International Bancshares Corporation

March 5, 2009

Via Electronically

Via Overnight Delivery

Mr. Neil M. Barofsky
Special Inspector General - TARP
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220
SIGTARP.response@do.treas.gov

Dear Special Inspector General:

By letter dated February 6, 2009, you requested that we provide the following responses which have been numbered to correspond to the numbered comments in your letter.

(1) **A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have been taken that you would not have been able to take absent the infusion of TARP funds.**

Response:

On December 23, 2008, as part of the Capital Purchase Program (the "CPP") established by the United States Department of the Treasury (the "Treasury") under the Emergency Economic Stabilization Act (the "EESA"), International Bancshares Corporation (the "Company") entered into a Letter Agreement, incorporating an attached Securities Purchase Agreement - Standard Terms (collectively, the "Securities Purchase Agreement") with the Treasury. The closing of the transactions contemplated in the Securities Purchase Agreement also occurred on December 23, 2008 when the Company issued fixed-rate cumulative perpetual preferred stock, Series A, (the "Senior Preferred Stock") to the Treasury.

The Company received $216 million of TARP funds on December 23, 2008 and recorded the transaction as the issuance of Senior Preferred Stock, which transaction increased the capital of the Company. The capital of the Company is leveraged and invested.

The capital provides a multiplier effect of the TARP funds received. Generally, each dollar of capital of the Company is leveraged over time to become approximately six dollars of investment in loans or securities. On December 23, 2008, the Company made a $50 million capital contribution to its wholly-owned bank subsidiary, International Bank of Commerce, Laredo, Texas (the "Bank") to support lending and investing activities at the Bank. The $50 million was booked as additional capital of the Bank, which additional capital would be leveraged at the Bank. On that same date, the Company deposited the remaining $166 million in the Company's general fund accounts which are held in depository accounts at the Bank. The deposited funds were not segregated by the Bank. The Bank uses the deposits as a funding source to make loans and purchase investments.

The TARP funds enhanced the Company's ability to make new loans, renew loans and purchase mortgage-backed securities and municipal bonds. During January 2009, the Company originated on a consolidated basis $91.8 million of new loans. Please see the attached Schedule A which shows the amounts of new loans by classification. Included in the R/E Residential 1-4 Family category are $8.2 million of Fannie Mae loans that were originated in January 2009. During January 2009, the Company booked on a consolidated basis $172.7 million of loan renewals. Please see the attached Schedule A which shows the amounts of loan renewals by classification.

During December 2008, the Company acquired mortgage-backed securities with a book value of $427.2 million. All of the mortgage-backed securities are backed by Fannie Mae, Freddie Mac or Ginnie Mae. The purchase of these mortgage-backed securities reduces the cost and increases the availability of credit for home mortgages. During December 2008, the Company also acquired municipal bonds with a book value of $12.2 million, which purchase helped support the funding for projects in these municipalities and benefits the economies in the local communities. Please see Schedule B for information regarding the GSE-securities and municipal bonds purchased.

The purchase of mortgage backed securities by the Company is consistent with government initiatives to purchase mortgage-backed securities to support housing markets and foster improved conditions in financial markets generally. In September 2008, the Treasury Department established a program to allow the Treasury Department to purchase mortgage-backed securities backed by Fannie Mae, Freddie Mac and Ginnie Mae as one of the initiatives to facilitate the availability of affordable mortgage finance. On November 25, 2008, the Federal Reserve announced a program to purchase up to $500 billion of mortgage-backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae, which amount was recently raised to $700 billion on February 16, 2009,. The objective of the Federal Reserve's MBS Purchase Program is to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally.

The Company's actions with respect to the use of the TARP funds are consistent with the Company's anticipated use of the TARP funds at the time the Company applied for such funds and the public statements the Company made regarding the use of the TARP funds, which public statements are set forth in chronological order in Exhibit A attached hereto. In the future, the Company intends to continue to use the TARP funds in a manner that is consistent with these statements and the Company's use of the TARP funds to date.

(2) Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term deferred forms of executive compensation.

