

INTERNATIONAL BANCSHARES CORP  
Form DEF 14A  
April 20, 2007  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

INTERNATIONAL BANCSHARES CORPORATION  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
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  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:

**INTERNATIONAL BANCSHARES CORPORATION**  
**Post Office Drawer 1359**  
**Laredo, Texas 78042-1359**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**TO BE HELD ON MAY 21, 2007**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the Annual Meeting ) of International Bancshares Corporation (the Company ) will be held at the **LAREDO COUNTRY CLUB, 1415 Country Club Drive, Laredo, Texas 78041 on Monday, May 21, 2007 at 7:00 p.m.** for the following purposes:

- (1) To elect eleven (11) 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 KPMG LLP as independent auditors for the fiscal year ending December 31, 2007;
- (3) 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 2, 2007 are entitled to notice of and to vote at the Annual Meeting and any postponements or adjournments thereof. The Company's 2006 Annual Report is being furnished with this Proxy Statement to shareholders of record as of the close of business on April 2, 2007. The Annual Report does not constitute a part of this Proxy Statement or proxy solicitation material.

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

Dated: April 20, 2007

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**INTERNATIONAL BANCSHARES CORPORATION**  
**1200 San Bernardo Avenue**  
**Laredo, Texas 78040**

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**PROXY STATEMENT**

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***SOLICITATION AND REVOCATION OF PROXIES 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 21, 2007 at 7:00 p.m., local time, at the **Laredo Country Club, 1415 Country Club Drive, 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 be solicited personally by regular employees of the Company at a nominal cost. 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 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 security holders is April 20, 2007.

***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 2, 2007, (the Record Date) shall be entitled to vote at the Annual Meeting. There were 63,056,864 shares of Common Stock issued and outstanding on the Record Date held of record by approximately 2,567 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.

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, 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.

## **PROPOSAL 1**

### **ELECTION OF DIRECTORS**

#### **Nominees for Election as Director**

Eleven directors, constituting the entire Board of Directors, are to be elected at the Annual Meeting. Each director is to hold office until the next Annual Meeting and until his/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 is set forth below, including information regarding each nominee's positions with International Bank of Commerce, the Company's lead bank subsidiary (IBC):

<b>Nominee for Director</b>	<b>Served as Director Since (1)(3)</b>	<b>Age</b>	<b>Principal Occupation (2)</b>
Lester Avigael	1966	80	Retail Merchant and Director of IBC
Irving Greenblum	1981	77	International Investments & Real Estate and Director of IBC
R. David Guerra	1993	54	Vice President of the Company since 1986 and President of the IBC Branch in McAllen, Texas and Director of IBC
Daniel B. Hastings Jr.	2000	59	Licensed U.S. Custom Broker and Director of IBC since 2000
Richard E. Haynes	1977	64	Attorney at Law; Real Estate Investments; and Director of IBC
Imelda Navarro	2002	49	Treasurer of the Company since 1982 and Senior Executive Vice President of IBC and Director of IBC since 2002
Sioma Neiman	1981	79	International Entrepreneur
Peggy J. Newman	1997	75	Real Estate Investments; President of Newman Poultry Co. and Director of IBC
Dennis E. Nixon	1975	64	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
Leonardo Salinas	1976	73	Real Estate Investments and Director of IBC
Antonio R. Sanchez, Jr.	1995	64	Chairman of the Board of Sanchez Oil & Gas Corporation; Investments; and Director of IBC

(1) Includes time served as 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 five years.

(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.

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 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.

**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.

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

During 2006, the Board of Directors held ten 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 and Peggy J. Newman 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 four times during 2006.

### ***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 are recommended, for selection by the whole Board of Directors, by a majority of the Company's directors who are independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers ( NASD ) listing standards. 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.abc.com](http://www.abc.com).

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 shareholders. The independent directors utilize a variety of methods for identifying and evaluating director nominees. 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 Communication with the Board of Directors.

**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 2006 annual meeting of shareholders were in attendance at such meeting.

**Director Independence**

The Company's Board of Directors has determined that a majority of its members are independent as defined in Rule 4200(a)(15) of the NASD listing standards. As of April 2, 2007, 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 for the year ended December 31, 2006.

