preferred by the shareholders, but the vote will not be binding on the Company. Abstentions and broker non-votes, if any, will have no effect on the result of the vote.

#### ***Annual Meeting Admission***

If you wish to attend the Annual Meeting in person, you must present a valid form of photo identification, such as a driver’s license. If you are a beneficial owner of Company Common Stock that is held of record by a bank, broker or other nominee, you will also need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from your bank or broker are examples of proof of ownership. No cameras, recording equipment, or electronic devices will be permitted in the meeting.

**PROPOSAL—1**  
**ELECTION OF DIRECTORS**

***Nominees for Election as Director***

Nine directors, constituting the entire Board of Directors, are to be elected at the Annual Meeting. Each nominee currently serves as a director of the Company, however two current board members, Daniel B. Hastings, Jr. and Sioma Neiman, are not nominees due to health reasons. Each director is to hold office until the next Annual Meeting and until his or her successor is elected and qualified. The Proxies named in the accompanying proxy card, who have been designated by the Board of Directors of the Company, intend to vote for the following nominees, unless otherwise instructed in such proxy card. Certain information concerning each nominee as of April 1, 2013 is set forth below, including information regarding each nominee's positions, if any, with International Bank of Commerce, the Company's lead bank subsidiary ("IBC"):

| <u>Nominee For Director</u>  | <u>Served<br/>as<br/>Director<br/>Since(1)</u> | <u>Age</u> | <u>Principal Occupation and Directorships(2)</u>                                                                                                                   |
|------------------------------|------------------------------------------------|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Irving Greenblum . . . . .   | 1981                                           | 83         | International Investments & Real Estate and Director of IBC                                                                                                        |
| R. David Guerra . . . . .    | 1993                                           | 60         | Vice President of the Company since 1986 and President of the IBC Branch in McAllen, Texas and Director of IBC                                                     |
| Douglas B. Howland(4) . .    | 2010                                           | 62         | CEO of Libcon, Inc., a construction company until April 2011; Investments and Director of IBC since 2010                                                           |
| Imelda Navarro . . . . .     | 2002                                           | 55         | Treasurer of the Company since 1982 and Senior Executive Vice President of IBC and Director of IBC since 2002                                                      |
| Peggy J. Newman . . . . .    | 1997                                           | 81         | Real Estate Investments; President of Newman Poultry Co. and Director of IBC                                                                                       |
| Dennis E. Nixon . . . . .    | 1975                                           | 70         | Chairman of the Board of the Company since May 1992 and President of the Company since 1979; President, Chief Executive Officer and Director of IBC                |
| Larry A. Norton(4) . . . . . | 2010                                           | 66         | President of Norton Stores Inc., a family retail sales business and owner of Larry A. Norton & Co., a retail computer sales company and Director of IBC since 2010 |
| Leonardo Salinas(3) . . . .  | 1976                                           | 79         | Real Estate Investments and Director of IBC                                                                                                                        |
| Antonio R. Sanchez, Jr. . .  | 1995                                           | 70         | Chairman of the Board of Sanchez Oil & Gas Corporation & Investments                                                                                               |

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- (1) Includes time served as a director of IBC prior to July 28, 1980, when the Company became the successor issuer to IBC.
- (2) Except as otherwise noted, each nominee has held the office indicated or other offices in the same company for the last ten years. Includes disclosure of any directorships held at any time during the past five years at any public company or registered management investment company.
- (3) Leonardo Salinas, who had served as Vice President of the Company and Senior Executive Vice President of IBC, retired as of June 30, 2000.

- (4) Messrs. Howland and Norton were appointed to the Board on August 5, 2010 to fill the vacant directorships resulting from action by the Board to increase the number of directors. Messrs. Howland and Norton both served on the Board of Commerce Bank, a subsidiary of the Company, for over twenty years.

None of the nominees for director and none of the executive officers of the Company have a family relationship with any of the other nominees for director or executive officers.

None of the above nominees is or has been during the last five years a director of any other company which has a class of securities registered under, or is required to file reports under, the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or of any company registered under the Investment Company Act of 1940, as amended.

During the last ten years, none of the above nominees has been involved in any legal proceeding that is material to the evaluation of the ability or integrity of the nominee, as set forth in Item 401 of Regulation S-K under the Exchange Act.

#### ***Vote Required***

A plurality of the votes cast is required for the election of directors. Abstentions and broker non-votes are not counted as votes “For” a director nominee or “Withheld” from a director nominee.

**The Board of Directors recommends a vote “FOR” each named nominee.**

### ***CORPORATE GOVERNANCE***

#### ***General***

This section includes information about the qualifications, compensation and meetings of the Board of Directors and the qualification, composition, purpose and meetings of the committees of the Board of Directors. This section also discusses the Code of Ethics of the Company. The Company was honored as one of America’s 100 “Most Trustworthy Companies” in 2012 in an annual survey commissioned by *Forbes*. The list was prepared for *Forbes.com* by Governance Metrics International, a leading independent provider of global corporate governance and accounting risk ratings and research on public companies, and ranks the nation’s top 100 companies that have “consistently demonstrated transparent and conservative accounting principles and solid corporate governance and management.”

#### ***Attendance at Board Meetings***

During 2012, the Board of Directors held six meetings. All of the directors attended at least 75% of the aggregate of the total number of meetings of the Company’s Board of Directors and the total number of meetings held by all committees of the Board on which such director served, except for Sioma Neiman who attended fewer than 75% of such meetings.

#### ***Executive Sessions of Board of Directors***

In addition to Board meetings, non-employee directors meet periodically in executive session without members of management present. The non-employee directors met in executive session five times during 2012. The non-employee directors review in executive session any related person transaction that is required to be disclosed pursuant to Item 404 of Regulation S-K under the Exchange Act.

#### ***Board Nominations***

The Company’s Board of Directors does not have a standing nominating committee or any other committee performing similar functions. The Company’s Board of Directors has adopted a resolution setting forth certain Guidelines Regarding Nomination of Directors (the “Guidelines”). The Company has

not established a separate nominating committee because it desires active participation of all Board members in the analysis and process of making nominations. In addition, nominees for selection are recommended to the whole Board of Directors by a majority of the Company's directors who are "independent" as defined in the applicable NASDAQ Marketplace Rules and securities laws. The Board believes that these measures maintain the integrity of the nomination process in the same manner as if it had established a nominating committee. The Guidelines are available on the Company's website at [www.ibr.com](http://www.ibr.com). There have been no changes to the procedures by which shareholders may recommend nominees to our Board of Directors since our procedures were disclosed in the Proxy Statement for the 2009 annual meeting.

Pursuant to the Guidelines, the independent directors seek to recommend individuals as director nominees who have the highest personal and professional integrity, who have demonstrated exceptional ability and judgment and who will be most effective, in conjunction with the other nominees to the Board, in collectively serving the long-term interests of the Company's shareholders. The independent directors utilize a variety of methods for identifying and evaluating director nominees. The Board has no formal policy regarding diversity, but diversity is considered by the independent directors when evaluating nominees because the Board believes it is beneficial to the Company for board membership to reflect the diversity of the Company's markets. The independent directors will consider director candidates recommended by shareholders if provided with the following: (i) evidence, in accordance with Rule 14a-8 under the Exchange Act, of compliance with shareholder eligibility requirements; (ii) the written consent of the candidate(s) for nomination as a director and verification as to the accuracy of the biographical and other information submitted in support of the candidate; (iii) a resume or other written statement of the qualifications of the candidate(s) for nomination as a director; and, (iv) all information regarding the candidate(s) and the submitting shareholder that would be required to be disclosed in a proxy statement filed with the SEC if the candidate(s) were nominated for election to the Board of Directors. Any recommendations received from shareholders will be evaluated in the same manner that other potential nominees are evaluated. Any shareholder that wishes to present a director candidate for consideration should submit the information identified above pursuant to the procedures set forth below under "Shareholder Communication with the Board of Directors." With respect to the timing of shareholder nominations for the 2014 Annual Meeting, please see the discussion set forth below under "Shareholder Proposals for 2014 Annual Meeting." In 2012, we received no nominations of board candidates from our shareholders.

#### *Annual Meeting Attendance*

The Company encourages all members of its Board of Directors to attend the annual meetings of shareholders, but it has not adopted a formal policy requiring attendance. All of the members of the Board of Directors of the Company who were directors at the time of the 2012 annual meeting of shareholders, were in attendance at such meeting, except for Sioma Neiman.

#### *Director Independence*

The Company's Board of Directors has determined that a majority of its members are "independent" as defined in the applicable NASDAQ Marketplace Rules and securities laws. As of April 1, 2013, the following members of the Board of Directors are not independent: Imelda Navarro, Dennis E. Nixon, R. David Guerra, and Antonio R. Sanchez, Jr.

### ***Director Compensation***

The table below summarizes the compensation paid by the Company to directors, other than the named executive officers, for the year ended December 31, 2012.

| <u>Name</u>                     | <u>Fees Earned<br/>or Paid in<br/>Cash (\$)</u> | <u>All Other<br/>Compensation (\$)(1)</u> | <u>Total (\$)</u> |
|---------------------------------|-------------------------------------------------|-------------------------------------------|-------------------|
| Irving Greenblum . . . . .      | 5,700                                           | 16,100                                    | 21,800            |
| Daniel B. Hastings, Jr. . . . . | 4,500                                           | 17,000                                    | 21,500            |
| Douglas B. Howland . . . . .    | 5,400                                           | 15,500                                    | 20,900            |
| Sioma Neiman . . . . .          | 2,700                                           | 4,760                                     | 7,460             |
| Peggy J. Newman . . . . .       | 3,900                                           | 17,000                                    | 20,900            |
| Larry A. Norton . . . . .       | 5,400                                           | 16,700                                    | 22,100            |
| Leonardo Salinas . . . . .      | 4,800                                           | 17,300                                    | 22,100            |
| Antonio R. Sanchez, Jr. . . . . | 3,600                                           | 5,900                                     | 9,500             |

- (1) All directors received certain perquisites from the Company during 2012, but the incremental cost of providing those perquisites was significantly less than the \$10,000 disclosure threshold per director. Certain directors of the Company serve as directors of subsidiary banks of the Company, and each such director receives compensation for his or her services as a director of the subsidiary bank in the amount of \$900 for each board meeting and \$300 for each meeting of a board committee of the subsidiary bank that he or she attends, as well as an additional year-end payment of \$5,000.00. The amounts paid to directors of the Company for their services as a director of a subsidiary bank are set forth in the “All Other Compensation” column above.

Each director of the Company receives compensation for his or her services as a director of the Company in the amount of \$900 for each board meeting of the Company and \$300 for each meeting of a board committee he or she attends. These director fees are set forth in the “Fees Earned or Paid in Cash” column in the foregoing table. Some of the board meetings of the Company were by telephone conference and the directors are not paid for these meetings. Salaried officers of the Company who are directors are not compensated for committee meetings. No stock options, equity-based awards, or other forms of non-equity incentive plan compensation are granted to non-employee board members. The director fees paid to the named executive officers by the Company and the subsidiary banks are included in the “All Other Compensation” column set forth in the “Summary Compensation Table” below.

### ***Director Qualifications and Experience***

The following table identifies the primary experience, qualifications, attributes and skills that contributed to the Board’s decision to nominate directors to our Board. This information supplements the biographical information provided above. The vertical axis displays the primary factors or attributes reviewed by the Board of Directors in evaluating a board candidate. The absence of an “X” should not be

construed to be a determination that the director lacks such an attribute, only that it was not a factor the Board considered in nominating the individual.

| <b>Experience Qualification Or Skill</b>                                 | <b>Irving Greenblum</b> | <b>R. David Guerra</b> | <b>Douglas B. Howland</b> | <b>Imelda Navarro</b> | <b>Peggy Newman</b> | <b>Dennis E. Nixon</b> | <b>Larry A. Norton</b> | <b>Leonardo Salinas</b> | <b>Antonio R. Sanchez Jr.</b> |
|--------------------------------------------------------------------------|-------------------------|------------------------|---------------------------|-----------------------|---------------------|------------------------|------------------------|-------------------------|-------------------------------|
| Professional Standing in Chosen field . . . . .                          | x                       | x                      | x                         | x                     | x                   | x                      | x                      | x                       | x                             |
| Experience in Financial Services or Related Industry . . . . .           |                         | x                      |                           | x                     |                     | x                      |                        | x                       | x                             |
| Experience Reviewing Financial Statement and Financial Matters . . . . . | x                       | x                      | x                         | x                     | x                   | x                      | x                      | x                       | x                             |
| Civic and Community Involvement . . . . .                                | x                       | x                      | x                         | x                     | x                   | x                      | x                      | x                       | x                             |
| Independent Director . . . . .                                           | x                       |                        | x                         |                       | x                   |                        | x                      | x                       |                               |
| Leadership and Team Building Skills . . . . .                            | x                       | x                      | x                         | x                     | x                   | x                      | x                      | x                       | x                             |
| Diversity by Race, Gender or Culture . . . . .                           |                         | x                      | x                         | x                     | x                   |                        |                        | x                       | x                             |
| Collegial and Insightful . . . . .                                       | x                       | x                      | x                         | x                     | x                   | x                      | x                      | x                       | x                             |

All members of our Board have worked for all or substantial parts of their careers in Texas or Mexico and have significant knowledge of the markets that we serve and extensive ties to local community and business leaders. In addition to each director's qualifications and attributes described in the foregoing table, set forth below is additional information about the specific qualifications of each director related to such director's business experience.

#### **Irving Greenblum**

#### **Director since 1981**

Mr. Greenblum has been active in the Laredo, Texas business community for over fifty years. He currently is pursuing international investments and real estate transactions in the Laredo, Texas area. In addition to the qualifications and attributes described in the foregoing table, it is because of his business experience, his long-standing tenure and very active role as a director of the Company, as well as his knowledge of the Texas communities we serve, that the Board has concluded that Mr. Greenblum should continue serving on the Board.

#### **R. David Guerra**

#### **Director since 1993**

Mr. Guerra has been the President of the IBC Branch in McAllen, Texas since the Company's expansion to that area in 1991. He has been an officer of the Company since 1986. In addition to the qualifications and attributes described in the foregoing table, it is because of his experience in banking and his long-standing tenure with the Company, as well as his knowledge of the Texas communities we serve, that the Board has concluded that Mr. Guerra should continue serving on the Board.

**Douglas B. Howland****Director since 2010**

Mr. Howland was the CEO and sole shareholder of Libcon, Inc., a construction company in Laredo, Texas for more than twenty years. In 2011, Mr. Howland sold the company. Now, Mr. Howland continues to be an active member of the Laredo business community and he manages his other investments. In addition to the qualifications and attributes described in the foregoing table, it is because of his experience in business operations and management, as well as his knowledge of the Texas communities we serve, that the Board has concluded that Mr. Howland should continue serving on the Board.

**Dennis E. Nixon****Director since 1975**

Mr. Nixon has been President of the Company since 1979 and Chairman of the Board of the Company since 1992. In addition to the qualifications and attributes described in the foregoing table, it is because of his experience in banking and his years of experience as the chief executive officer of the Company, as well as his knowledge of the communities we serve, that the Board has concluded that Mr. Nixon should continue serving on the Board.

**Imelda Navarro****Director since 2002**

Ms. Navarro has been Treasurer of the Company since 1982. In addition to the qualifications and attributes described in the foregoing table, it is because of her experience in banking and years of experience as an executive officer at the Company, as well as her knowledge of the communities we serve, that the Board has concluded that Ms. Navarro should continue serving on the Board.

**Peggy J. Newman****Director since 1997**

Ms. Newman has been active in the Texas business community for many years. She currently is the President of Newman Poultry Co. and active in real estate investments. In addition to the qualifications and attributes described in the foregoing table, it is because of her experience in business operations and management, her tenure and very active role as a director of the Company, as well as her knowledge of the Texas communities we serve, that the Board has concluded that Ms. Newman should continue serving on the Board.

**Larry A. Norton****Director since 2010**

Mr. Norton has been the President of a family retail sales business and owner of Larry A. Norton & Co., a retail computer sales company in Laredo, Texas for more than twenty years. In addition to the qualifications and attributes described in the foregoing table, it is because of his experience in business operations and management, as well as his knowledge of the Texas communities we serve, that the Board has concluded that Mr. Norton should continue serving on the Board.

**Leonardo Salinas****Director since 1976**

Mr. Salinas served as Vice President of the Company until he retired in 2000. Currently he is involved in real estate investments in Laredo, Texas. In addition to the qualifications and attributes described in the foregoing table, it is because of his experience in banking, his long-standing tenure as a director of the Company, as well as his knowledge of the communities we serve, that the Board has concluded that Mr. Salinas should continue serving on the Board.

**Antonio R. Sanchez, Jr.****Director since 1995**

Mr. Sanchez is Chairman of the Board of Sanchez Oil & Gas Corporation. In addition to the qualifications and attributes described in the foregoing table, it is because of his experience in business operations and management, his long-standing tenure as a director of the Company, as well as his knowledge of the Texas communities we serve, that the Board has concluded that Mr. Sanchez should continue serving on the Board.