Response:

In the Securities Purchase Agreement, the Company agreed that, until such time as Treasury ceases to own shares of Senior Preferred Stock, any portion of the Warrant or any Warrant Shares, the Company will take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of EESA as implemented by any guidance or regulation under EESA and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with EESA. Additionally, each of the Company's senior executive officers, executed a waiver (the "Waiver") voluntarily waiving any claim against Treasury or the Company for any changes to his compensation or benefits that are required to comply with the EESA provisions acknowledging that the provisions may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements (collectively, "Benefit Plans") as they relate to the period Treasury holds shares of Senior Preferred Stock, any portion of the Warrant or any Warrant Shares.

Effective December 19, 2008, the Company terminated its Executive Incentive Compensation Plan because it did not comply with the EESA provisions. Furthermore, the Company will not make any golden parachute payments while its TARP obligations remain outstanding. The Company will also take all steps necessary to comply with the EESA's tax deduction limitations.

The Company is in the process of preparing its Proxy Statement for the 2009 Annual Shareholder Meeting and intends to include the compensation committee certification required within 90 days of December 23, 2008 under the TARP Capital Purchase Program in the "Compensation Committee Report" section of the Company's Proxy Statement. Further, the principal executive officer of the Company intends to certify within 120 days of December 23, 2008 that the Company's compensation committee has reviewed the senior executive officer incentive compensation arrangements with its senior risk officers. Further, the principal executive officer of the Company intends to certify within 135 days of December 31, 2008 that the Company has complied with all of the Capital Purchase Program executive compensation requirements and limitations and to identify the Company's senior executive officers. Additionally, the Company intends to preserve the appropriate documentation and records to substantiate each required certification for at least six years after the date of certification.

As a participant in the TARP Capital Purchase Program, the Company must adopt certain additional standards for executive compensation under the American Recovery and Reinvestment Act of 2009 (the "ARRA") which was signed into law on February 17, 2009. While the U.S. Treasury must promulgate regulations to implement the executive compensation restrictions and standards set forth in the ARRA, the new law significantly expands the executive compensation restrictions previously imposed by the EESA.

ARRA includes numerous non-economic recovery related items, including a limitation on executive compensation of certain of the most highly-compensated employees and executive officers of financial institutions, such as the Company, that participated in the TARP Capital Purchase Program. The restrictions in the new law, which will be further described in rules to be adopted by the Commission and standards to be established by the Treasury Department, include the following:

- Limits on compensation incentives for risk taking by senior executive officers.
- Requirement of recovery of any compensation paid based on inaccurate financial information.
- Prohibition on "Golden Parachute Payments."
- Prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees.
- Publicly registered CPP recipients must establish a board compensation committee comprised entirely of independent directors, for the purpose of reviewing employee compensation plans.
- Prohibition on bonus, retention award, or incentive compensation, except for limited payments of long term restricted stock.
- Limitation on luxury expenditures.
- CPP recipients are required to permit a separate non-binding shareholder vote to approve the compensation of executives, as disclosed pursuant to the SEC's compensation disclosure rules.
- The chief executive officer and chief financial officer of each CPP recipient will be required to provide a written certification of compliance with these standards to the SEC.

The Company is currently in the process of evaluating the new ARRA executive compensation restrictions and intends to take the necessary actions to comply with these restrictions.

The Company does not anticipate increased loan risks as a result of the executive compensation restrictions of the EESA or the ARRA.

The Company does not anticipate offsetting the executive compensation limitations with changes to other longer-term deferred forms of executive compensation.

I, Dennis E. Nixon, hereby certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Yours very truly,

Dennis E. Nixon
President

SCHEDULE A

JANUARY 2009 - NEW LOANS

	Loan Balance
1 - 4 Res Construction	$2,850,897.28
Cash Reserve Accounts	7,000.00
Commercial and Industrial Loans	41,584,297.11
Farmers and Ranchers	894,551.64
Other Construction and Land Development	616,574.15
Personal Loans	10,589,559.53
Personal Loans/Fresh Start Loan	256,017.45
R/E Commercial and Industrial Non Own Occ	2,630,000.00
R/E Commercial and Industrial Own Occ	1,501,785.17
R/E Farmland	95,000.00
R/E Multifamily	120,000.00
R/E Residential 1-4 Family	30,736,987.37
Grand Total	**$91,882,669.70**