Name	Fees Earned or Paid in Cash (\$)	All Other Compensation (\$)(1)	Total (\$)
Lester Avigael	\$ 4,200	\$ 35,700	\$ 39,900
Irving Greenblum	4,500	16,700	21,200
Daniel B. Hastings, Jr.	4,200	17,600	21,800
Richard E. Haynes	3,900	17,300	21,200
Sioma Neiman	2,700	6,800	9,500
Peggy J. Newman	2,700	15,500	18,200
Leonardo Salinas	3,600	17,600	21,200
Antonio R. Sanchez, Jr.	3,600	8,000	11,600

(1) All directors received certain perquisites from the Company during 2006, 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 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 a subsidiary bank he attends. 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 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 attends. These director fees are set forth in the Fees Earned or Paid in Cash column in the foregoing table. Salaried officers of the Company who are directors are not compensated for committee meetings. No stock options or other equity-based awards are granted to non-employee board members. The director fees paid to the named executive officers are included in the All Other Compensation column set forth in the Summary Compensation Table below.

***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.

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 Code of Ethics. The International Bancshares Code of Ethics for Financial Professionals and the International Bancshares 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 Code of Ethics for Financial Professionals will be disclosed on such Company website.

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

***Audit Committee***

The Audit Committee of the Board of Directors during 2006 consisted of Lester Avigael, Irving Greenblum, Richard E. Haynes and Daniel B. Hastings, Jr. Mr. Hastings was elected in August of 2006. The Committee met seven times during the 2006 fiscal year. Mr. Avigael missed one meeting, Mr. Haynes missed five of those meetings and Mr. Greenblum missed three of those meetings. 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 [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 meet the other criteria that the Board has established for Board and Audit Committee members. The Board has determined that in order to fulfill all of the functions of the Board and Audit Committee, each member of the Board and the Audit Committee should meet all the criteria that have been established by the Board, and it is not in the best interest of the Company to nominate as a director someone who does not have all the experience, attributes and qualifications that we seek to further the interests of the Company. The Audit Committee consists of four directors, all of whom are independent within Rule 4200(a)(15) of the NASD listing standards and Rule 10A-3(b)(1) under the Exchange Act and each of whom 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. The Board of Directors believes that this is fully equivalent to having a *financial expert* on the Audit Committee.

#### ***Stock Option Plan Committee***

The Stock Option Plan Committee of the Board of Directors during 2006 consisted of Lester Avigael, Irving Greenblum and Richard E. Haynes. The Committee met three times during the 2006 fiscal year. Each member of the Committee attended all three meetings. The primary function of the Stock Option Plan Committee is the administration of the 2005 International Bancshares Corporation Stock Option Plan. Each member is independent within Rule 4200(a)(15) of the NASD listing standards.

#### ***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 did not award any options to the executive officers of the Company during the 2006 fiscal year. The Stock Option Plan Committee met four times during the 2006 fiscal year. The primary purpose of the Company's 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 its future growth and success through the added incentive created by the opportunity afforded for stock ownership under the Stock Option Plan. The size of the option grants were 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.

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

Lester Avigael

Irving Greenblum

Richard E. Haynes

#### ***Salary and Steering Committee of IBC***

The Company's Board of Directors does not have a compensation committee or a committee performing similar functions. 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 compensation. The Salary and Steering Committee of IBC's Board of Directors during 2006 consisted of Lester Avigael, Daniel B. Hastings, Jr. and Richard E. Haynes, all of whom serve on the

Company's Board of Directors. The Salary and Steering Committee met once during the 2006 fiscal year. Each member of the Committee attended the meeting. Each member is independent within Rule 4200(a)(15) of the NASD listing standards.

***Salary and Steering Committee and Stock Option Plan Committee Interlocks and Insider Participation***

None of the members of the Salary and Steering Committee or the Stock Option Plan Committee was an officer or employee of the Company or any of its subsidiaries in 2006 nor was any member formerly an officer or employee of the Company or any of its subsidiaries. Some of the members of the Salary and Steering Committee, and some of these persons' associates, are current or past customers of one or more of the Company's subsidiaries. Since January 1, 2006, transactions between these persons and such subsidiaries have occurred, including borrowings. In the opinion of management, all of the transactions 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 collectibility. Additional transactions may take place in the future.

**EXECUTIVE COMPENSATION**

***Executive Officers***

Our Company 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 December 31, 2006 and the principal positions held by each officer. Each of these executive officers has served as an executive officer of for at least five years.

Certain information is set forth in the following table concerning our executive officers, each of whom has been elected to serve until the 2007 Annual Meeting of Shareholders and until his successor is duly elected and qualified.