***Shareholder Communications With The Board of Directors***

Shareholders may communicate directly with the Board of Directors. All communications should be in writing and directed to the Company's Corporate Secretary at the address below and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors. The Company's Corporate Secretary has the authority to disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications. If deemed appropriate, the Company's Corporate Secretary will forward correspondence to the Chairman of the Board or any specific director to whom the correspondence is directed. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which the Company tends to receive repetitive or duplicative communications. Also, pursuant to the Company's Bylaws, a special meeting of the Shareholders of the Company shall be called by the Chairman of the Board, President or Secretary of the Company whenever Shareholders holding at least fifty percent (50%) of all the shares entitled to vote at the proposed special meeting make application therefore in writing, which request must state a proper purpose of the meeting and shall be delivered to the Chairman of the Board or the President.

Marisa V. Santos  
Corporate Secretary  
International Bancshares Corporation  
P. O. Drawer 1359  
Laredo, Texas 78042

***Code of Ethics***

The Company has adopted a code of business conduct and ethics for executive officers (including the Company's Chief Executive Officer and Chief Financial Officer), known as the International Bancshares Code of Ethics for Financial Professionals. The Company also maintains a code of ethics for all employees and directors, known as the International Bancshares and Subsidiary Banks and Affiliated Companies Code of Ethics. The International Bancshares Code of Ethics for Financial Professionals and the International Bancshares and Subsidiary Banks and Affiliated Companies Code of Ethics are available on the Company's website at [www.ibc.com](http://www.ibc.com). Any amendment to, or waiver of, the International Bancshares Code of Ethics for Financial Professionals will be disclosed on such Company website.

***Leadership Structure***

Pursuant to the Company's Bylaws, the President of the Company shall be the chief executive officer ("CEO"). The board appoints one of its members to be the Chairman of the Board and the Chairman of the Board position is not deemed or considered an officer position of the Company. The Board does not have a policy on whether the role of Chairman and CEO should be separate or combined, but currently believes that the most effective leadership structure for the Company is to combine these responsibilities. The structure avoids duplication of efforts that can result from the roles being separated and avoids confusion within and outside of the Company with respect to who is the highest ranked officer of the Company. The Board also believes that combining these roles enhances accountability for the Company's

performance by avoiding confusion about who is the highest ranked officer. Furthermore, as the Company has combined these roles for almost twenty years separating them could cause significant disruption in oversight and lines of reporting. Nevertheless, depending upon the circumstances, the Board could choose to separate the roles of Chairman and CEO in the future. The Company does not have a designated lead independent director; however, the Board believes the composition of the Board and very active involvement by the independent directors create a Board culture that is effective and promotes the consideration of the varied views of all of the directors of the Company. Seven of the current eleven directors of the Company are “independent” as defined in the applicable NASDAQ Marketplace Rules and securities laws. The Board does not limit the tenure of the Company’s directors, but considers the tenure of the director and the level of involvement of the director on the Board of Directors along with all the other attributes of the director in determining whether to approve a director as a nominee for election as a director.

The Company has a Succession Plan for the CEO of the Company and the CEOs of the twelve banking centers of the Company. The Succession Plan focuses on an internal growth strategy. The Company has developed a management structure that emphasizes development from within, but also allows for the addition of qualified leadership from outside the Company when the circumstances warrant such action. The Company’s decentralized operating platform enables the Company to grow and mature its executive management team. There are a number of banking center CEOs of the Company that have served in such capacity for over twenty years. It is contemplated that the Company’s Board with the advice and counsel of Mr. Nixon, the current long-standing CEO, will at the time deemed appropriate by the Board, select a new CEO by choosing one of the banking center CEOs; however, the Succession Plan would allow the Board to recruit a new CEO if it chooses to do so.

To help ensure oversight by our independent directors, our Audit, Compensation, Stock Option and Long-Term Restricted Stock Unit Committees are composed only of independent directors, as defined in the applicable NASDAQ Marketplace Rules and securities laws.

The entire Board is responsible for overseeing all aspects of management of the Company, including risk oversight.

#### ***The Board’s Role in Enterprise Risk Oversight***

The entire Board of Directors is actively involved in overseeing risk management for the Company. The Company’s senior risk officers provide a comprehensive risk report to the Board. The full Board also engages in periodic risk management discussions with the senior risk officers, CEO, CFO, and other Company officers as the Board may deem appropriate. All of the directors of the Company, except for Mr. Neiman and Mr. Sanchez, are also directors of the Bank, which represents over a majority of the Company’s banking assets, and as such, the Board of Directors also receives regular reports on risk management matters of the Bank. In addition, each committee of the Board of Directors has been assigned oversight responsibility for specific areas of risk. The committees consider risks within their areas of responsibility; for instance the Compensation Committee considers risks that may result from changes in compensation programs, and the Asset/Liability, Investment, Balance Sheet-Management, Funds Management/Liquidity Interest Rate Risk Committee focuses on risk related to credit and interest rates, among others. The Audit Committee reviews risk related to financial reporting. The senior risk officers report directly to the Board of Directors and indirectly to the CEO for administrative purposes. The Board of Directors believes the combination of the joint CEO and Chairman positions and the roles of the Board and its committees provide the appropriate leadership to help ensure effective risk oversight. In light of recent regulatory developments the Company is currently evaluating its Enterprise Risk Oversight Structure and changes to the structure are anticipated during the 2013 fiscal year.

## ***MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS***

At December 31, 2012, the Board of Directors had six active committees; the Audit Committee, the Compensation Committee, the Stock Option Plan Committee, the Asset/Liability, Investment, Balance Sheet-Management, Funds Management/Liquidity Interest Rate Risk Committee, the Long-Term Restricted Stock Unit Plan Committee and the Profit Sharing Plan Committee.

### ***Audit Committee***

The Audit Committee of the Board of Directors during 2012 consisted of Irving Greenblum, Daniel B. Hastings, Jr., Leonardo Salinas, Douglas B. Howland and Larry A. Norton. The Audit Committee met five times during the 2012 fiscal year. The primary functions of the Audit Committee are to recommend the appointment of the independent auditors; to review annual and quarterly financial reports and to review the results of audits by the internal auditor and the independent auditors. Under applicable law, the Audit Committee is required to review with management and the independent auditors the basis for all financial reports. The Board of Directors has adopted a separate Audit Committee Charter. The charter for the Audit Committee is available on the Company's website at [www.ibc.com](http://www.ibc.com).

The Company's Board of Directors has determined that none of the Audit Committee members meets the audit committee financial expert criteria as defined by Item 407(d) of Regulation S-K of the Exchange Act. While it might be possible to recruit a person who qualifies solely as a financial expert, the Board does not believe such a candidate would have the other attributes that the Board seeks for Board and Audit Committee members. The Board has determined it is not in the best interests of the Company to nominate as a director someone who does not have the experience, attributes and qualifications that the Board seeks to further the interests of the Company. All Audit Committee members are "independent", as defined in the applicable NASDAQ Marketplace Rules and securities laws and each has been selected for the Audit Committee by the Board based on the Board's determination that they are fully qualified to (i) review and understand the Company's financial statements, (ii) monitor the performance of management, (iii) monitor the Company's internal accounting operations, (iv) monitor the independent auditors, and (v) monitor the disclosures of the Company to the end that they fairly present the Company's financial condition and results of operations. In addition, the Audit Committee has the ability, on its own, to retain independent accountants or other consultants whenever it deems appropriate; however, during 2012 the Audit Committee did not exercise such authority. The Board of Directors believes that this is comparable to having a financial expert on the Audit Committee.

### ***Long-Term Restricted Stock Unit Plan Committee***

During 2012, the Long-Term Restricted Stock Unit Plan Committee of the Board of Directors consisted of Irving Greenblum, Daniel B. Hastings, Jr., and Peggy J. Newman. The Long-term Restricted Stock Unit Plan Committee met two times during the 2012 fiscal year, and each member of the Committee attended all of the meetings. The Long-Term Restricted Stock Unit Plan Committee's primary function is the administration of the 2009 International Bancshares Corporation Long-Term Restricted Stock Unit Plan, which includes determining the form, terms, conditions and amount of each grant under such Plan. The Long-Term Restricted Stock Unit Plan Committee has the authority to retain outside consultants or separate legal counsel, which authority the Committee did not exercise during 2012. Each member of the Long-Term Restricted Stock Unit Plan Committee is "independent", as defined in applicable NASDAQ Marketplace and SEC Rules.

### ***Report of the Long-Term Restricted Stock Unit Plan Committee***

The Long-Term Restricted Stock Unit Committee of the Board of Directors determines the grants of long-term Restricted Stock to officers, employees, consultants or advisors of the Company or any of its subsidiaries pursuant to the 2009 International Bancshares Corporation Long-Term Restricted Stock Unit

Plan (the “LTRSU Plan”). The Long-Term Restricted Stock Unit Committee met two times during 2012. The Long-Term Restricted Stock Unit Committee determined that the Company should award Long-Term Restricted Stock Units to Dennis E. Nixon during the 2012 fiscal year under the LTRSU Plan. The Committee determined the form, terms, conditions and amount of Mr. Nixon’s grant pursuant to the LTRSU Plan. The Committee believes its decision to grant Long-Term Restricted Stock Units during 2012 to Mr. Nixon is consistent with the compensation objectives of the LTRSU Plan.

This report is submitted on behalf of the Long-Term Restricted Stock Unit Plan Committee.

Irving Greenblum

Daniel B. Hastings, Jr.

Peggy Newman

***Asset/Liability, Investment, Balance Sheet-Management, Funds Management/Liquidity Interest Rate Risk Committee***

During 2012, the Asset/Liability, Investment, Balance Sheet-Management, Funds Management/Liquidity Interest Rate Risk Committee of the Board of Directors consisted of Dennis E. Nixon; Irving Greenblum; R. David Guerra, Daniel B. Hastings, Jr., Douglas B. Howland and Larry A. Norton. The Asset/Liability, Investment, Balance Sheet-Management, Funds Management/Liquidity Interest Rate Risk Committee met two times during 2012 and all members of the committee were present. The primary function of the Committee is to administer the investment activity of the Company, including the review of regulatory compliance.

***The Profit Sharing Plan Committee***

During 2012, the Profit Sharing Plan Committee of the Board of Directors consisted of Irving Greenblum, Daniel B. Hastings, Jr., Peggy J. Newman, and Dennis E. Nixon. The Company has a deferred profit sharing plan for full time employees with a minimum of one year of continuous employment. The Profit Sharing Plan Committee met once during 2012 and all members of the Committee attended such meeting. The primary function of the Committee is to administer the Employee’s Profit Sharing Plan.

***Stock Option Plan Committee***

During 2012, the Stock Option Plan Committee of the Board of Directors consisted of Daniel B. Hastings, Jr., Irving Greenblum, and Peggy J. Newman. The Stock Option Plan Committee met twice during 2012 and all members of the committee were present at such meetings. The Stock Option Plan Committee’s primary function is the administration of the 2012 International Bancshares Corporation Stock Option Plan, which includes taking all final action on the amount, timing, price and other terms of all options granted under such Plan. The Stock Option Plan Committee has the authority to retain outside consultants or separate legal counsel, which authority the Stock Option Plan Committee did not exercise during 2012. Each member of the Stock Option Plan Committee that served during 2012 and who is serving in 2013 is “independent” as defined in applicable NASDAQ Marketplace Rules and securities laws.

***Report of the Stock Option Plan Committee***

The Stock Option Plan Committee of the Board of Directors determines the stock option grants to executive officers and key salaried employees of the Company. The Company awarded stock options to several of its key salaried employees of the Company during the 2012 fiscal year. The Stock Option Plan Committee met twice during the 2012 fiscal year. The primary purpose of the 2012 International Bancshares Corporation Stock Option Plan is to increase the interest of the executives and key salaried employees of the Company, the subsidiary banks and non-bank subsidiaries in the Company’s future growth and success through the added incentive created by the opportunity afforded for stock ownership under the Plan. The size of the option grants are determined by the Stock Option Plan Committee based upon a subjective assessment of the respective employee’s performance, compensation level and other factors. The exercise price of each option equaled the fair market value of the Common Stock as of the

date of grant. The Stock Option Plan Committee believes its decision to grant stock options during 2012 to several of its key salaried employees is consistent with the compensation objectives of the 2012 International Bancshares Corporation Stock Option Plan.

This report is submitted on behalf of the Stock Option Plan Committee.

Daniel B. Hastings, Jr.

Irving Greenblum

Peggy J. Newman

#### *Compensation Committee*

Since all cash compensation paid to executive officers of the Company is paid by the Company's lead bank subsidiary, IBC, the Salary and Steering Committee of IBC's Board of Directors is responsible for making recommendations to the IBC Board of Directors regarding each executive officer's cash compensation. Each member of the Compensation Committee is also a member of the Salary and Steering Committee of IBC, and each of the members of the Company's Compensation Committee is an independent director, as defined in the applicable NASDAQ Marketplace Rules and securities laws. The Compensation Committee has the authority to retain outside consultants or separate legal counsel, which authority the Compensation Committee did not exercise during 2012. The Compensation Committee during 2012 consisted of Irving Greenblum, Daniel B. Hastings, Jr., Peggy Newman, and Doug B. Howland (who joined May 24, 2012) all of whom served on the Company's Board of Directors during 2012. The Compensation Committee met four times during the 2012 fiscal year. Each member of the Compensation Committee then serving attended each of such meetings except for Mr. Howland who missed one meeting.

#### *Compensation Committee and Stock Option Plan Committee Interlocks and Insider Participation*

None of the members of the Compensation Committee or the Stock Option Plan Committee was an officer or employee of the Company or any of its subsidiaries in 2012 nor was any member formerly an officer or employee of the Company or any of its subsidiaries, except for Mr. Salinas who, before he retired in 2000, was a Vice President of the Company and a Senior Executive Vice President of IBC. Some of the members of the Compensation Committee, and some of these persons' associates, are current or past customers of one or more of the Company's subsidiary banks. Since January 1, 2012, no transactions between these persons and such subsidiaries have occurred, other than borrowings. In the opinion of management, all of the borrowings have been in the ordinary course of business, have had substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability. Additional transactions may take place in the future.

### **EXECUTIVE COMPENSATION**

#### *Executive Officers*

The Board elects executive officers annually following the Annual Meeting of Shareholders to serve until the meeting of the Board following the next Annual Meeting. The following table sets forth the name of each executive officer of the Company as of April 1, 2013 and the principal positions held by each officer.

Certain information as of April 1, 2013 is set forth in the following table concerning the Company's executive officers, each of whom has been elected to serve until the 2013 Annual Meeting of Shareholders and until his or her successor is duly elected and qualified.

| <u>Name</u>               | <u>Age</u> | <u>Position of Office</u>                                                                                                                                                   | <u>Officer of the Company Since</u> |
|---------------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| Dennis E. Nixon . . . . . | 70         | Chairman of the Board of the Company since 1992 and President and Chief Executive Officer of the Company since 1979; President, Chief Executive Officer and Director of IBC | 1979                                |
| R. David Guerra . . . . . | 60         | Vice President of the Company since 1986 and President of the IBC Branch in McAllen, Texas and Director of IBC                                                              | 1986                                |
| Imelda Navarro . . . . .  | 55         | Treasurer of the Company since 1982 and Senior Executive Vice President of IBC and Director of IBC since 2002                                                               | 1982                                |

There are no family relationships among any of the persons named above. Each executive officer has held the same position or another executive position with the Company during the past five years.

During the last ten years none of the persons named above has been involved in any legal proceeding that is material to the ability or integrity of such officer as set forth in Item 401 of Regulation S-K under the Exchange Act.

## **Compensation Discussion and Analysis**

### ***Overview***

In this section, we discuss certain aspects of our compensation program as it pertains to the principal executive officer, the principal financial officer, and the one other most highly-compensated executive officer in 2012. We refer to these three persons throughout as the "executive officers" or the "SEOs." The discussion focuses on compensation and practices relating to our most recently completed fiscal year.

Our management believes that the performance of each of the executive officers has the potential to impact the Company's short-term and long-term profitability. Therefore, our management places considerable importance on the design and administration of the executive compensation program.

Generally, the compensation package for each of the executive officers consists of base salary, annual discretionary bonus and a discretionary incentive stock option grant. Also, the executive officers participate in the Employee's Profit Sharing Plan and receive certain perquisites. Stock option grants are determined by the Company's Stock Option Plan Committee and are discussed under the Stock Option Plan Committee's separate report above. All cash compensation paid to executive officers of the Company is paid by IBC. Base salary levels and annual discretionary bonuses are recommended by the Compensation Committee upon recommendation of the Salary and Steering Committee of IBC. The Compensation Committee assists the Board of Directors in discharging its responsibilities relating to executive compensation. The Compensation Committee receives recommendations from the Company's President regarding the compensation of executive officers (other than the President). Each member of the Compensation Committee serves as a director of both IBC and the Company and is independent under applicable NASDAQ Marketplace Rules and securities laws. The Compensation Committee does not have a charter.

On December 23, 2008, the Company participated in the Capital Purchase Program ("CPP") of the federal government's Troubled Asset Relief Program ("TARP"). See "Participation in the Capital

Purchase Program” below for the TARP impact on the Company’s executive compensation arrangements. Our participation in TARP has substantially altered our compensation program. Beginning on February 11, 2009, we were restricted from paying short term cash incentives or issuing stock options to certain executives. The specific changes these regulations imposed on our compensation program are discussed in more detail below. Until the Company exited the TARP program on November 28, 2012 when it completed the repurchase of all of the Senior Preferred Stock that it had issued to the Treasury Department, the Company was a TARP participant subject to the executive compensation restrictions of TARP.

