

INTERNATIONAL BANCSHARES CORPORATION

Audit Committee Charter May 2004

I. Audit Committee Purpose

The Audit Committee is appointed annually by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Monitor the quality and integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, legal and regulatory compliance, and ethical behavior.
- Monitor the independence, qualifications and performance of the Company's independent auditors and internal auditing department.
- Monitor the Company's financial statements and other financial information provided by the Company to its shareholders, the public and others.
- Provide an avenue of communication among the independent auditors, management, the internal auditing department, and the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. At the Company's expense, the Audit Committee has the ability to retain and determine the funding for special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties as set forth in Section 301 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). The Committee shall also have the authority, to the extent it deems necessary or appropriate, to ask the Company to provide the Committee with the support of one or more Company employees to assist it in carrying out its duties. The Committee may request that any officer or employee of the Company or the Company's outside counsel or independent auditors attend a meeting of the Committee or meet with any members of, or consultants to, the Committee.

II. Audit Committee Composition and Meetings

Audit Committee members shall meet the independence and experience requirements of Section 36 of the Federal Deposit Insurance Act, the Nasdaq Stock Market, Inc. ("Nasdaq"), the Securities and Exchange Commission ("SEC"), Sarbanes-Oxley and all other applicable legal requirements, at the time of their appointment. The Audit Committee shall be comprised of three directors as determined by the Board. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

The Committee shall meet at least four times annually, or more frequently if necessary to fulfill its responsibilities. If circumstances warrant, an unscheduled meeting of the Committee can be called

with or without the presence of the Company's management. The Committee should meet privately in executive session at least annually with management, the director of the internal auditing department, the independent auditors, and separately as a committee to discuss any matters that the Committee or each of these groups believe should be discussed. In addition, the Committee, or at least its Chair, should communicate with management and the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditor's limited review procedures.

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to ensure to the directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

III. Audit Committee Responsibilities and Duties

Review Procedures

1. Review and reassess the adequacy of this Charter as circumstances dictate, but at least annually. Submit the charter to the Board of Directors for approval and have the document published in accordance with SEC regulations.
2. Review and discuss with management and the independent auditors the Company's annual audited financial statements and the related MD&A and other disclosures in the Company's Form 10-K.
3. Review with financial management and the independent auditors any interim financial information that may be available and the Company's quarterly financial results and/or the Company's quarterly financial statements, including the Company's MD&A disclosures. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 61 (see item 9). The Chair of the Committee may represent the entire Audit Committee for purposes of this review.
4. Discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
5. Review and discuss quarterly reports from the independent auditors on:
 - a. All critical accounting policies and practices to be used.
 - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors.

- c. Other material written communication between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
6. In consultation with management, the independent auditors, and the internal auditors, consider the effectiveness and integrity of the Company's financial reporting processes and controls, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls are desirable. Discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses. Meet with management at least quarterly to discuss such matters in accordance with Section 302 of Sarbanes-Oxley.
7. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
8. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
9. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

Independent Auditors

10. The independent auditors are ultimately accountable to, and shall report directly to, the Audit Committee, pursuant to Section 301 of Sarbanes-Oxley. The Audit Committee shall review the independence and performance of the auditors and shall have the sole authority to appoint the independent auditors or approve any discharge of auditors when circumstances warrant. In addition, the Committee shall be directly responsible for the compensation, oversight of the work and evaluation of any independent auditors employed by the Company (including resolving disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report and related work.
11. Pursuant to Section 202 of Sarbanes-Oxley, the Audit Committee must pre-approve the fees and other significant compensation to be paid to the independent auditors in exchange for auditing services and permissible non-audit services, either directly or pursuant to such processes as are in accordance with Sarbanes-Oxley and that are determined to be advisable. In no event shall the independent auditors perform any

non-audit services for the Company that are prohibited by Section 10A(g) of the Securities Exchange Act of 1934 (the "Exchange Act") or the rules of the SEC, Nasdaq or the Public Corporation Accounting Oversight Board.

12. Pursuant to Section 204 of Sarbanes-Oxley, the Audit Committee must receive from the independent auditors on a timely basis information concerning (i) all critical accounting policies and practices used by the Company, (ii) alternative accounting treatments that have been discussed with management along with the potential ramifications of using those alternatives and the treatments preferred by the independent auditor and (iii) other written communications provided by the auditor to management, including a schedule of unadjusted audit differences.
13. On an annual basis, the Committee should obtain and review from the independent auditors a report from the independent auditor describing (i) all significant relationships they may have with the Company that could impair the auditor's independence, with special attention given to any non-audit services that the auditors may have provided the Company; (ii) any material issues raised by the most recent internal quality control review or peer review of the auditor, or by any investigation by governmental or professional authorities within the last five years, and any steps taken to address these issues and (iii) the auditor's assessment of the Company's internal quality control procedures, including an evaluation of the internal audit responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit. The Committee shall take additional actions, as necessary, to satisfy itself of the qualifications, performance and independence of the auditors.
14. Review the independent auditor's audit plan - discuss scope, staffing, locations, reliance upon management, and internal audit and general audit approach.
15. Discuss the results of the audit with the independent auditors, including auditor issues on which the independent auditor communicated with its national office regarding auditing or accounting issues. Also, discuss certain matters required to be communicated to the audit committees in accordance with AICPA SAS 61.
16. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting and the clarity of the Company's financial disclosure practices. Inquire as to the auditors' judgments regarding the degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates and other significant decisions made by management in preparing the financial disclosure. Review any difficulties the auditor encountered in the course of its audit work (including any restrictions on the scope of the auditor's activities or on access to information, and any significant disagreements with management) and management's response.
17. Oversee the rotation, at least once every five years, of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit

partner responsible for reviewing the audit, in order to assure continuing auditor independence.

18. Recommend to the Board policies for the hiring of employees or former employees of the independent auditor who were engaged on the Company's account that are consistent with Section 206 of Sarbanes-Oxley and other SEC rules.

Internal Audit Department and Legal Compliance

19. The Committee shall review the sufficiency of internal audit resources, the budget, plan, changes in plan, activities, organizational structure, staffing and qualifications of the internal audit department.
20. Review the appointment, performance and replacement of the senior internal audit executive.
21. At least quarterly, the Committee shall review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
22. On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, inquiries received from regulators or governmental agencies and reports and disclosures of insider and affiliated party transactions. Also discuss such matters with management and the Company's internal auditors.

Other Audit Committee Responsibilities

23. Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement.
24. Perform any other activities consistent with this Charter, the Company's by-laws and governing law, as the Committee or the Board deems necessary or appropriate.
25. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.