Name	Age	Position of Office	Officer of the Company Since
Dennis E. Nixon	64	Chairman of the Board of the Company since 1992 and President of the Company since 1979, Chief Executive Officer and Director of IBC	1979
R. David Guerra	54	Vice President of the Company since 1986 and President of IBC McAllen Branch and Director of IBC	1986
Imelda Navarro	49	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 named persons. Each executive officer has held the same position or another executive position with the Company during the past five years.

**Compensation Discussion and Analysis**

***Overview***

In this section, we discuss certain aspects of our compensation program as it pertains to the principal executive officer, principal financial officer, and the one other most highly-compensated executive officer in 2006. We refer to these three persons throughout as the executive officers. 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.

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. Certain executive officer(s) may receive compensation pursuant to the Company's Executive Incentive Compensation Plan. 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 below. 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 Salary and Steering Committee of IBC (the Committee). The Committee assists the board of directors in discharging its responsibilities relating to executive compensation. The Committee receives recommendations from the Company's President regarding the compensation of executive officers (other than the President). The Committee during 2006 consisted of Lester Avigael, Daniel B. Hastings, Jr. and Richard E. Haynes. Each member of the Committee serves as a director of both IBC and the Company and is independent under applicable NASD and SEC standards. The Committee does not have a charter.

### ***Compensation Philosophy***

Our Company's compensation philosophy is to maximize long-term return to shareholders consistent with its 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 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 Committee's goal is to effectively balance salaries with other compensation that is performance-based commensurate with an officer's individual management responsibilities and contribution to corporate objectives. The portion of total compensation that is based on corporate performance and long-term shareholder return increases as an executive's responsibilities increase.

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

The Committee reviews, discusses and analyzes the proposed compensation for each executive officer of the Company. The Committee receives recommendations from the Company's President regarding the compensation of executive officers (other than 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 2006, the Committee did not consult outside consultants or separate legal counsel. The Committee's recommendations regarding each executive officer's compensation is subjective with regard to both the base salary and discretionary bonus. Although the

annual financial performance of the Company is the most important factor in the subjective analysis, non-financial goals are also considered by the Committee. Further, the Committee considers the aggregate amounts and mix of all the components of compensation when determining any single component thereof. At the end of each year based on the financial performance of the Company as well as the perceived non-financial contribution by each executive officer, 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 Committee. All base salary and bonus recommendations of the 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. Each component of compensation is intended to accomplish one or more of the compensation objectives discussed above.

*Base Salary and Benefits.* Annual base salaries are set to attract and retain executive officers with exceptional abilities and talent. The Committee considers each executive officer's performance, current compensation and responsibilities within the Company. The Committee determines base salaries by periodically collecting information from other publicly-traded bank holding companies in Texas for comparison. The Committee also considers past individual performance, existing salary level, and achievements when establishing base salaries. The Committee does not give specific weight to any particular factor.

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

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 Committee as to the appropriate discretionary bonus amount. The 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 Committee with respect to executive compensation are subject to the final approval of the Board of Directors.

Recognition of individual performance and accomplishments is based on a subjective analysis of each executive officer's individual performance along with the quantitative measures of overall corporate performance. The Committee gives at least equal weight to the subjective analysis and no particular weight to any specific quantitative measure.

The Committee primarily 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;
- non-financial objectives.

In order for payment of certain incentive awards to be deductible to the Company under the current Internal Revenue Code, as amended (the Code ) they must be paid under a plan like the Company's 2006 Executive Incentive Compensation Plan ( EICP ). Section 162(m) of the Code 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 performance-based compensation, such as compensation under the EICP. The EICP provides for certain executive officer(s) of the Company to be granted annual incentive cash awards consistent with the objectives and limitations of the EICP. Any executive officer of the Company may at the discretion of the Committee be granted an annual incentive award under the EICP. The payment of any annual incentive award under the EICP is conditioned upon the achievement by the Company of either one of the specified (i) return on average total assets or (ii) return on average total shareholders' equity targets which have been established by the Committee. The numerical amount of these targets constitutes confidential commercial information of the Company and management of the Company believes that disclosing such amounts would cause competitive harm to the Company. Our Company has had an executive incentive compensation plan since 1997 and the Company has met at least one of the two performance targets under the executive incentive plan every year since 1997. The current EICP will expire on December 31, 2016. The performance goals that have been established for the EICP may not be changed without the prior approval of the shareholders of the Company. To date, the President of the Company is the only executive officer of the Company that has been granted an annual incentive award under the EICP.