The challenge for management and the Compensation Committee is to motivate, retain and reward key performers for working harder and smarter than ever in a very difficult banking environment. At the same time, we recognize that some of the tools we would use to accomplish these objectives were not available due to the compensation restrictions of TARP. In 2012, management and the Compensation Committee, believing in the long term validity of our compensation program, attempted to preserve the integrity of that program to the extent possible, while respecting the requirements and restrictions of TARP. Please see “Participation in the Capital Purchase Program” below for a more detailed discussion of the TARP impact on executive compensation.

#### *Executive Summary of 2012 Compensation*

The compensation paid to the Company’s executive officers during 2012 was consistent with compensation trends and methodologies of the Company in recent years. Due to the Company’s participation in TARP until November 28, 2012, the Company continued to be restricted during 2012 from paying short-term cash incentives, issuing stock options, or paying other incentive compensation, other than long-term restricted stock units, to the Company’s CEO and certain other officers. In 2010, the Company adopted a Compensation Clawback Policy consistent with the TARP restrictions and an Incentive Compensation Policy.

The Incentive Compensation Policy was adopted on October 28, 2010 to address the new Federal Reserve incentive compensation guidelines. On June 21, 2010, the Federal Reserve adopted final guidelines on incentive compensation which were substantially the same as those initially proposed on October 22, 2009. The guidance includes three principles:

- Incentive compensation arrangements should balance risk and financial results in a manner that does not provide employees incentives to take excessive risks on behalf of the banking organization.
- A banking organization’s risk-management processes and internal controls should reinforce and support the development and maintenance of balanced incentive compensation arrangements.
- Banking organizations should have strong and effective corporate governance to help ensure sound compensation practices.

The guidelines apply to all U.S. financial institutions. It is anticipated that the Company’s Incentive Compensation Policy will be revised when the SEC and the other federal banking agencies finalize a joint rule and guidelines pursuant to Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that would require certain financial institutions, including the Company, to disclose the structure of their incentive-based compensation practices, and prohibit such institutions from maintaining compensation arrangements that encourage inappropriate risks.

#### *Compensation Philosophy*

Our Company’s compensation philosophy is to maximize long-term return to shareholders consistent with the Company’s commitments to maintain the safety and soundness of the institution and provide the highest possible level of service to the customers and communities that it serves. To do this, the Compensation Committee believes the Company must provide competitive salaries and appropriate incentives to achieve long-term shareholder return.

### ***Objectives of Executive Compensation***

Our Company's executive compensation policies are designed to achieve four primary objectives:

- attract and retain well-qualified executive leadership;
- provide incentives for achievement of corporate goals and individual performance;
- provide incentives for achievement of long-term shareholder return; and
- align the interests of management with those of the shareholders to encourage continuing growth in shareholder value.

The Compensation Committee's goal is to effectively balance salaries with other performance-based compensation commensurate with an officer's individual management responsibilities and contribution to corporate objectives. Each of the three named executive officers has served the Company for over twenty years. The salary and bonus decisions of the Compensation Committee are subjective and focused on whether there is any compelling reason to deviate from the historical compensation pattern for each executive officer. If not, it will be expected that the individual will receive a salary and bonus that is consistent with the historical compensation pattern for that individual. The determination of whether there is a compelling reason to deviate from the historical compensation pattern for an executive officer is based on whether there is a significant change in the trend of financial performance for the Company and whether there is an overall perception that the individual satisfactorily performed his or her duties at the Company. The historical compensation decisions of the Compensation Committee with respect to compensation of the executive officers also reflect the Compensation Committee's subjective assessment of the competitive nature of the markets where the Company does business and the difficulty in retaining qualified executive officers in such markets. The Compensation Committee takes these competitive salary factors into consideration when making its subjective salary and bonus compensation decisions for the executive officers.

### ***Decisions Regarding Executive Compensation***

The Compensation Committee's recommendations regarding each executive officer's compensation are subjective with regard to both the base salary and discretionary bonus. At the end of each year, a base salary recommendation for the next year and a discretionary bonus recommendation for the previous year are made for each executive officer by the Compensation Committee. When proposing compensation levels the Compensation Committee reviews, discusses and analyzes the historical compensation for each executive officer of the Company and whether there is any compelling reason to deviate from such historical compensation pattern for each executive officer. Only in the event that the Compensation Committee perceives that there will be a long-term trend of negative overall performance of the Company, or in the event that an executive officer is perceived as not having satisfactorily performed his or her duties at the Company, will the cash compensation of an executive officer be expected to be negatively impacted. The Compensation Committee receives recommendations respecting such analysis from the Company's President (other than as it pertains to the President). Before a vote is taken, members have an opportunity to ask for additional information, to raise and discuss further questions and to consult outside consultants and/or separate legal counsel. During 2012, the Compensation Committee did not consult outside consultants or separate legal counsel. The Compensation Committee intends to consider the independence factors set forth in the NASDAQ Listing Rule 5605(d)(3) if the Compensation Committee decides to hire a compensation consultant, legal counsel or other compensation adviser in 2013. All base salary and cash bonus recommendations of the Compensation Committee are subject to final approval of the Board of Directors of IBC.

### *Elements of Compensation*

Our Company's executive compensation program consists primarily of the following elements: (i) base salary and benefits; (ii) annual cash bonus incentives; (iii) longer-term equity-based incentives in the form of stock options; (iv) participation in the Employees' Profit Sharing Plan and (v) certain perquisites. In 2010, due to the Company's participation in the TARP program, the Company added an additional element to the Company's executive compensation program in the form of long-term restricted stock units. Each component of compensation is intended to accomplish one or more of the compensation objectives discussed above. Please see "Participation in the Capital Purchase Program" below for the TARP impact on executive compensation during 2012.

*Base Salary and Benefits.* Annual base salaries are set to attract and retain executive officers with exceptional abilities and talent. The Compensation Committee considers each executive officer's performance, historical compensation and responsibilities within the Company. As stated above, the salary decisions of the Compensation Committee are subjective and focused on whether there is any compelling reason to deviate from the historical compensation pattern for each executive officer. If not, it will be expected that the individual will receive a base salary that is consistent with the historical compensation pattern for that individual. The Compensation Committee also periodically collects salary information from other publicly-traded bank holding companies in Texas. The Compensation Committee does not have targeted parameters with respect to the review of the salary information collected from such comparator companies, rather, the Compensation Committee collects the salary information for comparison as a means to identify major changes in the overall compensation levels of executive officers of publicly-traded bank holding companies in Texas. Any such major change would be considered by the Compensation Committee in its determination of whether there is a compelling reason to deviate from the historical compensation pattern for any of the executive officers. The Compensation Committee believes that the usefulness of the salary data of comparative companies is limited because the duties of officers with the same title may greatly differ from one company to another. In 2012, the Compensation Committee collected salary information from Cullen/Frost Bankers, Inc., Prosperity Bancshares, Inc., Texas Capital Bancshares, Inc., and Comerica, Incorporated. During 2012, neither the Company nor the Compensation Committee retained the services of any compensation consultant.

*Annual Cash Bonus Incentives.* Annual cash bonus incentives are used to reward executive officers for the Company's overall performance, taking into consideration individual performance. The discretionary bonus program is intended to compensate each executive officer for the officer's contribution to the Company's (i) financial performance and (ii) other non-financial goals during the previous year.

As previously discussed, the bonus decisions of the Compensation Committee are subjective and focused on whether there is any compelling reason to deviate from the historical compensation pattern for each executive officer. If not, it will be expected that the individual will receive a bonus that is consistent with the historical compensation pattern for that individual. For each executive officer other than the President, the President conducts a subjective analysis of each officer's individual performance and makes recommendations to the Compensation Committee as to the appropriate discretionary bonus amount, taking into account each officer's historical compensation pattern. With respect to the analysis of individual performance, the President and Compensation Committee only determine whether there is a perception that the executive officer satisfactorily performed his or her duties at the Company. The Compensation Committee considers the recommendations of the President in determining the amount of the discretionary bonus for each executive officer, other than the President. All decisions of the Compensation Committee with respect to executive compensation are subject to the final approval of the Board of Directors of IBC.

In addition to considering an executive officer's historical compensation pattern and individual performance, the Compensation Committee also considers four measures of corporate performance in

determining annual cash discretionary bonus amounts to be paid to the Company's executive officers. These measures of performance are:

- earnings per share and earnings per share growth;
- return on average assets;
- return on average equity; and
- non-financial objectives.

During 2012, the Company did not have specific performance targets, thresholds or goals for any of the foregoing measures. Each measure is analyzed by the Compensation Committee to determine how it compares to the historical performance of the Company. Even if the performance in a category is not as favorable as the historical performance of the Company in such category, the Compensation Committee will subjectively analyze the reason for the difference and whether the Company believes it will cause a long-term trend of negative overall performance of the Company. The Compensation Committee is focused on the long-term results of the Company and recognizes that there may be periods when certain non-financial objectives may out-weigh near-term financial performance. The Compensation Committee believes that the total compensation paid to each of the executive officers in 2012 was appropriate in light of the compensation objectives of the Company.

The Compensation Committee did not pay a discretionary bonus to Mr. Nixon or any of the other four most highly compensated employees of the Company for services rendered to the Company in 2012 pursuant to the restrictions set forth in the CPP Compensation Regulation as described in "Participation in the Capital Purchase Program" below. On December 19, 2012, Mr. Nixon, received an award of long-term restricted stock units, payable solely in cash, in the amount of \$425,000 for his performance during 2012. In order to meet the restrictions in the CPP Compensation Regulations, as discussed in "Participation in the Capital Purchase Program" below, Mr. Nixon's long-term restricted stock units do not exceed one-third of his total annual compensation and are subject to prescribed vesting criteria as set forth in the CPP Regulations, which generally provide for complete vesting after two years of continued performance by Mr. Nixon and payment of the award in cash after the later of the two year vesting period or the repayment of the TARP funds by the Company, which repayment was completed on November 28, 2012.

For services rendered to the Company in 2012, Mr. Nixon, the President of the Company, received a salary of \$650,245.62. The amount of Mr. Nixon's salary was consistent with the historical salary compensation pattern for Mr. Nixon, who has served as President of the Company and its predecessor, IBC, since 1979 and whose duties are more extensive than those of the other named executive officers.

*Longer-Term Equity-Based Incentive-Stock Options.* A portion of executive compensation is also linked to corporate performance through equity-based compensation awards in the form of stock options. Awards under the Company's shareholder-approved Stock Option Plan are designed to:

- align executive officer and shareholder interests;
- reward officers for building shareholder value; and
- encourage long-term investment in the Company by executive officers.

Although our Company has no specific stock ownership guidelines, the Compensation Committee believes that stock ownership by management is beneficial to shareholders and stock options have been granted by the Company to executive officers and key salaried employees pursuant to various shareholder-approved stock option plans for many years. The size of the option grants is determined by the Stock Option Plan Committee based upon a subjective assessment of the respective employee's performance, compensation level and other subjective factors determined by the Stock Option Plan Committee.

All stock option grants to executive officers have been made pursuant to shareholder-approved stock option plans. The Stock Option Plan Committee administers all aspects of the 2012 International Bancshares Corporation Stock Option Plan (the “Stock Option Plan”) and also has authority to determine the individuals to whom and the terms upon which options are granted, the number of shares subject to each option and the form of consideration payable upon the exercise of an option. The President makes recommendations of stock option grants (other than for himself), which the Stock Option Plan Committee then considers. The Stock Option Plan Committee takes final action on the amount, timing, price and other terms of all options granted to executive officers and key salaried employees of the Company. The exercise price of each option granted under the Stock Option Plan equaled the fair market value of the Common Stock as of the date of grant.

The Stock Option Plan Committee did not grant awards in the form of stock options to any of its named executive officers in 2012, but did grant awards in the form of stock options to certain key employees. The Stock Option Plan Committee has no formal policy as to timing of awards of stock options other than as set forth below with respect to the release of material non-public information. Two of the three named executive officers of the Company were granted stock options in 2011, but no stock options were granted to the three named executive officers in 2012. The Stock Option Plan Committee’s decision not to grant awards to the Company’s named executive officers was consistent with the historic compensation practices of the Company for such executive officers, which compensation practices span a range of at least twenty years for each executive officer and include a number of years when the executive officers were not granted stock options. Historically, the Company has not granted stock options to the executive officers every year. Prior to grants made in 2009, stock option awards had been granted to at least one of the named executive officers in five of the ten years ended 2005, although the President has not received any stock option awards since 1997. All stock option awards under the Stock Option Plan have been made at the fair market value of the Company’s common stock on the date of grant. Stock options granted under the Stock Option Plan are generally granted for a term of eight years and have a six year vesting schedule. The Stock Option Plan permits the exercise price to be paid by delivery of cash or by surrendering shares of the Company’s common stock. Vesting of stock options may be accelerated upon certain events, including a change in control of the Company. Approximately fifty-two percent of all stock options outstanding and held by executive officers as of December 31, 2012 were vested. The Stock Option Plan is a tandem plan that provides for the granting of nonstatutory stock options and incentive stock options. The most recent stock options granted to executive officers in 2009 and 2011 were all incentive stock options. The Stock Option Plan Committee believes its decision to grant a total of 42,500 stock options to key employees in 2012 is consistent with the Company’s compensation objectives. During 2012, no stock options were granted to Mr. Nixon or any of the other four most highly compensated employees of the Company pursuant to the compensation restrictions of TARP as discussed in “Participation in the Capital Purchase Program” below.

*Long Term Restricted Stock Unit Plan.* On December 18, 2009, the Company’s Board of Directors adopted the 2009 International Bancshares Corporation Long-Term Restricted Stock Unit Plan (the “LTRSU Plan”) to give the Company additional flexibility in the compensation of its officers, employees, consultants and advisors in compliance with all applicable laws and restrictions. The Plan provided for both the issuance of long-term restricted stock units that complied with the restrictions of the CPP Compensation Regulations applicable to the five most highly compensated employees as well as long-term restricted stock units that did not comply with such restrictions. Long-term restricted stock units issuable under the Plan are not equity and are payable only in cash. One of the five most highly compensated employees of the Company, Dennis E. Nixon, the Company’s President and one of the CEOs, has received awards of long-term restricted stock units that do comply with the restrictions set forth in the CPP Compensation Regulations for the five most highly compensated employees of the Company. On December 19, 2012, Mr. Nixon received an award of long term restricted stock units in the amount of \$425,000 for his performance during 2012. In order to meet the restrictions in the CPP Compensation

Regulations, Mr. Nixon's long term restricted stock units do not exceed one-third of his total annual compensation in 2012.

*Profit Sharing Plan.* The Company has a 401(k) deferred profit sharing plan for full-time employees with a minimum of one year of continuous employment with the Company in order to provide a tax-advantaged savings vehicle to employees. It is a tax-qualified, defined contribution plan. The Company's annual contribution to the profit sharing plan is based on a percentage, as determined by the Board of Directors, of total compensation paid during the year to participants of the profit sharing plan. Allocation of the contribution among officers and employees' accounts is based on length of service and amount of salary earned. Profit sharing costs of \$3,400,000 were charged to income for the year ended December 31, 2012. This profit sharing plan and the Company's contribution to the plan enhance the range of benefits the Company offers to executives and employees and enhances the Company's ability to attract and retain employees.

*Perquisites and Other Personal Benefits.* The Company provides the executive officers with modest perquisites and other personal benefits. The perquisites we offer are common in the financial services industry and help the Company attract and retain superior employees for key positions. Some of the perquisites are intended to serve a business purpose because they enhance the ability of the employees of the Company to attract and retain customers of the Company. The perquisites and other benefits represent a small part of the Company's overall executive compensation package. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to executive officers. The primary perquisites are club memberships and the use of Company aircraft. The perquisites are disclosed in the *Summary Compensation Table* and they are itemized in the related supplemental table.

In September 2009, the Company adopted an Excessive or Luxury Expenditure Policy as required by the CPP Compensation Regulations as discussed below in "Participation in the Capital Purchase Program." That policy serves to reinforce the Company's long-standing commitment to control expenses and confirmed the Company's intention to continue to aggressively stress conservative business practices. The Policy provides that transportation for Company staff to outlying locations for business purposes should be conducted in the most cost appropriate way for the Company. The determination of transportation analysis will factor in cost, efficiency and timeliness of travel. With respect to air travel, the Policy provides that the Company's Bank Security Policy pertaining to air travel by certain designated key individuals, as discussed below, must be followed at all times.

The efficiencies and security afforded by corporate aircraft are a key factor in the Company's business plan in view of the Company being headquartered in Laredo, Texas. The Company's Board has engaged an outside security consultant to assess security risks to the executive management of the Company and adopted the Bank's Security Policy based on the recommendations of the security consultant. In view of the location of the Company's headquarters in Laredo on the Texas/Mexico border, the security consultant recommended that the Principal Executive Officer of the Company, Mr. Nixon, and his family use a Company plane for all business and personal travel. Although Mr. Nixon and his family's personal use of the Company plane is required by the Company for security reasons, the Company still reports for Securities and Exchange Commission disclosure purposes the personal use of the Company plane as a perquisite of Mr. Nixon. The Company reports use of corporate aircraft by executive officers as a perquisite or other personal benefit unless it is integrally and directly related to the performance of the executive's duties. The personal use of the aircraft is reported at the Company's incremental cost. The Company estimates the incremental cost to be equal to the Company's average incremental operating cost, which includes items such as fuel, maintenance, landing fees, trip-related permits, trip-related hangar costs, trip-related catering, meals and supplies, crew expenses during layovers, and any other expenses incurred or accrued based on the number of hours flown. This method fairly approximates the Company's incremental cost; however, it may overstate the Company's actual incremental cost in situations where the Company's aircraft would have flown on such trip for business purposes anyway and space would have

been available at little or no additional incremental cost to transport the executive or his or her guest(s) who were not traveling for business purposes.