JANUARY 2009 - RENEWED LOANS

	Loan Balance
1 - 4 Res Construction	$17,785,935.00
Cash Reserve Accounts	50,000.00
Commercial and Industrial Loans	63,342,553.81
Farmers and Ranchers	784,962.72
Other Construction and Land Development	54,821,000.80
Personal Loans	2,826,743.10
R/E Commercial and Industrial Non Own Occ	11,179,138.00
R/E Commercial and Industrial Own Occ	8,073,537.51
R/E Farmland	6,000,000.00
R/E Multifamily	3,383,800.00
R/E Residential	3,535,534.06
R/E Residential Junior Lien	928,327.10
Grand Total	**$172,711,532.10**

SCHEDULE B

IBC

INVESTMENT PORTFOLIO PURCHASES IN DECEMBER 2009

SECURITY DESCRIPTION	BOOK VALUE
FNMA Pool	$385, 876,521.06
FHLMC Arm Pool	$21,081,818.62
FNMA Arm Pool	$20,303,391.84
GSE SUB TOTAL	427,261,731.52
MUNICIPALS	12,239,064.60
GRAND TOTAL	**$439,500,796.12**

Exhibit A

Public Statements regarding CPP/TARP funds

10-K (2/25/09)
"The Company's intention is to utilize the extra capital provided by the TARP funds to support its efforts to prudently and transparently provide lending and liquidity."

8-K (2/13/09)
"The Company's intention is to utilize the extra capital provided by the CPP funds to support its efforts to prudently and transparently provide lending and liquidity."

"The Company chose to enter the CPP program even though the Company was well capitalized. The Company deemed it prudent to accept the capital in the form of preferred stock considering the economic crisis. Since the CPP program was only offered to sound financial institutions with solid regulatory ratings and was encouraged by the Treasury, the Company deemed it irresponsible to reject the preferred stock while its competitors accepted the capital and thereby raised their capital ratios. The CPP is not a bank bailout program and it is totally distinct from the aid the government has provided to certain large troubled financial institutions which the government is calling exceptional financial assistance. The Company plans to follow the spirit of the program and continue to seek out qualified borrowers and continue lending and investing," said Dennis E. Nixon, President and CEO."

8-K (12/23/08)
"Dennis E. Nixon, President of IBC stated, "IBC is pleased to participate in the U.S. Treasury Capital Purchase Program. The capital provided by the program improves our existing strong capital base and gives us additional flexibility in an uncertain economic environment that will support IBC's growth and the Treasury's efforts to facilitate additional lending in our markets."

8-K (11/20/08)
"The investment will further strengthen IBC's capital ratios, which already exceed the industry's well-capitalized standards."

"We are pleased that the Treasury Department selected IBC to participate in this important program, which we believe enhances IBC's ability to participate in the opportunities presented by this challenging environment and our ability to serve the communities and customers in our markets," said Dennis E. Nixon, President of IBC.

DEF 14A (11/19/08)
"The Company expects to use the proceeds from the sale of securities to the Treasury Department by injecting some of the proceeds into the Company's lead bank, International Bank of Commerce, Laredo, Texas, to fund lending opportunities at that bank and that the remaining funds would be retained by the Company for capital injections into the Company's other three subsidiary banks to fund lending opportunities that may arise at those banks, and for working capital to fund matters such as bank acquisitions; however, the Company's use of the proceeds will be subject to any restrictions on such use that may be imposed by the Treasury Department in the future."
8-K (10/28/08)

"As of September 30, 2008, IBC had capital ratios in excess of those required to be considered well-capitalized under banking regulations. However, given the substantial ongoing economic uncertainties and the lack of liquidity in the market, the Board of Directors believes it may be beneficial and prudent for IBC to raise capital under the Treasury's program. IBC believes that it would be eligible to raise up to approximately $200 million of capital under the Treasury program and that the cost and amount of capital being offered under the Treasury's program may be significantly larger and more attractive than the capital otherwise available to IBC in this current market. Raising capital under the Treasury's program would provide IBC with an additional layer of capital to face this challenging environment and to participate in the opportunities that it may present."