For services rendered to the Company in 2006, Mr. Nixon, the President of the Company, received a cash bonus under the discretionary cash bonus program of \$250,000.00. During 2006, the Company met both the return on average total assets and the return on average total shareholders' equity targets established pursuant to the EICP by the Committee. Accordingly, Mr. Nixon received an incentive award under the EICP of \$1,000,000.00 for services rendered to the Company during 2006. The amounts of the cash bonus and the incentive award were largely affected by the strong financial results of the Company during 2006, which included (i) net income of \$117 million, or \$1.85 per share-basic, (ii) the Company's return on average total assets of 1.10% and (iii) the Company's return on average total shareholders' equity of 14.02%.

*Longer-Term Equity-Based Incentives-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 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 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 2005 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 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 of stock options to the executive officers in 2006. Prior to 2006, stock option awards had been granted to at least one of the executive officers in five of the ten years ended 2005, although the President has not received any stock option awards since 1997. The Committee has no policy as to timing of awards of stock options. All stock option awards under the Stock Option Plan have been made at the 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 common stock. Vesting of stock options may be accelerated upon certain events, including a change in control of the Company. Approximately ninety-seven percent of all stock options outstanding and held by executive officers at December 31, 2006 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 2005 were all incentive stock options.

*Profit Sharing Plan.* Our 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 \$4,685,000 were charged to income for the year ended December 31, 2006. 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.* Our Company provides the executive officers with perquisites and other personal benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain superior employees for key positions and provide a way for the employees of the Company to attract or retain customers of the Company. The perquisites and other benefits represent a small part of the Company's overall executive compensation package. The 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 efficiencies 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. 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 Committee has considered the limitations on deductibility of compensation of the executive officers under Section 162(m) of the Code. The Committee's current policy is to seek to ensure that substantially all such compensation is deductible under Section 162(m) when paid. Nevertheless, there can be no assurance that all compensation will be deductible under Section 162(m). Section 162(m) of the Code 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, such as compensation under the EICP that was approved by the shareholders of the Company at the 2006 Annual Shareholders Meeting. In addition, the Committee reserves the right to use its judgment to authorize compensation payments that may not be deductible under Section 162(m) when the Committee believes such payments are appropriate and in the best interests of the Company and its shareholders. At this time, essentially all compensation the Company paid to the executive officers is deductible under Section 162(m) of the Code.

The Company and the 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 SFAS 123R. In making compensation structure and award decisions, the 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 Committee sets the exercise price of stock options at the closing stock price on the date of grant. The Stock Option 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.

***Summary***

In summary, our Board believes the executive compensation program's mix of salary, annual cash bonus incentives, and longer-term equity-based incentives in the form of stock options motivates our 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 Report Report of the Salary and Steering Committee***

The Salary and Steering Committee reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management. Based on such review and discussion, the

Salary and Steering Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement for filing with the Securities and Exchange Commission.

Submitted by the Salary and Steering Committee.

Lester Avigael

Daniel B. Hastings, Jr.

Richard E. Haynes

### Executive Compensation Tables

The following information is furnished for the fiscal year ended December 31, 2006 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 Table

The following table sets forth information regarding compensation earned last year 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 during the year ended December 31, 2006.

Name and Principal Position	Year	Salary (\$ (1))	Bonus (\$ (2))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$ (4))	All Other Compensation (\$ (5))	Total (\$)
Dennis E. Nixon Chairman of the Board, President and Director of the Company; President, CEO and Director of IBC	2006	\$ 504,177	\$ 250,000	\$	\$ 1,000,000	\$ 100,940	\$ 1,855,117
R. David Guerra Vice President and Director of the Company; President of IBC branch in McAllen, Texas and Director of IBC	2006	249,968	62,705	3,900		22,417	338,990
Imelda Navarro Principal Financial Officer, Treasurer and Director of the Company, Senior Executive Vice President and Director of IBC	2006	178,214	68,334	5,107		19,836	271,491

(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 amount of stock-based compensation expense related to stock options recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in

accordance with SFAS 123R and thus include amounts from options granted prior to 2006. Assumptions used in the calculation of this amount are included in footnote 16 to the Company's audited financial statements for the fiscal year ended December 31, 2006, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

(4) The amount shown in this column is the annual cash bonus paid to Mr. Nixon under the Company's Executive Incentive Compensation Plan.