### ***Tax and Regulatory Considerations***

The Compensation Committee has considered the limitations on deductibility of compensation of the executive officers under Section 162(m) of the Internal Revenue Code (the “Code”). Section 162(m) of the Code (“Section 162(m)”) provides that publicly-held companies may not deduct compensation paid to certain executive officers in excess of one million dollars annually, with certain exemptions for qualified, shareholder-approved “performance-based” compensation; however, during the TARP period the Company no longer had any such “performance-based” compensation plan since the Company’s former Executive Incentive Compensation Plan was terminated in December 2008. The Compensation Committee reserves the right to use its judgment to authorize compensation payments that may not be deductible under Section 162(m) when the Compensation Committee believes such payments are appropriate and in the best interests of the Company and its shareholders. This Proxy Statement includes a Proposal 5 for the shareholders of the Company to consider and vote on a proposal to approve the 2013 Management Incentive Plan (“MIP”). If adopted, the MIP would constitute a “performance-based” compensation plan that may provide a deduction under Section 162(m) for certain compensation paid under the MIP for services rendered in 2013. Please see Proposal 5 for a discussion of the MIP proposal.

As a result of the Company’s participation in TARP during 2012 (see “Participation in the Capital Purchase Program”), the Company was subject to amendments to Section 162(m) which limit the deductibility of all compensation, including performance based compensation, to \$500,000 per executive with respect to any taxable year during which the U.S. Treasury retains its TARP investment in the Company. When the Company’s Board of Directors determined to participate in TARP, it was aware of, factored into its analysis and agreed to, the potential increased after-tax cost of its executive compensation program that would arise because of the TARP Program’s \$500,000 deduction limitation. However, and especially in connection with the limitations imposed upon executive compensation by participation in TARP (see “Participation in the Capital Purchase Program”), the Company realizes that executive compensation must remain competitive and aligned with shareholder interests, which may result in the Company providing compensation that is not always deductible. The Company contends that retaining the right leadership is of greater shareholder value than achieving 100% deductibility of all executive compensation at all times. This limitation on deductibility does not affect any officer’s receipt of compensation, but increases the company’s tax liability.

The Company and the Compensation Committee also take into consideration various other tax and regulatory matters when determining the amount and type of compensation awarded to executives. These areas include Section 409 of the Code relating to deferred compensation and the expensing of equity grants under FASB ASC Topic 718. In making compensation structure and award decisions, the Compensation Committee does take into account the impact of these regulatory areas.

### ***Other Guidelines Affecting Executive Compensation***

*Stock-Based Compensation—Timing of Grants.* The Stock Option Plan Committee sets the exercise price of stock options at the closing stock price on the date of grant. The Stock Option Plan Committee tries to make stock option grants at times when the exercise price will not be influenced by releases of material, non-public Company information. The Company does not time or plan the release of material, non-public information for the purpose of affecting the value of executive compensation.

*Adjustments to Incentive Compensation as a Result of Financial Statement Restatements.* The Company does not have a policy or guideline regarding the adjustment or recovery of awards or payments to executive officers if the relevant Company’s performance measures upon which they are based are restated or otherwise adjusted in a manner that would reduce the size of an award or payment. There are forfeiture

and recoupment provisions contained in the Company's Long-Term Restricted Stock Unit Plan in accordance with the recoupment provisions of the CCP Compensation Regulations as discussed below.

The CCP Compensation Regulations and the International Bancshares Corporation Compensation Clawback Policy provide for recovery of any bonus payment, retention award, or incentive compensation paid to the TARP Covered Employees based on materially inaccurate financial statements (which includes but is not limited to, statements of earnings, revenues, or gains), or any other materially inaccurate performance metric criteria. For additional information regarding the recoupment of awards, both equity and incentive, please see "Participation in the Capital Purchase Program" below.

***Participation in the Capital Purchase Program.***

The Company elected to issue \$216,000,000 of Series A Preferred Stock to the Treasury Department under the CPP of the federal government's TARP. The Company chose to enter the CPP even though the Company was well capitalized because the extra capital provided by the TARP funds further strengthened the Company's capital ratios and enhanced the Company's ability to serve the financial needs of its customers and the communities it serves. As a result of the Company's participation in the CPP, the Company's senior executive officers including Dennis E. Nixon, R. David Guerra and Imelda Navarro have also executed waivers whereby they voluntarily waive any claim against Treasury or IBC for any changes to his/or her compensation or benefits that are required to comply with the executive compensation restrictions applicable to TARP participants and acknowledging that the regulations may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period during which the Company was a TARP participant. The Company exited the TARP program on November 28, 2012. The CPP Compensation Regulations apply to the Company during any period that the Company was a TARP participant.

On February 17, 2009, President Obama signed into law the ARRA. The ARRA imposed additional compensation restrictions and corporate governance standards on TARP recipients. The new law also includes limitations on executive compensation of certain of the most highly-compensated employees and executive officers of financial institutions, such as the Company, that participated in TARP. In June 2009, the Treasury Department issued implementing regulations under ARRA as more fully described in 31 CFR Part 30 (as amended December 7, 2009) (the "CPP Compensation Regulations") that significantly affect our executive compensation program. Those requirements are outlined below.

***Limitations on Incentive Compensation.*** The CPP Compensation Regulations contain a prohibition on paying or accruing bonus, incentive or retention compensation for at least the five most highly compensated employees ("MHC"), other than arrangements that meet the following criteria:

- Payments of "Long-Term Restricted Stock," ("LTRS") including restricted stock units, subject to prescribed vesting criteria included in the CPP Compensation Regulations and having a value of no more than one-third of the employee's total compensation.
- The LTRS may be payable in stock or in cash, as long as the cash is equivalent to the value of the underlying stock.
- "Annual compensation" is the amount disclosed in the Summary Compensation Table except that it may exclude actuarial increases in pension plans.
- For this purpose, "compensation" includes all equity based compensation in the year in which it was granted, measured at fair market value ("FMV") on the grant date.
- The value of any LTRS grant is included in "compensation" at its FMV on the grant date only in the year that it is granted.
- The MHC must remain employed for at least 2 years after the LTRS is granted and the grant may not fully vest until all of the CPP investment is repaid.
- This payment limitation does not apply to any incentives accrued or paid prior to June 15, 2009 if the employee had a legally binding right to receive the payment as of February 11, 2009.

*Golden Parachute Prohibition.* The CPP Compensation Regulations contain a prohibition on making any “golden parachute” payments to the senior executive officers and the next five most highly compensated employees including payments made on account of a “change in control” of the Company.

*Compensation Clawback.* The CPP Compensation Regulations subject bonus, incentive and retention payments made to the senior executive officers and the next 20 most highly compensated employees to a “clawback” if based on materially inaccurate financial statements (which include, but is not limited to, statements of earnings, revenues or gains) or any other materially inaccurate performance metric criteria.

*Prohibition of Plans Encouraging Excessive Risk.* The CPP Compensation Regulations contain a prohibition on any compensation plan that would encourage manipulation of reported earnings of the TARP participant.

*Adoption of Luxury Expenditure Policy.* The CPP Compensation Regulations contain a requirement that the Company adopt and the Company has adopted, filed with Treasury and posted on our website an “excessive and luxury” expenditure policy regarding excessive or luxury expenditures including office and facility renovations, aviation or other transportation services and other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives or similar measures in the ordinary course of business.

*Say-On-Pay Non-binding Vote.* The CPP Compensation Regulations contain a requirement for submitting a “say-on-pay” proposal to a non-binding vote of shareholders at annual meetings, whereby shareholders vote to approve the compensation of executives as disclosed pursuant to the executive compensation disclosures included in the proxy statement.

*Treasury Compensation Review.* The CPP Compensation Regulations contain a review by the U.S. Department of Treasury of any bonus, retention awards or other compensation paid to the senior executive officers and the next 20 most highly compensated employees prior to February 17, 2009 to determine if such payments were excessive and negotiate for the reimbursement of such excess payments.

*Perquisite and Benchmarking Disclosure.* Pursuant to the CPP Compensation Regulations we are required to annually, within 120 days after year-end, disclose to Treasury and the FDIC the payment of perquisites exceeding \$25,000 for any employee subject to bonus restrictions (our MHCs), including the amount and nature of the perquisite and the justification for providing it. We also must annually disclose to Treasury and the FDIC information about our use of compensation consultants for benchmarking.

*CEO and CFO Certifications.* Pursuant to the CPP Compensation Regulations our CEO and CFO must provide, within 90 days after the close of each fiscal year, compliance certifications to Treasury confirming our compliance with the CPP Compensation Regulations. These certifications are filed as Exhibits to our 10-K and we must preserve supporting records and documentation for at least 6 years after the certification.

*Compensation Committee Review and Certification.* In addition, the CPP Compensation Regulations establish a compliance reporting regime, which includes a requirement that the Compensation Committee meet twice a year to review the entity’s compensation policies for unnecessary risk, and to annually disclose its findings. Pursuant to the review requirements the Compensation Committee must:

- Review every six months all employee compensation plans with senior risk officers to identify and eliminate excessive risk components;
- Annually provide a narrative description of how the CEO compensation plans do not encourage excessively risky behavior and certify that the CEO incentive compensation arrangements do not encourage CEOs to take unnecessary and excessive risks that threaten the value of the institution.

The CPP Compensation Regulations apply to any entity that has received funds under TARP and shall generally continue to apply for as long as any obligation arising from securities issued under TARP, including preferred stock issued under the CPP, remain outstanding. These restrictions shall not apply to any TARP recipient during such time when the federal government (i) only holds any warrants to purchase common stock of such recipient or (ii) holds no preferred stock or warrants to purchase common stock of such recipient. Pursuant to the provisions of the ARRA, the Company was permitted to complete the repayment of the \$216 million it received under TARP on November 28, 2012, and thereby exit the TARP program.

### ***Conclusion***

We believe the Company's 2012 executive compensation program's mix of salary, annual cash bonus incentives, long-term restricted stock units, and longer-term equity-based incentives in the form of stock options motivates the Company's management team to produce strong results for shareholders. Our Board believes this compensation program strikes an appropriate balance between the interests and needs of the Company and appropriate employee rewards based on shareholder value creation.

### ***Compensation Committee Narrative Description of Review of Risks Associated With Compensation Plans***

The Compensation Committee has discussed, reviewed and evaluated with the senior risk officers at least every six months, including in February, 2010, August, 2010, February, 2011, August, 2011, January, 2012, July, 2012, and January 2013, the SEO compensation plans and employee compensation plans and the risks these plans pose to the Company with the goal to identify any features of the Company's incentive compensation arrangements that could lead SEOs or other employees to take unnecessary and/or excessive risks that threaten the Company's value; to eliminate those features; to eliminate any features in the compensation arrangements that could encourage manipulation of reported earnings to enhance the compensation of any employee and to identify and mitigate any risks arising from the Company's compensation policies and practices for employees that are reasonably likely to have a material adverse affect on the Company.

The Company's SEO compensation plans or arrangements are the same as the employee compensation plans or arrangements. As discussed in the "Compensation Discussion and Analysis" above, the Company's SEO and employee compensation arrangements, other than the Long Term Restricted Stock Unit Plan, have been in place for many years, are not complicated and include the following:

- Base Salary
- Annual Discretionary Cash Bonus
- Stock Option Plan
- Long Term Restricted Stock Unit Plan
- Profit sharing Plan
- Perquisites and other Personal Benefits

In its deliberations, the Committee noted that the Company's only compensation arrangement that included specific performance thresholds was the Executive Incentive Compensation Plan ("EICP") and that the EICP was terminated effective as of December 19, 2008. None of the Company's employee compensation arrangements for the year ended December 31, 2012 had specific performance thresholds. The Committee confirmed that the Company's employee compensation decisions are subjective and focus on an individual's management responsibilities and contribution to the Company's corporate objectives, rather than formulaic performance thresholds that could lead to the employee, whether or not an SEO, taking unnecessary or excessive risks or otherwise manipulating the Company's reported earnings in order to meet the formulaic performance threshold. Accordingly, the Committee determined that the Company's

compensation arrangements do not encourage behavior based on short term results rather than the long-term value of the Company. The Committee also confirmed that neither the Committee nor the Board of Directors of the Company engaged a compensation consultant at any time during 2012.

Based on its review and discussion of each SEO and employee compensation plan, the Committee determined that no SEO or employee compensation plan encourages the SEOs or the employees to take unnecessary and/or excessive risks that threaten the Company's value. The Committee also determined that no employee compensation plan encourages the manipulation of reported earnings to enhance the compensation of any employee. The Compensation Committee further determined that there are no risks arising from the Company's compensation policies and practices for employees that are reasonably likely to have a material adverse affect on the Company.

As part of its review of the SEO and employee compensation arrangements, the Compensation Committee carefully considered whether actions were necessary to limit unnecessary risks posed by any employee compensation plan. The Compensation Committee did not find that any SEO or employee compensation arrangement posed any unnecessary risk so no specific action was taken to limit such risk; however, the Committee did take action to ensure that the Company complied with the compensation restrictions set forth in the CPP Compensation Regulations.

In order to comply with the restrictions on the payment of incentive compensation to the five most highly compensated employees of the Company, the Compensation Committee carefully reviewed the compensation paid to the twenty most highly compensated employees of the Company, as defined in the CPP Compensation Regulations to include affiliate entities, and identified the five most highly compensated employees of the Company according to the definitions in the CPP Compensation Regulations. The Compensation Committee did not grant any cash bonuses or any other prohibited incentive compensation to any of the five most highly compensated employees of the Company. The Compensation Committee also conferred with the Stock Option Plan Committee of the Company and confirmed that no stock options were granted to any of the five most highly compensated employees of the Company.

On December 18, 2009, the Company's Board of Directors adopted the LTRSU Plan. On December 19, 2012, one of the five most highly compensated employees of the Company, Dennis E. Nixon, the Company's President and one of the SEOs, received an award of long-term restricted stock units in the amount of \$425,000 for his performance during 2012. In order to meet the restrictions in the CPP Compensation Regulations, Mr. Nixon's long-term restricted stock units do not exceed one-third of his total annual compensation and the vesting and payment terms of the LTRSUs were required to meet criteria set forth in the CPP Compensation Regulations. The Compensation Committee reviewed the issuance of the LTRSUs to Mr. Nixon and confirmed that they were in accordance with the CPP Compensation Regulations.

The Compensation Committee also acknowledged and discussed the CPP Compensation Regulations and the International Bancshares Corporation Compensation Clawback Policy that require the Company to ensure that any bonus, retention award, or incentive compensation paid or accrued during the TARP period to a SEO or one of the next twenty most highly compensated employees is subject to recovery or "clawback" by the Company if the payments or accruals were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

At the conclusion of the discussion of the compensation arrangements of the Company, the Compensation Committee unanimously authorized the certification found in the Compensation Committee report, below.

### ***Compensation Committee Report and Certification***

In accordance with the requirements of TARP, in which the Company was a participant until November 28, 2012, the Compensation Committee certifies that during 2012:

1. It has reviewed with Senior Risk Officers the senior executive officer (SEO) compensation plans and has made all reasonable efforts to ensure that these plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the Company;
2. It has reviewed with Senior Risk Officers the employee compensation plans and has made all reasonable efforts to limit any unnecessary risks these plans pose to the Company; and
3. It has reviewed the employee compensation plans to eliminate any features of these plans that would encourage the manipulation of reported earnings of the Company to enhance the compensation of any employee.

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review, has recommended to the Board of Directors that the disclosure set forth above under the heading "Compensation Discussion and Analysis" be included in this Proxy Statement and incorporated by reference into the Company's annual report on Form 10-K for the year ended December 31, 2012.

Submitted by the Compensation Committee:

Irving Greenblum Daniel B. Hastings, Jr. Peggy J. Newman Douglas B. Howland

### ***EXECUTIVE COMPENSATION TABLES***

The following information is furnished for the fiscal year ended December 31, 2012 with respect to the Principal Executive Officer, the Principal Financial Officer and the one other executive officer of the Company receiving at least \$100,000 in compensation. All cash compensation is paid by IBC, as the Company does not directly pay any cash compensation to the executive officers of the Company. Each of the three named executive officers of the Company is also an executive officer of IBC.

#### ***Summary Compensation***

The following table sets forth information regarding compensation earned during each of the last three fiscal years by the Principal Executive Officer, the Principal Financial Officer and the one other

executive officer of the Company who received compensation of at least \$100,000 for each of the Company's last three completed fiscal years.

| <b>Name and Principal Position</b>                                                                  | <b>Year</b> | <b>Salary<br/>\$(1)</b> | <b>Bonus<br/>\$(2)</b> | <b>Stock<br/>Awards<br/>\$(4)</b> | <b>Option<br/>Awards<br/>\$(4)</b> | <b>Non-Equity<br/>Incentive Plan<br/>Compensation<br/>\$(5)</b> | <b>All Other<br/>Compensation<br/>\$(6)</b> | <b>Total<br/>(\$)</b> |
|-----------------------------------------------------------------------------------------------------|-------------|-------------------------|------------------------|-----------------------------------|------------------------------------|-----------------------------------------------------------------|---------------------------------------------|-----------------------|
| Dennis E. Nixon . . . . .                                                                           | 2012        | 650,245                 | —                      | 425,000                           | —                                  | —                                                               | 231,702                                     | 1,306,947             |
| Chairman of the Board                                                                               | 2011        | 622,244                 | —                      | 400,000                           | —                                  | —                                                               | 219,307                                     | 1,241,551             |
| President and Director of the<br>Company; President, CEO and<br>Director of IBC                     | 2010        | 611,828                 | —                      | 400,000                           | —                                  | —                                                               | 221,668                                     | 1,233,496             |
| R. David Guerra . . . . .                                                                           | 2012        | 226,123                 | 44,752                 |                                   | —                                  | —                                                               | 67,810                                      | 338,685               |
| Vice President and Director of<br>the Company; President of IBC                                     | 2011        | 217,271                 | 49,960                 |                                   | 13,757                             | —                                                               | 65,385                                      | 346,373               |
| branch in McAllen, Texas and<br>Director of IBC                                                     | 2010        | 217,292                 | 41,984                 |                                   | —                                  | —                                                               | 66,299                                      | 325,575               |
| Imelda Navarro . . . . .                                                                            | 2012        | 199,496                 | 92,078                 |                                   | —                                  | —                                                               | 46,271                                      | 337,845               |
| Principal Financial Officer;                                                                        | 2011        | 187,564                 | 93,933                 |                                   | 19,260                             | —                                                               | 46,688                                      | 347,445               |
| Treasurer and Director of<br>the Company, Senior Executive<br>Vice President and Director<br>of IBC | 2010        | 187,065                 | 96,934                 |                                   | —                                  | —                                                               | 40,204                                      | 324,203               |

- (1) The amounts shown in this column only include the salary paid to the executive officer. All cash compensation paid to the named officers was paid by IBC.
- (2) The amounts shown in this column are discretionary cash bonuses paid by IBC.
- (3) The amounts shown in this column represent the aggregate grant date fair value of the Long-Term Restricted Stock Units computed in accordance with FASB ASC Topic 718, as discussed further in the table entitled "Grants of Plan-Based Awards in 2012" set forth below.
- (4) The amounts shown in this column represent the aggregate grant date fair value of the stock-based compensation granted in the stated fiscal year, in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in footnote 15 to our audited financial statements for the fiscal year ended December 31, 2012 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Options were granted to several of the named executive officers and key salaried employees in fiscal years 2011 and the amount shown for this year has been restated to reflect the change in SEC reporting rules, which formerly required reporting the aggregate expense recognized during the year for all equity awards, including awards granted in prior years, rather than reflecting the fair market value on the date of grant.
- (5) None of the named executive officers received any non-equity incentive plan compensation during the last three fiscal years.
- (6) The amounts shown in the "All Other Compensation" column include the perquisites and personal benefits set forth in the "All Other Compensation Table" below.

### *All Other Compensation*

| Name                | Year | Club Memberships (\$) | Long Term Disability & Health Insurance Premiums (\$) | Company Contribution to Profit Sharing Plans (\$)(1) | Company and Subsidiary Bank Director Fees (\$)(2) | Housing Allowance (\$)(3) | Administrative Services (\$)(4) | Airplane (\$)(5) | Total (\$) |
|---------------------|------|-----------------------|-------------------------------------------------------|------------------------------------------------------|---------------------------------------------------|---------------------------|---------------------------------|------------------|------------|
| Dennis E. Nixon . . | 2012 | 4,419                 | 3,224                                                 | 14,259                                               | 106,600                                           | —                         | 40,000                          | 63,200           | 231,702    |
|                     | 2011 | 4,384                 | 3,018                                                 | 15,068                                               | 108,500                                           | —                         | 40,000                          | 48,337           | 219,307    |
|                     | 2010 | 4,384                 | 2,857                                                 | 15,012                                               | 104,700                                           | —                         | 40,000                          | 54,715           | 221,668    |
| R. David Guerra . . | 2012 | 4,351                 | 4,387                                                 | 12,912                                               | 28,900                                            | 17,260                    | —                               | —                | 67,810     |
|                     | 2011 | 4,351                 | 3,655                                                 | 13,379                                               | 27,700                                            | 16,300                    | —                               | —                | 65,385     |
|                     | 2010 | 4,352                 | 3,584                                                 | 13,323                                               | 30,400                                            | 14,640                    | —                               | —                | 66,299     |
| Imelda Navarro . .  | 2012 | 4,419                 | 3,675                                                 | 11,407                                               | 25,900                                            | 870                       | —                               | —                | 46,271     |
|                     | 2011 | 4,384                 | 3,470                                                 | 11,574                                               | 25,900                                            | 1,360                     | —                               | —                | 46,688     |
|                     | 2010 | 4,384                 | 3,309                                                 | 11,501                                               | 19,400                                            | 1,610                     | —                               | —                | 40,204     |

- (1) All amounts shown in this column consist of funds contributed or allocated by the Company pursuant to the Company's Employee Profit Sharing Plan, a deferred profit sharing plan for employees with one year of continual employment.
- (2) Director fees include those fees paid by the Company and subsidiary banks where the executive officer serves as director.
- (3) This amount is for a housing allowance provided to officers of the company and subsidiary banks; the amount paid is the differential between the home loan rate and the cost of funds rate.
- (4) This amount is for personal administrative services provided by Company staff to Mr. Nixon.
- (5) Although Mr. Nixon's and his family's personal use of the Company plane is required by the Company for security reasons, the Company still reports for Securities and Exchange Commission disclosure purposes the personal use of the Company plane as a perquisite to Mr. Nixon. The Company reports use of corporate aircraft by executive officers as a perquisite or other personal benefit unless it is integrally and directly related to the performance of the executive's duties. The personal use of the aircraft is reported at the Company's incremental cost. The Company estimates the incremental cost to be equal to the Company's average incremental operating cost, which includes items such as fuel, maintenance, landing fees, trip-related permits, trip-related hanger costs, trip-related catering, meals and supplies, crew expenses during layovers, and any other expenses incurred or accrued based on the number of hours flown. The Company believes this method fairly approximates the Company's incremental cost; however, it may overstate the Company's actual incremental cost in situations where the Company's aircraft would have flown on such trip for business purposes anyway and space would have been available at little or no additional incremental cost to transport the executive or his or her guest(s) who were not traveling for business purposes.

### *Grants of Plan-Based Awards*

| Name                      | Grant Date (b) | Estimated Future Payouts Under Equity Incentive Plan Awards(1) Target(#)(d) | All Other Awards: Number of Securities Underlying Options(#) | Exercise or Base Price of Option Awards (\$/sh) | Grant Date Fair Value of Stock and Option (\$) |
|---------------------------|----------------|-----------------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------|------------------------------------------------|
| Dennis E. Nixon . . . . . | 12/19/2012     | (1)                                                                         | —                                                            | 18.64                                           | 425,000(2)                                     |
| R. David Guerra . . . . . | 10/07/2011     | —                                                                           | 2,500                                                        | \$14.73                                         | 13,757                                         |
| Imelda Navarro . . . . .  | 10/07/2011     | —                                                                           | 3,500                                                        | \$14.73                                         | 19,260                                         |

- (1) Mr. Nixon was granted the equivalent of \$425,000 worth of Long-Term Restricted Stock Units, which divided by the fair market value of the Company common stock at the time of grant of \$18.64 represents 22,800.43 Long-Term Restricted Stock Units; however, the Long-Term Restricted Stock Units will be paid solely in cash equal to the number of vested Long-Term Restricted Stock Units multiplied by the fair market value of one share of common stock of the Company on the settlement date. The Long-Term Restricted Stock Units, with certain exceptions, provide for full vesting after two years of continued performance by Mr. Nixon and payment of the award in cash after the later of the

two year vesting period or the repayment of TARP funds by the Company, which repayment was completed on November 28, 2012, as more fully described in “Compensation Discussion and Analysis” above and in the CPP Compensation Regulations.

- (2) This column represents the grant date fair value of the equity award computed in accordance with FASB ASC Topic 718. The grant date fair value of the Long-Term Restricted Stock Units for Mr. Nixon was computed based on the Liability Award method of FASB ASC Topic 718 because the units are payable solely in cash. Please see “Compensation Discussion and Analysis” above for more information regarding the Long-Term Restricted Stock Units granted to Mr. Nixon, including the “Participation in the Capital Purchase Program” discussion that specifically discusses the restrictions applicable to Long Term Restricted Stock Units under the CPP Compensation Regulations.

***Outstanding Equity Awards at Year End***

The following table sets forth 2012 year end information regarding outstanding equity awards held by the individuals named in the Summary Compensation Table above. During 2012, the Company granted options to several of the named executive officers and key salaried employees; but no options were granted to any of the five most highly compensated employees of the Company in accordance with the TARP restrictions as described in the “Participation in the Capital Purchase Program” discussion.

|                           | Option Awards                                                       |                                                                                                              |                            |                        | Stock Awards                                                                                            |                                                         |
|---------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|----------------------------|------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
|                           | Number of Securities Underlying Unexercised Options (#) Exercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not Vested (#) | Equity Awards: Payout Unearned or Other have not Vested |
| R. David Guerra . . . . . | 1,925                                                               | —                                                                                                            | 26.82                      | 10/14/2013(1)          |                                                                                                         |                                                         |
|                           | 125                                                                 | 2,375                                                                                                        | 14.73                      | 10/07/2019(3)          |                                                                                                         |                                                         |
| Imelda Navarro . . . . .  | 2,750                                                               | —                                                                                                            | 26.82                      | 10/14/2013(1)          |                                                                                                         |                                                         |
|                           | 1,250                                                               | 1,250                                                                                                        | 10.40                      | 04/16/2017(2)          |                                                                                                         |                                                         |
|                           | 175                                                                 | 3,325                                                                                                        | 14.73                      | 10/07/2019(3)          |                                                                                                         |                                                         |
| Dennis E. Nixon . . . . . |                                                                     |                                                                                                              |                            |                        | 22,779(4)                                                                                               | \$400,000(5)                                            |
|                           |                                                                     |                                                                                                              |                            |                        | 22,800(4)                                                                                               | \$425,000(5)                                            |

- (1) These options were granted on October 14, 2005 and have a six year vesting schedule, vesting 5%, 10%, 15%, 20%, 25% and 25%. All of the options will expire eight years from the date of grant.
- (2) These options were granted on April 16, 2009 and have a six year vesting schedule, vesting 5%, 10%, 15%, 20%, 25% and 25%. All of the options will expire eight years from the date of grant.
- (3) These options were granted on October 7, 2011 and have a six year vesting schedule, vesting 5%, 10%, 15%, 20%, 25% and 25%. All of the options will expire eight years from the date of grant.
- (4) On December 16, 2011, Mr. Nixon was granted the equivalent of \$400,000 worth of Long-term Restricted Stock Units, which divided by the fair market value of the Company common stock at the time of grant of \$17.56 represents 22,779 Long-Term Restricted Stock Units and on December 19, 2012, Mr. Nixon was granted the equivalent of \$425,000 worth of Long-Term Restricted Stock Units, which divided by the fair market value of the Company common stock at the time of grant of 18.64 represents 22,800.43 Long-Term Restricted Stock Units; however, the Long-Term Restricted Stock Units will be paid solely in cash equal to the number of vested Long-Term Restricted Stock Units

multiplied by the fair market value of one share of common stock of the Company on the settlement date. These Long-Term Restricted Stock Units, with certain exceptions, provide for full vesting after two years of continued performance by Mr. Nixon and payment of the award in cash after the later of the two year vesting period or the repayment of TARP funds by the Company as more fully described in the “Compensation Discussion and Analysis” above and the CPP Compensation Regulations.

- (5) This reports the grant date fair value of the Long-Term Restricted Stock Units granted to Mr. Nixon in 2011 and 2012 computed in accordance with FASB ASC Topic 718. The grant date fair value of the Long-Term Restricted Stock Units for Mr. Nixon was computed based on the Liability Award method of FASB ASC Topic 718 because the units are payable solely in cash. Please see “Compensation Discussion and Analysis” above for more information regarding the Long-Term Restricted Stock Units granted to Mr. Nixon, including the “Participation in the Capital Purchase Program” discussion that specifically discusses the restrictions applicable to Long Term Restricted Stock Units under the CPP Compensation Regulations.

### *Option Exercises and Stock Vested*

None of the named executive officers exercised stock options during 2012. The following table shows the value realized upon the vesting of stock awards of the Principal Executive Officer, the Principal Financial Officer and the one other executive officer of the Company receiving at least \$100,000 in compensation. Please see the preceding table for information regarding the vesting schedule for outstanding stock options held by the Company’s named executive officers.

| Name                      | Option Awards                             |                                 | Stock Awards                             |                                   |
|---------------------------|-------------------------------------------|---------------------------------|------------------------------------------|-----------------------------------|
|                           | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Settlement Date |
| Dennis Nixon(1) . . . . . | 0                                         | 0                               |                                          | \$                                |
| 2009 Award . . . . .      |                                           |                                 | 14,767                                   | \$262,846.90                      |
| 2010 Award . . . . .      |                                           |                                 | 20,305                                   | \$358,781.76                      |
| Imelda Navarro . . . . .  | 0                                         | 0                               | 0                                        | 0                                 |
| R. David Guerra . . . . . | 0                                         | 0                               | 0                                        | 0                                 |

- (1) On December 18, 2009, Mr. Nixon was granted the equivalent of \$250,000 worth of Long-Term Restricted Stock Units, which divided by the fair market value of the Company Common Stock at the time of grant of \$16.93 represents 14,767 Long-Term Restricted Stock Units. Such units vested on December 18, 2011 and became payable on November 28, 2012 upon the repayment of the TARP funds and \$262,846.90 was paid to Mr. Nixon on December 12, 2012.

On December 15, 2010, Mr. Nixon was granted the equivalent of \$400,000 worth of Long-Term Restricted Stock Units, which divided by the fair market value of the Company Common Stock at the time of grant of \$19.70 represents 20,305 Long-Term Restricted Stock Units. Such units vested and became payable on December 15, 2012 and \$358,781.76 was paid to Mr. Nixon on December 18, 2012.

The Long-Term Restricted Stock Units will be paid solely in cash equal to the number of vested Long-Term Restricted Stock Units multiplied by the fair market value of one share of common stock of the Company on the settlement date. These Long-Term Restricted Stock Units, with certain exceptions, provide for full vesting after two years of continued performance by Mr. Nixon and payment of the award in cash after the later of the two year vesting period or the repayment of TARP funds by the Company as more fully described in the “Compensation Discussion and Analysis” above and the CPP Compensation Regulations.

### ***Equity Compensation Plan Information***

The following table sets forth information as of December 31, 2012, with respect to the Company's equity compensation plans:

| <b>Plan Category</b>                                              | <b>A<br/>Number of securities<br/>to be issued upon<br/>exercise of outstanding<br/>options, warrants<br/>and rights</b> | <b>B<br/>Weighted average<br/>exercise price of<br/>outstanding options,<br/>warrants and rights</b> | <b>C<br/>Number of securities<br/>remaining available for future<br/>issuance under equity<br/>compensation plans<br/>(excluding securities reflected<br/>in column A)</b> |
|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity Compensation plans<br>approved by security holders . . . . | <u>794,877</u>                                                                                                           | <u>\$19.03</u>                                                                                       | <u>757,500</u>                                                                                                                                                             |
| Total . . . . .                                                   | <u>794,877</u>                                                                                                           | <u>\$19.03</u>                                                                                       | <u>757,500</u>                                                                                                                                                             |

### ***SECURITY OWNERSHIP OF MANAGEMENT***

Based upon information received from the persons concerned, each of whom is a director and, other than Messrs. Neiman and Hastings, a nominee for director, the following individuals and all directors and executive officers of the Company as a group owned beneficially as of April 1, 2013, the number and percentage of outstanding shares of Common Stock of the Company indicated in the following table:

| <b>Name of Beneficial Owner</b>                                              | <b>Amount and Nature of<br/>Beneficial Ownership<br/>of Common Stock</b> | <b>Percent<br/>of Class</b> |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------|
| Irving Greenblum(1) . . . . .                                                | 579,784                                                                  | *                           |
| R. David Guerra(2) . . . . .                                                 | 155,973+                                                                 | *                           |
| Daniel B. Hastings, Jr. . . . .                                              | 174,184                                                                  | *                           |
| Douglas B. Howland . . . . .                                                 | 8,303                                                                    | *                           |
| Imelda Navarro(3) . . . . .                                                  | 202,237+                                                                 | *                           |
| Sioma Neiman(4) . . . . .                                                    | 518,736                                                                  | *                           |
| Peggy J. Newman . . . . .                                                    | 17,016                                                                   | *                           |
| Dennis E. Nixon(5) . . . . .                                                 | 2,504,117                                                                | 3.73%                       |
| Larry A. Norton(6) . . . . .                                                 | 137,847                                                                  | *                           |
| Leonardo Salinas(7) . . . . .                                                | 79,097                                                                   | *                           |
| A. R. Sanchez Jr.(8) . . . . .                                               | 9,434,999                                                                | 14.04%                      |
| All Directors and Executive Officers as a group<br>(11 persons)(9) . . . . . | 13,812,293                                                               | 20.56%                      |

\* Ownership of less than one percent

+ Includes shares which are issuable upon the exercise of options exercisable within 60 days of April 1, 2013 ("currently exercisable options").