(5) 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 Table**

Name	Year	Club Memberships	Company Contribution to Profit Sharing Plans (1)	Director Fees (2)	Airplane (3)	Total
Dennis E. Nixon	2006	\$ 4,780	\$ 17,243	\$ 3,600	\$ 75,317	\$ 100,940
R. David Guerra	2006	2,857	15,960	3,600		22,417
Imelda Navarro	2006	3,578	12,658	3,600		19,836

(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) Salaried officers who are directors receive \$900 for each board meeting of the Company or any subsidiary bank board on which they serve, but the salaried officers are not compensated for committee meetings.

(3) 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.

**Outstanding Equity Awards at Year End**

The following table sets forth information regarding outstanding equity awards held by the individuals named in the Summary Compensation Table above. During 2006, the Company did not grant any options to the named executive officers of the Company.

Name	Option Awards	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
	Number of Securities Underlying Unexercised Options (#)				
Dennis E. Nixon	106,357	0		\$ 7.92	5/13/2007 (1)
R. David Guerra	8,544	0		13.93	9/13/2009 (2)
	87	1,663		29.50	10/14/2013 (3)
Imelda Navarro	6,675	0		9.96	6/3/2007 (2)
	6,103	0		13.93	9/13/2009 (2)
	125	2,375		29.50	10/14/2013 (3)

(1) These options have an eight year vesting schedule, vesting 17.863% the first year and 11.733% each year thereafter. All of the options will expire ten years from the date of grant.

(2) These options have a five year vesting schedule, vesting 20% each year. All of the options will expire eight years from the date of grant.

(3) These options 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.

**Option Exercises and Stock Vested**

The following table reflects certain information regarding individual exercise of stock options with respect to the Common Stock during 2006 by each of the named executive officers.

Name	Option Awards	Value Realized on Exercise (\$)(1)
	Number of Shares Acquired on Exercise (#)	
Dennis E. Nixon	0	0
R. David Guerra	0	0
Imelda Navarro	23,838	\$ 477,047

(1) The value realized represents the difference between the exercise price of the option shares and market price of the option shares on the date the option was exercised.

**Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2006, with respect to the Company's compensation plans under which equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity Compensation plans approved by security holders	1,237,768	\$ 17.96	130,200
Equity Compensation plans not approved by security holders (1)	140,382	10.66	
Total	1,378,150	17.22	130,200

(1) The Company granted non-qualified stock options exercisable for a total of 140,382 shares, adjusted for stock dividends, of Common Stock to certain employees of the GulfStar Group which is controlled by the Company and is involved in investment banking and merchant banking activities. The grants were not made under any of the approved Stock Option Plans. The options are exercisable for a period of seven years and vest in equal annual increments over a period of five years. All options granted to the GulfStar Group employees had an option price of not less than the fair market value of the Common Stock on or about the date of grant.

**SECURITY OWNERSHIP OF MANAGEMENT**

Based upon information received from the persons concerned, each of whom is a director and nominee for director, the following individuals and all directors and executive officers of the Company as a group owned beneficially as of April 2, 2007, the number and percentage of outstanding shares of Common Stock of the Company indicated in the following table:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock	Percent of Class
Lester Avigael (1)	453,651	*
Irving Greenblum (2)	583,351	*
R. David Guerra (3)	345,593 +	*
Daniel B. Hastings, Jr.	129,580	*
Richard E. Haynes	44,328	*
Imelda Navarro (4)	266,573 +	*
Sioma Neiman (5)	625,772	1.00 %
Peggy J. Newman	15,720	*
Dennis E. Nixon (6)	2,106,975	3.34 %
Leonardo Salinas (7)	135,501	*
A. R. Sanchez Jr. (8)	11,810,463	18.73 %
All Directors and Executive Officers as a group (11 persons) (9)	16,517,507	26.19 %

\* Ownership of less than one percent

+ Includes shares which are issuable upon the exercise of options exercisable on or prior to June 1, 2007 ( currently exercisable options ).