- (1) The holdings shown for Mr. Greenblum include 108,331 shares held in a family limited partnership, which he has the power to dispose of and to vote. The holdings for Mr. Greenblum include 34,362 shares held in his wife's name.
- (2) The holdings shown for Mr. Guerra include 2,050 shares issuable upon the exercise of currently exercisable options. The holdings shown for Mr. Guerra include 153,923 shares held jointly with his wife.
- (3) The holdings shown for Ms. Navarro include 4,175 shares issuable upon the exercise of currently exercisable options.

- (4) The holdings shown for Mr. Neiman are in the name of Inar Investments, Corp., of which he is the Managing Director.
- (5) The holdings shown for Mr. Nixon include 165,348 shares held in his wife's name.
- (6) The holdings shown for Mr. Norton include 136,917 held in a family limited partnership, which he has the power to dispose of and to vote. The holdings for Mr. Norton include 274 shares held in his wife's name.
- (7) The holdings shown for Mr. Salinas include 51,562 shares held in a family limited partnership, which he has the power to dispose of and to vote.
- (8) Mr. Sanchez owns directly and has the sole power to vote and to dispose of 2,274,269 shares. The shares shown for Mr. Sanchez include 2,737,120 shares owned by the Alicia M. Sanchez Charitable Lead Annuity Trust. Mr. Sanchez serves as a trustee of this trust and has the sole power to vote and dispose of such shares. The shares shown for Mr. Sanchez also include 2,496,351 shares held by trusts in which various family members, including his children, have a vested interest in the income and corpus and for which Mr. Sanchez serves as trustee. Mr. Sanchez has shared power to vote and to dispose of 2,464,944 of such 2,496,351 shares and has the sole power to vote and dispose of the remaining 31,407 shares. The totals for Mr. Sanchez also reflect (i) 1,067,439 shares held by a limited partnership, the managing general partner of which is a corporation of which Mr. Sanchez is the president and Chairman of the Board; and (ii) 859,820 shares held by the A. R. "Tony" and Maria J. Sanchez Family Foundation, of which Mr. Sanchez is a director.
- (9) The holdings shown for all directors and executive officers as a group include 5,725 shares issuable upon the exercise of currently exercisable options.

Except as reflected in the notes to the preceding table, each of the individuals listed in the table owns directly the number of shares indicated in the table and has the sole power to vote and to dispose of such shares.

#### ***PRINCIPAL SHAREHOLDERS***

Insofar as is known to the Company, no person beneficially owned, as of April 1, 2013, more than five percent of the outstanding Common Stock of the Company, except as follows:

| <u>Name and Address of Beneficial Owner</u>                                                | <u>Amount and Nature of<br/>Beneficial Ownership<br/>of Common Stock</u> | <u>Percent<br/>of Class</u> |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------|
| A. R. Sanchez Jr.(1) . . . . .<br>P.O. Box 2986<br>Laredo, Texas 78040                     | 9,434,999                                                                | 14.04%                      |
| BlackRock, Inc.(2) . . . . .<br>40 East 52 <sup>nd</sup> Street<br>New York, NY 10022      | 3,997,014                                                                | 5.95%                       |
| Wellington Management Company, LLP(3) . . . . .<br>280 Congress Street<br>Boston, MA 02210 | 5,919,216                                                                | 8.80%                       |

- (1) Mr. Sanchez owns directly and has the sole power to vote and to dispose of 2,274,269 shares. The shares shown for Mr. Sanchez include 2,737,120 shares owned by the Alicia M. Sanchez Charitable Lead Annuity Trust. Mr. Sanchez serves as a trustee of this trust and has the sole power to vote and dispose of such shares. The shares shown for Mr. Sanchez also include

2,496,351 shares held by trusts in which various family members, including his children, have a vested interest in the income and corpus and for which Mr. Sanchez serves as trustee. Mr. Sanchez has shared power to vote and to dispose of 2,464,944 of such 2,496,351 shares and has the sole power to vote and dispose of the remaining 31,407 shares. The totals for Mr. Sanchez also reflect (i) 1,067,439 shares held by a limited partnership, the managing general partner of which is a corporation of which Mr. Sanchez is the president and Chairman of the Board; and (ii) 859,820 shares held by the A. R. “Tony” and Maria J. Sanchez Family Foundation, of which Mr. Sanchez is a director.

- (2) BlackRock, Inc. (“Blackrock”) is a parent holding company of the BGI Entities who are now included as subsidiaries of BlackRock for purposes of reporting. Blackrock has sole voting power over 3,997,014 shares and sole dispositive power over 3,997,014 shares. Information relating to this shareholder is based on the shareholder’s Schedule 13G filed with the Securities and Exchange Commission on February 8, 2013.
- (3) Wellington Management Company, LLP (“Wellington”) is an investment adviser and advises clients who own 5,919,216 shares of Common Stock. Wellington has shared voting power over 3,513,532 shares and shared dispositive power over 5,919,216 shares. Information relating to this shareholder is based on the shareholder’s Schedule 13G filed with the Securities and Exchange Commission on February 14, 2013.

#### ***INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS***

Some of the directors, executive officers and nominees for directors of the Company and principal shareholders of the Company and their immediate families and the companies with which they are associated were customers of, and had banking transactions with, the Company’s subsidiary banks in the ordinary course of the subsidiary banks’ business during 2012, and the Company anticipates that such banking transactions will continue in the future. All loans and commitments to loan included in such banking transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Company, which indebtedness is fully performing and complies with Federal lending restrictions included in section 22(h) of the Federal Reserve Act (12 U.S.C. 375b). The indebtedness, in the opinion of management of the Company, did not involve more than a normal risk of collectability or present other unfavorable features. All credit transactions or other transactions with the subsidiary banks of the Company involving executive officers or directors of the Company are reviewed and approved by at least a majority of the disinterested directors of the respective subsidiary bank.

#### ***Policies and Procedures for Related Person Transactions***

The Company monitors its business dealings and those of its directors and executive officers to determine whether any existing or proposed transactions would constitute a related-party transaction requiring approval under the Company’s related person transactions policy. The Company’s related person transactions policy is embodied in the International Bancshares Corporation and Subsidiary Banks and Affiliated Companies Code of Ethics (the “Code of Ethics”). All business transactions between the Company and any Company director, principal shareholder, officer or employee or his or her immediate family (or entity in which he or she has a substantial interest) must be fully disclosed to the Company. In the event the value of any transaction with a customer that may result in a benefit to an officer, director or employee exceeds \$120,000, disclosure must be made to the appropriate Compliance Contact as designated in the Code of Ethics. No officer or employee of the Company shall be a regular supplier or purchaser of goods or services to or from the Company. The Company’s Code of Ethics also requires directors and executive officers to notify the Company of any relationships or transactions that may present a conflict of interest. Our directors and executive officers are also required to complete a questionnaire on an annual basis designed to elicit information regarding any such related-party transactions. In October

2010, the Statement of Company Policy on Securities Trades by Directors, Officers and Employees of the Company was revised to specifically prohibit directors or employees from purchasing financial instruments designed to hedge or offset any decrease in the market value of equity securities granted as compensation or held directly or indirectly by such director or employee.

When the Company becomes aware of a proposed or existing transaction with a related party, the Company's chief executive officer, in consultation with management determines whether the transaction would constitute a related-party transaction requiring approval under this policy. If such a determination is made, the chief executive officer and management determine whether, in their view, the transaction should be permitted, whether it should be modified to avoid any potential conflict of interest, whether it should be terminated, or whether some other action should be taken. The non-employee directors would also review in executive session any related person transaction that is required to be disclosed pursuant to Item 404 of Regulation S-K under the Exchange Act. Any violation of the Company's Code of Ethics will result in disciplinary action up to and including termination from the Board and/or employment.

#### ***SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE***

Under the securities laws of the United States, the Company's directors, its executive officers and any persons holding more than ten percent of the Company's Common Stock are required to report their initial ownership of the Company's Common Stock and any subsequent changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and the Company is required to disclose in this proxy statement any failure to file such reports by the applicable dates during 2012. In making these disclosures, the Company has relied solely on written representations of its directors, executive officers and ten percent shareholders and copies of the reports that they have filed with the Commission.

#### ***STOCK REPURCHASES***

Share repurchases are only conducted under a publicly announced repurchase program approved by the Board of Directors whereby stock repurchases may be made from time to time through the open market or through private transactions, or in connection with the cashless exercise of stock options of the Company. The following table includes information about share repurchases for the quarter ended December 31, 2012.

|                                      | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>Per Share</b> | <b>Shares<br/>Purchased as<br/>Part of a<br/>Publicly-<br/>Announced<br/>Program</b> | <b>Approximate<br/>Dollar Value<br/>of Shares<br/>Available for<br/>Repurchase(1)</b> |
|--------------------------------------|-----------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| October 1 - October 31, 2012 . . . . | —                                                   | \$ —                                        | —                                                                                    | \$39,466,000                                                                          |
| November 1 - November 30, 2012 .     | 36,000                                              | 17.34                                       | 36,000                                                                               | 38,842,000                                                                            |
| December 1 - December 31, 2012 .     | —                                                   | —                                           | —                                                                                    | 38,842,000                                                                            |
|                                      | <u>36,000</u>                                       | <u>\$17.34</u>                              | <u>36,000</u>                                                                        |                                                                                       |

- (1) The repurchase program was extended on February 28, 2013 and allows for the repurchase of up to an additional \$40,000,000 of treasury stock through April 9, 2014.

Previously under TARP, the Company was not allowed, without the Treasury Department's consent, to repurchase any shares of Common Stock until the earlier to occur of December 23, 2011, or the date on which the Company has redeemed all of the Series A Preferred Stock issued under TARP or the date on which the Treasury had transferred all of the Series A Preferred Stock to third parties not affiliated with the Treasury, unless the repurchase of Common Stock was in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practices. These restrictions ceased to exist on December 23, 2011.

On April 19, 2009, the Company established a formal stock repurchase program that authorized the repurchase of up to \$40 million of common stock within the following twelve months. The Board of Directors on March 9, 2010, March 10, 2011, and March 22, 2012 extended the program and again authorized the repurchase of up to \$40 million of common stock during the following twelve month periods. On February 28, 2013, the Board of Directors again extended the program and authorized the repurchase of up to \$40 million of common stock during the twelve month period expiring on April 9, 2014, which repurchase cap the Board is inclined to increase over time, subject to the limitations imposed by the Treasury Department.

Additionally, beginning on December 23, 2008, as a result of the Company's participation in TARP, the Company was restricted in the payment of dividends and was not allowed, without the Treasury Department's consent, to declare or pay any dividend on the Company Common Stock other than a regular semi-annual cash dividend of not more than \$.33 per share, as further limited by the use of funds for stock repurchases and trust preferred redemptions as consented to by the Treasury Department. The restrictions ceased to exist on December 23, 2011.

## ***PROPOSAL—2***

### ***RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR***

The Board of Directors of the Company has appointed the firm of McGladrey LLP to audit the consolidated financial statements of the Company and its subsidiaries for the 2013 fiscal year. The firm audited the consolidated financial statements of the Company and its subsidiaries for the 2012 and 2011 fiscal years. The firm was retained on August 24, 2007.

Audit services rendered by McGladrey LLP for the fiscal year ended December 31, 2012 included the annual audit of the Company's consolidated financial statements, which are included in reports to shareholders and the Securities and Exchange Commission and consultation on accounting and related matters and services performed in connection with other regulatory filings.

Representatives of McGladrey LLP are expected to be present at the annual meeting of shareholders with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Ratification of the appointment of independent auditors is not a matter which is required to be submitted to a vote of shareholders, but the Board of Directors considers it appropriate for the shareholders to express whether they ratify the appointment. If shareholder ratification is not obtained, the Board of Directors would consider an alternative appointment for the succeeding fiscal year. The Board of Directors of the Company recommends that the shareholders ratify the appointment of McGladrey LLP as the independent auditors. The affirmative vote of a majority of the shares present and entitled to vote thereon will constitute approval.

### ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The following table sets forth the aggregate fees billed to the Company for (i) the year ended December 31, 2012 by the Company's principal accountant firm, McGladrey LLP, as well as the Company's tax advisor, Padgett, Stratemann & Co., LLP and (ii) the year ended December 31, 2011 by the Company's

principal accountant firm, McGladrey LLP as well as the Company's tax advisor, Padgett, Stratemann & Co., LLP.

|                                        | December 31, |             |
|----------------------------------------|--------------|-------------|
|                                        | 2012         | 2011        |
| Audit Fees(1) . . . . .                | \$1,230,428  | \$1,223,545 |
| Audit-Related Fees . . . . .           | —            | —           |
| Audit and Audit Related Fees . . . . . | 1,230,428    | 1,223,545   |
| Tax Fees(2) . . . . .                  | 177,132      | 197,109     |
| All Other Fees . . . . .               | —            | —           |
| Total Fees . . . . .                   | \$1,407,560  | \$1,420,654 |

(1) Audit fees consist of fees billed for professional services rendered in connection with the audit of the annual consolidated financial statements of the Company, quarterly financial statements included in Forms 10Q, and services that are normally provided in connection with statutory or regulatory filings or engagements.

(2) Tax Fees consisted of fees for tax consultation and tax compliance services.

None of the audit-related fees or tax fees billed in 2012 or 2011 were provided under the de minimis exception to the Audit Committee pre-approval requirements.

#### ***Policy on Audit Committee Pre-Approval of Audit Services***

The Audit Committee has considered whether the provision of services covered in billings included under the "All Other Fees" category listed above is compatible with maintaining the principal auditors' independence. The Audit Committee has concluded that the provisions of such services would not jeopardize the independence of McGladrey LLP as the Company's principal auditors. The Audit Committee's Charter requires that the Audit Committee pre-approve all audit and non-audit services to be provided to the Company by the independent accountants; provided, however, that the Audit Committee may specifically authorize its Chairman to pre-approve the provision of any non-audit service to the Company. Pre-approval is sought for each particular service and is subject to specific engagement authorization from the Audit Committee. These services may include audit services, audit-related services, tax services and other services. The procedures for pre-approving all audit and non-audit services to be provided to the Company by the independent accountants include the Audit Committee's review of a categorized budget for all audit services, audit-related services, tax services and other services. Audit Committee approval would be required to exceed the budgeted amount for a particular category or to engage the independent accountants for any services not set forth in the budget. The Audit Committee periodically monitors the services rendered by and actual fees paid to the outside accountants to ensure that the services and amounts are within the parameters approved by the Audit Committee or the Chairman of the Audit Committee.

#### ***AUDIT COMMITTEE REPORT***

The Company's Audit Committee is responsible for providing objective and independent oversight of the Company's accounting functions and internal controls. Such oversight responsibility includes, but is not limited to, making recommendations concerning the engagement of independent auditors, reviewing the consolidated financial statements and the scope of the independent annual audit, reviewing and reassessing the adequacy of the Audit Committee's charter, reviewing with the independent auditors the results of their audit, considering the range of audit and non-audit fees, monitoring internal financial and accounting controls and performing such other oversight functions as may be requested from time to time

by the Board of Directors. The Audit Committee reviewed internal controls independently of management and corporate staff and reviewed the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2012, with management and the independent auditors. Management has the responsibility for the preparation, presentation and integrity of the Company's consolidated financial statements and the independent auditors have the responsibility for auditing the Company's consolidated financial statements and expressing an opinion as to their conformity with generally accepted U.S. accounting principles.

**REPORT :**

The Audit Committee has:

- reviewed and discussed the audited consolidated financial statements with management;
- discussed with the independent auditors the matters required to be discussed by Public Company Accounting Oversight Board AU Section 380—Communication with Audit Committees; and
- received the written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the audit committee concerning independence, and has discussed with the independent auditor the independent auditor's independence.

Based on the review and discussions with management and the Company's independent auditors referenced above, the Audit Committee has recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission.

The Board of Directors has determined that the members of the Audit Committee are "independent" as defined in the applicable NASDAQ Marketplace Rules and securities laws. The Audit Committee has adopted a written charter. The Audit Committee Charter is available on the Company's website at [www.abc.com](http://www.abc.com).

This report is submitted on behalf of the Audit Committee.

Irving Greenblum Daniel B. Hastings, Jr. Douglas B. Howland Larry A. Norton Leonardo Salinas

This report by the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Exchange Act except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

***PROPOSAL—3***

***NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION***

On February 17, 2009, the ARRA was signed into law. In addition to a number of programs intended to stimulate the economy, ARRA imposes significant new requirements for and restrictions relating to the compensation arrangements of financial institutions that received government funds under the CPP, including institutions like the Company who received TARP funds prior to ARRA.

One of the requirements is that any meeting of shareholders at which directors are to be elected which is held during the period in which a company is a TARP participant must permit a non-binding advisory vote on the executive compensation of the TARP participant. Accordingly, as a TARP participant during 2012 we are providing our shareholders at the Annual Meeting with the opportunity to cast a non-binding

advisory vote on the compensation of the Company's named executive officers as described in this Proxy Statement through the following resolution:

"RESOLVED, that the holders of the Company's common stock approve the compensation of the Company's executives named in the Summary Compensation Table, as disclosed in the Company's 2013 proxy statement pursuant to the compensation disclosure rules of the SEC (which disclosure includes the Compensation Discussion and Analysis, the Executive Compensation tables and the related footnotes and narrative following the tables)."

Because the shareholder vote is advisory, it will not be binding on the Board and will not overrule any decision by the Board or require the Board to take any action. However, the Compensation Committee may take into account the outcome of the vote when considering future executive compensation decisions for named executive officers.

The new Rule 14a-21 of the Securities and Exchange Act also requires a shareholder advisory vote to approve executive compensation at least once every three years and requires shareholders to vote regarding the frequency of the say on pay vote; however, the rule also exempts a TARP participant from the frequency vote until the TARP participant has repaid all of the TARP funds and is no longer a TARP participant. Accordingly, the Company has included a separate proposal on the frequency of the say on pay vote in this Proxy Statement because the Company exited the TARP program on November 28, 2012.

Our executive compensation programs and policies are designed to attract and retain well-qualified executive leadership; provide incentives for achievement of corporate goals and individual performance; provide incentives for long-term shareholder return and align interests of management with those of the shareholders to encourage continuing growth in shareholder value. The Compensation Committee believes the Company's executive compensation policies and programs and the compensation decisions in 2012 described in this Proxy Statement appropriately reward our named executive officers for their performance.

The Board recommends that shareholders vote *FOR* approval of the compensation of the Company's named executives as disclosed in this Proxy Statement pursuant to the SEC's compensation disclosure rules, which disclosure includes the Compensation Discussion and Analysis, the Executive Compensation tables and the related footnotes and narrative following the tables.

#### ***Vote Required***

The affirmative vote of the holders of a majority of the shares of Common Stock represented, in person or by proxy, at the Annual Meeting and entitled to vote on this proposal is required for the advisory approval of this proposal. Broker non-votes, if any, will have no effect on the result of the vote.

#### ***PROPOSAL—4***

##### ***NON-BINDING ADVISORY VOTE ON THE FREQUENCY OF THE NON-BINDING SAY-ON-PAY VOTE***

For every year during which the Company was a TARP participant, the Company was required to annually seek an advisory vote on executive compensation as set forth in Proposal 3 above. The Company exited the TARP program on November 28, 2012 when it completed the repurchase of all of the Senior Preferred Stock that the Company issued to the Treasury Department. Now that the Company has exited the TARP program, the frequency of the advisory vote on executive compensation must be addressed.

In accordance with provisions in the Dodd-Frank Act and the SEC rules, the shareholders of the Company now have an opportunity to vote on the frequency of the advisory vote on executive compensation going forward. You may vote that the Company has the advisory vote on executive compensation every year, every two years or every three years or you may abstain.

The Board of Directors recommends that you vote in favor of an annual advisory vote on executive compensation. While there are also valid arguments for a biennial or triennial vote, we believe holding annual advisory votes on executive compensation is consistent with current industry practices and shareholder preferences.

As this is an advisory vote, the result will not be binding, although the Company will consider the outcome of the vote and disclose its decision as to frequency by filing a Current Report on Form 8-K.

The following resolution sets forth this proposal:

“RESOLVED, that the holders of Company’s common stock indicate by their vote on this resolution, whether the advisory vote on executive compensation should be (i) every year, (ii) every two years, or (iii) every three years.”

The Board of Directors recommends that you vote in favor of holding the advisory vote on executive compensation every year.

#### ***Vote Required***

The frequency option (1, 2 or 3 years) that receives the highest number of votes cast by shareholders will be deemed to be the frequency that is preferred by the shareholders of the Company. The Company will consider the frequency preferred by the shareholders, but the vote will not be binding on the Company. Abstentions and broker non-votes, if any, will have no effect on the result of the vote.

### ***PROPOSAL—5***

#### ***PROPOSAL TO CONSIDER AND VOTE ON THE INTERNATIONAL BANCSHARES CORPORATION 2013 MANAGEMENT INCENTIVE PLAN***

On February 28, 2013, the Board of Directors approved the International Bancshares Corporation 2013 Management Incentive Plan (“2013 MIP”), subject to shareholder approval of the 2013 MIP. The 2013 MIP must be submitted to the shareholders for approval every five years in order for the payments made under it to qualify as “performance-based compensation” under Section 162(m) of the Internal Revenue Code (“Section 162(m)”).

The 2013 MIP is designed to promote and advance the interests of the Company and its shareholders by enabling the Company to attract, retain and reward key employees of the Company and its affiliates, as well as to qualify incentive compensation paid to participants who are covered employees under Section 162(m) (for the Company, including the chief executive officer and two other named executive officers) as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code. Under Section 162(m), annual compensation in excess of one million dollars paid to a corporation’s covered employee is not deductible by the Company for federal income tax purposes, unless such compensation is considered “performance-based compensation.” For compensation to qualify as “performance-based compensation,” certain conditions must be met, including shareholder approval of the material terms of the arrangement under which the compensation is paid.

From 1997 until December 19, 2008, the Company had an Executive Incentive Compensation Plan (“EICP”) to enable certain incentive awards to be deductible to the Company under Section 162(m). The Company voluntarily terminated the EICP in connection with the Company’s participation in the TARP program. The Company exited the TARP program on November 28, 2012 and the Company is now able to adopt a plan, such as the 2013 MIP, to enable certain incentive awards to be deductible to the Company under Section 162(m).

We are asking our shareholders to approve the 2013 MIP, which includes the material terms of the performance goals, which are described below. Shareholder approval of the material terms of the performance goals is required for purposes of Section 162(m) in order not to lose deductions with respect to such incentive payments by reason of Section 162(m).

Under Section 162(m), the material terms of the performance goals required to be disclosed to and subsequently approved by shareholders of the Company include the employees eligible to receive compensation, a description of the business criteria on which the performance goals are based and the maximum amount of compensation that can be paid to a covered employee.

### **Plan Document**

The full text of the 2013 MIP is included as Exhibit A to this Proxy Statement. The specific performance goals with respect to a particular performance period would be determined and maintained by the Compensation Committee from the list of the performance goals set forth in the 2013 MIP and described below. The specific measures that must be satisfied in connection with any performance goal, referred to as performance targets, are also set by the Compensation Committee. The following is a summary of the material features of the 2013 MIP and is qualified in its entirety by the text of the 2013 MIP attached to this Proxy Statement as Exhibit A.

### **Eligible Employees**

Eligible employees include any executive officer or other key employee of the Company who is designated by the Compensation Committee as eligible to receive an incentive payment under the 2013 MIP. Directors of the Company who are not executive officers of the Company are not eligible to participate. Only one officer of the Company, Mr. Nixon, the President of the Company, ever received an award under the EICP and it is currently contemplated that Mr. Nixon would be the only officer receiving an award under the 2013 MIP during 2013.

### **Administration of the Plan**

The 2013 MIP is administered by the Company's Compensation Committee or such other committee of directors as may be designated by the Company's Board of Directors in the future. Any committee designated to administer the 2013 MIP must have at least two members, and each member must meet the standards of independence necessary to qualify as an "outside director" under Section 162(m). Consequently, none of the eligible officers or employees of the Company are permitted to serve on the Compensation Committee.

### **Performance Goals and Performance Targets**

Performance goals are established by the Compensation Committee in connection with the grant of any incentive payment under the 2013 MIP. In the case of any incentive payment that is intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) that is set forth in Section 162(m)(4)(C), such goals shall be: (i) based on the attainment of specified levels of one or more of the following measures (a) earnings per share, (b) return measures (including, but not limited to, return on assets, equity or sales), (c) net income (before or after taxes), (d) cash flow (including, but not limited to, operating cash flow and free cash flow), (e) cash flow return on investments, which equals net cash flows divided by owner's equity, (f) earnings before or after taxes, interest, depreciation and/or amortization, (g) internal rate of return or increase in net present value, (h) gross revenues, (i) gross margins or (j) stock price (including, but not limited to, growth measures and total shareholder return) and (ii) set by the Compensation Committee within the time period prescribed by Section 162(m). Performance goals may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated and may be based on or adjusted for any other objective goals, events, or occurrences established by the Compensation Committee for a performance period. Such performance goals shall be based on the performance of the Company generally. Such performance goals may cover the performance period as specified by the Compensation Committee, not to be less than 12 months. A performance goal need not be based upon an increase or positive result under a business criterion and could include, for example, maintaining the status quo or limiting economic losses. Performance goals may be adjusted by the

Compensation Committee in its sole discretion to eliminate the unbudgeted effects of charges for restructurings, charges for discontinued operations, charges for extraordinary items and other unusual or non-recurring items of loss or expense, merger-related charges, cumulative effect of accounting changes, the unbudgeted financial impact of any acquisition or divestiture made during the applicable performance period, and any direct or indirect change in the federal corporate tax rate affecting the performance period, each as defined by generally accepted accounting principles and identified in the audited financial statements, notes to the audited financial statements, management's discussion and analysis or other Company filings with the SEC. Performance targets are the specific measures that must be satisfied in connection with any performance goal prior to paying an incentive payment under the 2013 MIP.

#### **New Performance Targets**

On March 21, 2013, the Compensation Committee established performance targets under the 2013 MIP, subject to shareholder approval of the Plan. The performance targets that the Company must meet or exceed for the fiscal year ending December 31, 2013 are either one of the following ratios for the fiscal year ending December 31, 2013: (1) a .90% return on average total assets or (2) a 7% return on average total shareholders' equity. The Compensation Committee selected Dennis E. Nixon as the only eligible participant under the 2013 MIP to receive an incentive payment for services rendered in 2013. The amount of the payment is subject to performance results that are not yet available and is subject to the discretion of the Compensation Committee, but it will not exceed the maximum amount discussed in the following paragraph.

#### **Incentive Payments**

Incentive payments under the 2013 MIP are payable in cash. The maximum amount that may become payable to a covered employee in a calendar year with respect to all performance periods completed during such calendar year as incentive payments under the 2013 MIP is the lesser of 2.5% of the total income before income taxes of the Company for the fiscal year or \$2,000,000.

#### **Certification**

Pursuant to the 2013 MIP, after the end of each performance period, the Compensation Committee shall:

- (1) Certify in writing, prior to the unconditional payment of any incentive payment under the 2013 MIP, the level of attainment of the performance targets for the performance period; and
- (2) Determine the total amount available for incentive payments based on the attainment of such performance targets and subject to the limitations set forth in the 2013 MIP.

#### **Amendment and Termination of the 2013 MIP**

The Compensation Committee may amend, modify or terminate the 2013 MIP in any respect at any time without the consent of any participant. Any such action may be taken without the approval of the Company's shareholders unless shareholder approval is required by applicable law or the requirements of Section 162(m). Termination of the 2013 MIP shall not affect any incentive payments determined by the Compensation Committee to be earned prior to, but payable on or after, the date of termination, and any such incentive payments shall continue to be subject to the terms of the 2013 MIP notwithstanding its termination.

#### **Effective Date**

The 2013 MIP will be effective as of January 1, 2013 if approved by the shareholders, and thereafter shall remain in effect until terminated.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THIS PROPOSAL TO APPROVE THE INTERNATIONAL BANCSHARES CORPORATION 2013 MANAGEMENT INCENTIVE PLAN.**

The affirmative vote of the holders of a majority of the outstanding shares of the Company’s Common Stock entitled to vote on this matter and present in person or represented by proxy is required to approve the Plan. Brokers do not have discretionary voting power with respect to this proposal.

***PROPOSAL—6***

***AMENDMENT TO OUR ARTICLES OF INCORPORATION TO PROVIDE FOR A MAJORITY VOTE STANDARD IN UNCONTESTED DIRECTOR ELECTIONS***

At our 2012 Annual Meeting, the Company’s shareholders voted to approve a shareholder proposal requesting that the Board of Directors of the Company initiate the appropriate process to amend the Company’s Articles of Incorporation, as amended (the “Articles”) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats. In its recommendation in favor of approving the proposal, the Board of Directors stated that the Board has long been committed to good governance practices and that supporting the majority vote standard proposal was consistent with that goal. It also expressed its intention to present an amendment to the Articles at the next duly called meeting of the shareholders of the Company to implement the majority vote standard.

Article X of the Articles currently provides that directors of the corporation shall be elected by the plurality of the vote of the shareholders entitled to vote on such matters. Plurality vote means that the nominees receiving the most votes will be elected regardless of the number of votes each nominee receives. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. This proposal would replace Article X in its entirety with the text of the proposed amendment as set forth below. If approved by the requisite shareholder vote at the Annual Meeting, the proposed amendment will become effective upon the filing of a Certificate of Amendment to the Articles with the Secretary of State of the State of Texas. If the amendment is approved by the shareholders, we expect to file the Certificate of Amendment promptly upon such approval. The proposed amendment to Article X of the Articles would cause Article X thereof to read in its entirety as follows:

“Cumulative voting by the shareholders of the corporation at any election for directors or upon any other matter is expressly prohibited. A nominee for director shall be elected to the Board of Directors if the majority of the votes cast for such nominee shall be in favor of such nominee’s election; provided, however, that if the number of nominees for director shall exceed the number of positions on the Board of Directors being filled, then directors shall be elected by a plurality of the votes of the shareholders entitled to vote thereon.”

The Board recommends that shareholders vote FOR approval of the Amendment to Article X of the Articles.

***Vote Required for Approval***

The affirmative vote of the holders of a majority of the shares of Common Stock represented, in person or by proxy, at the Annual meeting and entitled to vote on this proposal is required for the approval of this proposal. Broker non-votes, if any, will have no effect on the result of the vote.

**Our Board of Directors unanimously recommends a vote FOR approval of the shareholder proposal.**

***SHAREHOLDER PROPOSALS FOR 2013 ANNUAL MEETING***

The 2014 Annual Meeting of Shareholders will be held on Monday, May 19, 2014. In connection with the Company's next annual meeting, shareholder proposals which are not submitted for inclusion in the Company's proxy materials pursuant to Rule 14a-8 under the Exchange Act may be brought before an annual meeting pursuant to Article II, Section 12 of the Company's Bylaws, which provides that business at an annual meeting of shareholders must be (a) pursuant to the Company's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any shareholder of the Company who was a shareholder of record at the time of giving of notice provided for in Section 12 of the Bylaws, who is entitled to vote at the meeting and who complies with the notice procedures set forth in Section 12 of the Bylaws. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Corporate Secretary.

To be timely, a shareholder's notice shall be delivered to the Secretary of the Company at 1200 San Bernardo Avenue, Laredo, Texas 78042 not later than the close of business on the 60<sup>th</sup> day nor earlier than the close of business on the 90<sup>th</sup> day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 90<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 60<sup>th</sup> day prior to such annual meeting or the 10<sup>th</sup> day following the day on which public announcement of the date of such meeting is first made by the Company. The Company's 2014 Annual Meeting is scheduled for Monday, May 19, 2014. Thus, a shareholder notice must be received by the Company no later than March 20, 2014 and no earlier than February 18, 2014. If the date of the 2014 Annual Meeting is changed, these dates may change. Such shareholder's notice is required to set forth, as to each matter the shareholder proposes to bring before an annual meeting, certain information specified in the Bylaws. A copy of the Bylaws of the Company may be obtained from the Secretary of the Company at the address set forth above.

Proposals from shareholders which are intended to be included in the proxy statement relating to the Company's 2014 Annual Meeting of Shareholders must comply with Rule 14a-8 under the Exchange Act, which requires that the notice be received at the Company's principal executive offices not less than 120 calendar days before the one year anniversary date of the Company's proxy statement released to shareholders in connection with the previous year's annual meeting, and accordingly must be received in writing by the Company at its principal executive offices at the address set forth above no later than December 20, 2013.

***OTHER MATTERS***

No business other than the matters set forth in this proxy statement is expected to come before the meeting, but should any other matters requiring a vote of shareholders arise, including a question of adjourning the meeting, the persons named in the accompanying proxy will vote thereon according to their best judgment in the interest of the Company. In the event that any of the nominees for director should withdraw or otherwise become unavailable for reasons not presently known, the persons named as Proxies

will vote for such substitute nominee(s) as the Board of Directors recommends, or in the absence of such recommendation, such other persons as they consider to be in the best interests of the Company.

INTERNATIONAL BANCSHARES  
CORPORATION



Dennis E. Nixon  
*President*

Dated: April 19, 2013

THE COMPANY'S 2012 ANNUAL REPORT IS BEING FURNISHED WITH THIS PROXY STATEMENT TO SHAREHOLDERS OF RECORD AS OF THE RECORD DATE. THE ANNUAL REPORT DOES NOT CONSTITUTE A PART OF THIS PROXY STATEMENT OR PROXY SOLICITATION MATERIAL. THE COMPANY WILL PROVIDE SHAREHOLDERS WITH A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K, FOR THE PERIOD ENDED DECEMBER 31, 2012, WITHOUT CHARGE, UPON WRITTEN REQUEST ADDRESSED TO THE TREASURER OF THE COMPANY, MS. IMELDA NAVARRO AT THE ADDRESS LISTED BELOW. THE COMPANY'S ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS FILED WITH IT ARE ALSO AVAILABLE ON OUR WEBSITE AT [WWW.IBC.COM](http://WWW.IBC.COM) UNDER THE HEADING "INVESTORS" IN THE SECTION FOR "SEC FILINGS." ADDITIONALLY, THE ENCLOSED PROXY STATEMENT AND THE ANNUAL REPORT ARE AVAILABLE ON OUR WEBSITE AT [WWW.IBC.COM](http://WWW.IBC.COM) UNDER THE HEADING "INVESTORS" IN THE SECTION FOR "SEC FILINGS." ADDITIONALLY, AND IN ACCORDANCE WITH SEC RULES, YOU MAY ACCESS OUR PROXY STATEMENT AND FORM 10-K AT <https://materials.proxyvote.com/459044>, WHICH DOES NOT HAVE "COOKIES" THAT IDENTIFY VISITORS TO THE SITE.