- (1) The holdings shown for Mr. Avigael include 369,656 shares held in the name of Avigael Investments and 6,872 shares which he holds as trustee for the benefit of a grandchild which he has the power to dispose of and to vote.
- (2) The holdings shown for Mr. Greenblum include 80,301 shares held in a family limited partnership, which he has the power to dispose of and to vote. The holdings for Mr. Greenblum include 70,416 shares held in his wife's name.
- (3) The holdings shown for Mr. Guerra include 8,631 shares issuable upon the exercise of currently exercisable options. The holdings shown for Mr. Guerra include 316,962 shares held jointly with his wife and 20,000 shares held in a family limited partnership, which he has the power to dispose of and to vote.
- (4) The holdings shown for Ms. Navarro include 6,228 shares issuable upon the exercise of currently exercisable options.
- (5) The holdings shown for Mr. Neiman are in the name of Inar Investments, Corp., of which he is the Managing Director.
- (6) The holdings shown for Mr. Nixon include 14,955 shares held in his wife's name.
- (7) The holdings shown for Mr. Salinas include 46,875 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 2,681,420 shares. The shares shown for Mr. Sanchez include 2,589,850 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 3,692,837 additional 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 or co-trustee. Of such amount, Mr. Sanchez has shared power to vote and to dispose of 864,000 shares and has sole power to vote and to dispose of 2,828,837 shares. The shares shown for Mr. Sanchez also include (i) 432,476 shares held indirectly by a limited partnership, the general partner of which is a limited liability company for which Mr. Sanchez serves as a manager; (ii) 2,014,988 shares held by a limited partnership, the managing general partner of which is a corporation of which Mr. Sanchez is the president and sole shareholder; and (iii) 398,892 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 14,859 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***

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Insofar as is known to the Company, no person beneficially owned, as of April 2, 2007, more than five percent of the outstanding Common Stock of the Company, except as follows:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock	Percent of Class
A. R. Sanchez Jr. (1) P.O. Box 2986 Laredo, Texas 78040	11,810,463	18.73 %

(1) Mr. Sanchez owns directly and has the sole power to vote and to dispose of 2,681,420 shares. The shares shown for Mr. Sanchez include 2,589,850 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 3,692,837 additional 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 or co-trustee. Of such amount, Mr. Sanchez has shared power to vote and to dispose of 864,000 shares and has sole power to vote and to dispose of 2,828,837 shares. The shares shown for Mr. Sanchez also include (i) 432,476 shares held indirectly by a limited partnership, the general partner of which is a limited liability company for which Mr. Sanchez serves as a manager; (ii) 2,014,988 shares held by a limited partnership, the managing general partner of which is a corporation of which Mr. Sanchez is the president and sole shareholder; and (iii) 398,892 shares held by the A. R. Tony and Maria J. Sanchez Family Foundation, of which Mr. Sanchez is a director.

***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 2006, 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 in the industry at the time for comparable transactions with other persons, 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 collectibility or present other unfavorable features. All credit transactions or other transactions with the Company or a subsidiary bank 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 Company or subsidiary bank.

IBC and Sanchez Oil & Gas Corporation, a related interest of Antonio R. Sanchez, Jr., who is a director and principal shareholder of the Company, jointly own, in varying percentages, certain aircraft used for business purposes by IBC, the other bank subsidiaries and Sanchez Oil and Gas Corporation. The net book value of IBC's aggregate interest in such aircraft as of April 2, 2007 was approximately \$9.7 million. Each bank subsidiary and Sanchez Oil & Gas Corporation pay the pro rata expense related to their actual use of the aircraft.

***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 2006. The Company believes that all of these filing requirements were timely satisfied, except for one report filed late with respect to one transaction each, by Ms. Navarro, Mr. Nixon and Mr. Guerra. 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***

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Share repurchases are only conducted under a publicly announced repurchase program approved by the Board of Directors 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, 2006.

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Shares Purchased as Part of a Publicly- Announced Program</b>	<b>Approximate Dollar Value of Shares Available for Repurchase (1)</b>
October 1 - October 31, 2006				\$ 21,379,000
November 1 - November 30, 2006	110,067	\$ 31.00	110,067	17,967,000
December 1 - December 31, 2006	8,898	30.34	8,168	17,697,000
	118,965	30.95	118,235	

(1) The formal stock repurchase program was initiated in 1999 and has been expanded periodically through 2006. The current program allows for the repurchase of up to \$200,000,000 of treasury stock through December 2007 of which \$17,697,000 remains.

### **PROPOSAL 2**

#### **RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Board of Directors of the Company has appointed the firm of KPMG LLP to audit the accounts of the Company for the 2007 fiscal year. The firm has audited the books of the Company and its predecessor, IBC, annually since 1979.

Audit services rendered by KPMG LLP for the fiscal year ended December 31, 2006 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 KPMG 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 KPMG 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 International Bancshares Corporation for each of the years ended December 31, 2006 and 2005 by the Company's principal accountant firm, KPMG LLP.

**December 31,  
2006**