INTERNATIONAL BANCSHARES CORPORATION  
P. O. Drawer 1359  
Laredo, Texas 78042-1359  
(956) 722-7611 Extension 6222

**“Exhibit A”**

**INTERNATIONAL BANCSHARES CORPORATION  
2013 MANAGEMENT INCENTIVE PLAN**

**SECTION I  
PURPOSE**

The purpose of the International Bancshares Corporation 2013 Management Incentive Plan is to promote and advance the interests of the Company and its shareholders by enabling the Company to attract, retain and reward key employees of the Company and its Affiliates, and to qualify certain incentive compensation paid to Participants who are Covered Employees as performance-based compensation within the meaning of Section 162(m) of the Code.

**SECTION II  
DEFINITIONS**

The terms below shall have the following meanings:

A. “Affiliate” means any company controlled by, controlling or under common control with the Company as defined under rule 144 under the Securities Act.

B. “Board” means the Board of Directors of the Company.

C. “Change of Control” means the occurrence of any of the following events:

a. Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than the Company, any Affiliate of the Company as of the Effective Date, any Sanchez Shareholder, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Stock of the Company, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company) representing more than twenty percent (20%) of the combined voting power of the Company’s then outstanding voting securities; provided, however, a Change of Control shall not be deemed to occur solely because such person acquired beneficial ownership of more than twenty percent (20%) of the combined voting power of the Company’s then outstanding voting securities as a result of the acquisition of voting securities by the Company, which by reducing the number of voting securities outstanding, increases the proportional number of shares beneficially owned by such person, provided that if a Change of Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition by the Company, such person becomes the beneficial owner of any additional voting securities which increases the percentage of the then outstanding voting securities beneficially owned by such person, then a Change of Control shall occur;

b. During any period of twenty four (24) consecutive months (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in subsection (a), (c) or (d) of this Section II(C)) whose election by the Board or nomination for election by the Company’s shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board;

c. The shareholders of the Company approve a merger, consolidation or reorganization of the Company with any other corporation, other than a merger, consolidation or reorganization which would result in the shareholders of the Company immediately before such merger, consolidation or reorganization, owning, directly or indirectly immediately following such merger, consolidation or reorganization, at least fifty percent (50%) of the combined voting power of the voting securities of

the Company or such surviving entity outstanding immediately after such merger, consolidation, or reorganization in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation, or reorganization; or

d. The shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

e. Notwithstanding anything in the Plan to the contrary, any Incentive Payment that is subject to Section 409A of the Code shall not be distributable or payable upon a Change of Control unless such Change of Control also meets the definition of "Change of Control" under Section 409A of the Code.

D. "Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

E. "Committee" means the Compensation Committee of the Board or a subcommittee thereof appointed by the Board to administer the Plan as provided herein consisting of at least two (2) members of the Board, each of whom is an Outside Director.

F. "Company" means International Bancshares Corporation, a Texas corporation, and any successor thereof.

G. "Covered Employee" means any officer, employee, or consultant that is a "covered employee" within the meaning of Section 162(m) of the Code with respect to the applicable Performance Period.

H. "Effective Date" means the terms as defined by Section VII hereof.

I. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

J. "Incentive Payment" means, with respect to each Participant, the amount he or she may receive for the applicable Performance Period as determined by the Committee pursuant to the provisions of the Plan, the payment of which shall be contingent upon the attainment of Performance Goals with respect to the Performance Period.

K. "Outside Director" means as provided by the regulations promulgated under Section 162(m) of the Code and the Exchange Act, as amended from time to time.

L. "Participant" means any executive officer or other key employee of the Company or an Affiliate who is designated by the Committee as eligible to receive an Incentive Payment under the Plan.

M. "Performance Goals" means the performance goals established by the Committee in connection with the grant of any Incentive Payment. In the case of any Incentive Payment that is intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code, such goals shall be (i) based on the attainment of specified levels of one or more of the following measures (a) earnings per share, (b) return measures (including, but not limited to, return on assets, equity or sales), (c) net income (before or after taxes), (d) cash flow (including, but not limited to, operating cash flow and free cash flow), (e) cash flow return on investments, which equals net cash flows divided by owner's equity, (f) earnings before or after taxes, interest, depreciation and/or amortization, (g) internal rate of return or increase in net present value, (h) gross revenues, (i) gross margins or (j) stock price (including, but not limited to, growth measures and total shareholder return) and (ii) set by the Committee within the time period prescribed by Section 162(m) of the Code. Such performance goals shall be objectively determinable such that a third party with knowledge of the relevant facts could determine if the goals have been met. Performance Goals may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated and may be based on or adjusted for any other objective goals, events, or occurrences established by the Committee for a Performance Period. Such Performance Goals may be particular to a line of business, subsidiary or other unit or may be based on the

performance of the Company generally. Such Performance Goals may cover the Performance Period as specified by the Committee. A performance goal need not, however, be based upon an increase or positive result under a business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to a specific business criterion). Performance Goals may be adjusted by the Committee in its sole discretion to eliminate the unbudgeted effects of charges for restructurings, charges for discontinued operations, charges for extraordinary items and other unusual or non-recurring items of loss or expense, merger related charges, cumulative effect of accounting changes, the unbudgeted financial impact of any acquisition or divestiture made during the applicable Performance Period, and any direct or indirect change in the federal corporate tax rate affecting the Performance Period, each as defined by generally accepted accounting principles and identified in the audited financial statements, notes to the audited financial statements, management's discussion and analysis or other Company filings with the Securities and Exchange Commission.

N. "Performance Period" means the period, not to be less than 12 months, specified by the Committee during which the Performance Goals with respect to a particular Participant will be measured.

O. "Performance Targets" mean the specific measures which must be satisfied in connection with any Performance Goal prior to paying any Incentive Payment.

P. "Plan" means the 2013 International Bancshares Corporation Management Incentive Plan.

Q. "Sanchez Family" means Alicia M. Sanchez's children, grandchildren and great-grandchildren.

R. "Sanchez Shareholder" means a shareholder of the Company who is a member of the Sanchez Family or a corporation, partnership, or other entity in which one or more of the members of the Sanchez Family beneficially own a majority of the ownership interest, or a trust in which all of the beneficial interest are held by one or more members of the Sanchez Family; provided, however, a trustee of such trust must be a member of the Sanchez Family.

S. "Securities Act" means the Securities Act of 1933, as amended from time to time.

T. "Stock" means the common stock, par value \$1.00 per share, issued by the Company.

### **SECTION III ADMINISTRATION**

The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have the full authority and absolute sole discretion to construe, interpret, and administer the Plan, to promulgate, amend, and rescind rules and regulations relating to the Plan and to make all other determinations deemed necessary or advisable in connection with the administration of the Plan, including, but not limited to, determinations relating to eligibility, whether to make Incentive Payments, the terms of any such Incentive Payments, the time or times at which Performance Goals are established, the Performance Periods to which Incentive Payments relate, and the actual dollar amount of any Incentive Payment. The determinations of the Committee pursuant to this authority shall be conclusive and binding on all parties including without limitation the Participants, the Company and its shareholders. The provisions of this Plan are intended to ensure that all Incentive Payments made to Covered Employees hereunder qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code, and, unless otherwise determined by the Committee, this Plan shall be interpreted and operated consistent with that intention.

**SECTION IV**  
**ESTABLISHMENT OF PERFORMANCE GOALS AND INCENTIVE PAYMENTS**

A. *Establishment of Performance Goals.* Prior to the earliest time required by Section 162(m) of the Code, the Committee shall, in its sole discretion, for each Performance Period, determine and establish in writing the following:

1. The applicable Performance Period;
2. The Performance Goals applicable to the Performance Period;
3. The Performance Targets pursuant to which Incentive Payments are based upon the attainment of Performance Goals during the Performance Period; and
4. The Performance Targets pursuant to which the total amount that may be available for payment to all Participants as Incentive Payments based upon the relative level of attainment of the Performance Goals may be calculated.

In the case of Covered Employees, all of the foregoing must be in accordance with Section 162(m) of the Code, established in writing within ninety (90) days after the beginning of the Performance Period (in no event after twenty-five percent (25%) of the Performance Period has elapsed), and based upon the achievement of the Performance Goals the outcome of which is substantially uncertain at the time the Committee establishes the Performance Goals. Such Performance Goals must state, in terms of an objective formula or standard, the method for computing the amount of compensation payable to the Covered Employee if the goal is attained.

B. *Certification and Payment.* After the end of each Performance Period, the Committee shall:

1. Certify in writing, prior to the unconditional payment of any Incentive Payment, the level of attainment of the Performance Targets for the Performance Period;
2. Determine the total amount available for Incentive Payments based on the attainment of such Performance Targets; and
3. In its sole discretion, adjust the size of, or eliminate, the total amount available for Incentive Payments for the Performance Period; and in its sole discretion, determine the share, if any, of the available amount to be paid to each Participant as that Participant's Incentive Payment, and authorize payment of such amount. In the case of a Participant who is a Covered Employee, the Committee shall not be authorized to increase the amount of the Incentive Payment for any Performance Period determined with respect to any such individual by reference to the applicable Performance Targets.

C. *Other Applicable Rules.*

1. Unless otherwise determined by the Committee with respect to any Covered Employee (unless otherwise required by applicable law), no payment pursuant to this Plan shall be made to a Participant unless the Participant is employed by the Company or an Affiliate as of the date of payment; provided, however, in the event of the Participant's (i) retirement in accordance with the policies of the Company or Affiliate which employs the Participant, (ii) death or (iii) termination of employment due to disability (as determined in the discretion of the Committee), the Company shall pay the Participant (or his or her estate or the persons to whom the right to payment under this Plan passes by will or the laws of descent and distribution) an Incentive Payment for the applicable Performance Period, at such time as Participants are generally paid Incentive Payments for such Performance Period, in an amount equal to the product of (x) the amount that the Committee determines that the Participant would have earned for the applicable Performance Period had the Participant continued in the employ of the Company for the entirety of the Performance Period and (y) a fraction, the numerator of which is the number of full months elapsed from the commencement

of the applicable Performance Period through the Participant's termination of employment and the denominator of which is the total number of months in the applicable Performance Period.

2. Incentive Payments shall be subject to applicable federal, state and local withholding taxes and other applicable withholding in accordance with the Company's payroll practices as in effect from time to time.

3. The maximum amount which may become payable to any Covered Employee in any calendar year as an Incentive Payment with respect to all Performance Periods completed during such calendar year shall be the lesser of 2.5% of the Company's total income before taxes for the fiscal year or \$2,000,000.

4. Incentive Payments shall be payable in cash. Incentive Payments shall be made as soon as administratively practical after the end of the calendar year in which the Performance Period ends or is deemed to have ended pursuant to the provisions of Section VI(A), but in no event after the date that is two and a half months after the end of the calendar year in which such Performance Period ends or is deemed to have ended pursuant to the provisions of Section VI(A).

5. Until paid to a Participant, Incentive Payments may not be assigned, alienated, transferred or encumbered in any way.

## **SECTION V AMENDMENT OR TERMINATION**

The Committee may amend, modify or terminate the Plan in any respect at any time without the consent of any Participant. Any such action may be taken without the approval of the Company's shareholders unless shareholder approval is required by applicable law or the requirements of Section 162(m) of the Code. Termination of the Plan shall not affect any Incentive Payments determined by the Committee to be earned prior to, but payable on or after, the date of termination, and any such Incentive Payments shall continue to be subject to the terms of the Plan notwithstanding its termination.

## **SECTION VI CHANGE OF CONTROL**

Unless otherwise determined by the Committee prior to a Change of Control, in the event of a Change of Control, the following provisions shall be applicable:

A. The Performance Periods then in effect will be deemed to have concluded immediately prior to the Change of Control of the Company and the total amount available to fund the related Incentive Payment will be that proportion of the amount (based upon the number of full and partial months in such Performance Period elapsed through the date of Change of Control of the Company) which would be available for funding assuming the Company had attained Performance Goals at a level generating maximum funding for the Performance Periods; and

B. The Committee, in its sole discretion, will no later than immediately prior to the Change of Control approve the share of the available amount payable to each Participant as that Participant's Incentive Payment (provided that the entire available amount as calculated pursuant to Section VI(A) shall be paid to Participants as Incentive Payments), and payments shall be made to each Participant as soon thereafter as is practicable.

## **SECTION VII EFFECTIVE DATE OF THE PLAN**

This International Bancshares Company 2013 Management Incentive Plan shall be effective as of January 1, 2013, subject to the approval of the Company's shareholders, as required to comply with the

requirements of Section 162(m) of the Code, and thereafter shall remain in effect until terminated in accordance with Section V hereof. The Plan must be resubmitted to the shareholders of the Company as necessary to enable the Plan to qualify as performance based compensation under Section 162(m) of the Code. As of the time of the adoption of the Plan, Section 162(m) of the Code requires that the shareholders reapprove the Plan no later than the first shareholder meeting that occurs in the fifth year following the year in which the shareholders previously approved the Plan.

## **SECTION VIII GENERAL PROVISIONS**

A. The establishment of the Plan shall not confer upon any Participant any legal or equitable right against the Company or any Affiliate, except as expressly provided in the Plan.

B. The Plan shall be binding on successors and assigns of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

C. The cost of benefit payments from this Plan and the expenses of administering this Plan shall be borne by the Company.

D. No member of the Committee shall be liable for any action taken or determination made in good faith with respect to the Plan or any Incentive Payment granted or paid under the Plan.

E. The Plan does not constitute an inducement or consideration for the employment of any Participant, nor is it a contract between the Company, or any Affiliate, and any Participant. Participation in the Plan shall not give a Participant any right to be retained in the employ of the Company or any Affiliate or to receive an Incentive Payment with respect to any Performance Period.

F. The adoption of this Plan shall not affect any other existing or future incentive or compensation plans for the Company. Nothing contained in this Plan shall prevent the Board or Committee from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required and such arrangements may be either generally applicable or applicable only in specific cases.

G. To the extent that state law shall not have been preempted by any laws of the United States, the Plan shall be governed, construed, regulated, interpreted, and administered in accordance with the laws of the State of Texas without regard to principles of conflicts of law.

H. This Plan is intended to comply in all aspects with applicable law and regulations, including, with respect to those Participants who are Covered Employees, Section 162(m) of the Code. In case any one or more of the provisions of this Plan shall be held invalid, illegal or unenforceable in any respect under applicable law or regulation, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provision shall be deemed null and void; however, to the extent permissible by law, any provision which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Plan to be construed in compliance with all applicable laws including, without limitation, Section 162(m) of the Code, so as to carry out the intent of this Plan.

I. It is the intent of the Company that neither the Plan nor any Incentive Payments hereunder be subject to Section 409A of the Code. Incentive Payments subject to Section 409A of the Code will be paid in a lump sum as soon as practical, but, at the Company's discretion, not later than March 15 of the year following the calendar year in which they are no longer subject to a "substantial risk of forfeiture" (as defined and applied in Section 409A of the Code) (the "Applicable Period"). To the extent that an Incentive Payment is not paid within the Applicable Period but is paid by December 31 of the calendar

year which includes the Applicable Period, then it is intended that such payment shall be treated as made at a “specified time” for purposes of complying with Section 409A of the Code. If any compensation or benefits provided by this Plan may result in the application of Section 409A of the Code, the Company shall modify the Plan in the least restrictive manner necessary in order to exclude such compensation from the definition of “deferred compensation” within the meaning of such Section 409A of the Code or in order to comply with the provisions of Section 409A of the Code, other applicable provision(s) of the Code and/or any rules, regulations or other regulatory guidance issued under such statutory provisions and with as little diminution in the value of the Incentive Payments to the Participants as practicable.

J. The Plan is intended to constitute an “unfunded” plan for incentive compensation. Neither the Plan nor any Incentive Payment shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive Incentive Payments from the Company pursuant to the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. Payments shall be made solely from the general assets of the Company.

K. Notwithstanding any other provision of this Plan to the contrary, the Company shall not be required to make any payment under this Plan that would be a golden parachute payment within the meaning of Section 18(k) of the Federal Deposit Insurance Act, as amended, that is prohibited by applicable law.

L. Notwithstanding anything to the contrary expressed in the Plan, any provisions hereof that vary from or conflict with any applicable federal or state securities law (including any regulations promulgated thereunder) shall be deemed to be modified to conform to and comply with such laws.

M. If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, a Participant shall reimburse the Company the amount of any benefit received under the Plan during the three (3) year period preceding the date on which the Company is required to prepare the accounting restatement which is in excess of the amount that would have been received under the accounting restatement as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules promulgated thereunder or as required by any other applicable rule or regulation.