

FIRST CITIZENS BANCSHARES INC /DE/  
Form 10-Q  
May 10, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2012  
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-16715

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First Citizens BancShares, Inc.  
(Exact name of Registrant as specified in its charter)

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Delaware 56-1528994  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

4300 Six Forks Road, Raleigh, North Carolina 27609  
(Address of principle executive offices) (Zip code)  
(919) 716-7000  
(Registrant’s telephone number, including area code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files) Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of ‘accelerated filer’ and ‘large accelerated filer’ in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Class A Common Stock—\$1 Par Value—8,644,307 shares  
Class B Common Stock—\$1 Par Value—1,626,937 shares  
(Number of shares outstanding, by class, as of May 10, 2012)



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## Part 1

## Item 1. Financial Statements (Unaudited)

First Citizens BancShares, Inc. and Subsidiaries  
Consolidated Balance Sheets

|   | March 31*<br>2012              | December 31#<br>2011 | March 31*<br>2011   |
|---|--------------------------------|----------------------|---------------------|
|   | (thousands, except share data) |                      |                     |
| <b>Assets</b>   |                                |                      |                     |
| Cash and due from banks   | \$552,663                      | \$590,801            | \$406,252           |
| Overnight investments   | 752,334                        | 434,975              | 585,286             |
| Investment securities available for sale  | 4,457,739                      | 4,056,423            | 4,202,016           |
| Investment securities held to maturity  | 1,688                          | 1,822                | 2,341               |
| Loans held for sale   | 73,457                         | 92,539               | 48,222              |
| Loans and leases:   |                                |                      |                     |
| Covered under loss share agreements   | 2,183,869                      | 2,362,152            | 2,658,134           |
| Not covered under loss share agreements   | 11,489,529                     | 11,581,637           | 11,392,351          |
| Less allowance for loan and lease losses  | 272,500                        | 270,144              | 232,597             |
| Net loans and leases  | 13,400,898                     | 13,673,645           | 13,817,888          |
| Premises and equipment  | 864,466                        | 854,476              | 839,463             |
| Other real estate owned:  |                                |                      |                     |
| Covered under loss share agreements   | 142,418                        | 148,599              | 137,479             |
| Not covered under loss share agreements   | 48,092                         | 50,399               | 49,584              |
| Income earned not collected   | 52,406                         | 42,216               | 98,501              |
| Receivable from FDIC for loss share agreements  | 410,351                        | 539,511              | 624,322             |
| Goodwill  | 102,625                        | 102,625              | 102,625             |
| Other intangible assets   | 6,076                          | 7,032                | 9,265               |
| Other assets  | 278,415                        | 286,430              | 244,251             |
| <b>Total assets</b>   | <b>\$21,143,628</b>            | <b>\$20,881,493</b>  | <b>\$21,167,495</b> |
| <b>Liabilities</b>  |                                |                      |                     |
| Deposits:   |                                |                      |                     |
| Noninterest-bearing   | \$4,572,300                    | \$4,331,706          | \$4,164,449         |
| Interest-bearing  | 13,187,192                     | 13,245,568           | 13,647,287          |
| Total deposits  | 17,759,492                     | 17,577,274           | 17,811,736          |
| Short-term borrowings   | 677,993                        | 615,222              | 666,417             |
| Long-term obligations   | 649,818                        | 687,599              | 801,081             |
| Other liabilities   | 164,202                        | 140,270              | 100,047             |
| <b>Total liabilities</b>  | <b>19,251,505</b>              | <b>19,020,365</b>    | <b>19,379,281</b>   |
| <b>Shareholders' Equity</b>   |                                |                      |                     |
| Common stock:   |                                |                      |                     |
| Class A - \$1 par value (11,000,000 shares authorized; 8,644,307 shares issued and outstanding at March 31, 2012 and December 31, 2011; 8,756,778 shares issued and outstanding at March 31, 2011)  | 8,644                          | 8,644                | 8,757               |
| Class B - \$1 par value (2,000,000 shares authorized; 1,631,424 shares issued and outstanding at March 31, 2012; 1,639,812 shares issued and outstanding at December 31, 2011; 1,677,675 shares issued and outstanding at March 31, 2011) | 1,631                          | 1,640                | 1,678               |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Surplus                                    | 143,766      | 143,766      | 143,766      |
| Retained earnings                          | 1,804,498    | 1,773,652    | 1,673,920    |
| Accumulated other comprehensive loss       | (66,416 )    | (66,574 )    | (39,907 )    |
| Total shareholders' equity                 | 1,892,123    | 1,861,128    | 1,788,214    |
| Total liabilities and shareholders' equity | \$21,143,628 | \$20,881,493 | \$21,167,495 |

\* Unaudited

# Derived from 2011 Annual Report on Form 10-K.

See accompanying Notes to Consolidated Financial Statements.

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Table of ContentsFirst Citizens BancShares, Inc. and Subsidiaries  
Consolidated Statements of Income

|   | Three Months Ended March 31                             |           |
|---|---|-----------|
|   | 2012  | 2011      |
|   | (thousands, except share and per share data, unaudited) |           |
| Interest income   |   |           |
| Loans and leases  | \$238,137   | \$231,453 |
| Investment securities:  |   |           |
| U. S. Treasury  | 739   | 3,210     |
| Government agency   | 4,332   | 5,047     |
| Residential mortgage-backed securities                        | 1,889   | 2,653     |
| Corporate bonds   | 1,199   | 2,176     |
| State, county and municipal                                   | 12  | 13        |
| Other   | 131   | 259       |
| Total investment securities interest and dividend income      | 8,302   | 13,358    |
| Overnight investments   | 313   | 389       |
| Total interest income   | 246,752   | 245,200   |
| Interest expense  |   |           |
| Deposits  | 16,472  | 29,820    |
| Short-term borrowings   | 1,391   | 1,697     |
| Long-term obligations   | 7,937   | 9,696     |
| Total interest expense  | 25,800  | 41,213    |
| Net interest income   | 220,952   | 203,987   |
| Provision for loan and lease losses                           | 30,715  | 44,419    |
| Net interest income after provision for loan and lease losses | 190,237   | 159,568   |
| Noninterest income  |   |           |
| Gains on acquisitions   | —   | 63,474    |
| Cardholder and merchant services                              | 22,450  | 26,780    |
| Service charges on deposit accounts                           | 14,846  | 15,790    |
| Wealth management services                                    | 13,755  | 13,288    |
| Fees from processing services                                 | 8,562   | 7,246     |
| Securities gains (losses)                                     | (45   | ) (449    |
| Other service charges and fees                                | 3,441   | 5,957     |
| Mortgage income   | 4,611   | 2,315     |
| Insurance commissions   | 2,756   | 2,534     |
| ATM income  | 1,455   | 1,590     |
| Adjustments for FDIC receivable for loss share agreements     | (26,796   | ) (10,379 |
| Other   | 1,908   | 1,434     |
| Total noninterest income                                      | 46,943  | 129,580   |
| Noninterest expense   |   |           |
| Salaries and wages  | 75,684  | 75,804    |
| Employee benefits   | 20,249  | 19,649    |
| Occupancy expense   | 18,607  | 18,313    |
| Equipment expense   | 18,166  | 17,391    |
| FDIC insurance expense  | 3,057   | 8,225     |
| Foreclosure-related expenses                                  | 4,621   | 5,488     |
| Other   | 42,947  | 45,158    |

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|                            |            |            |
|----------------------------|------------|------------|
| Total noninterest expense  | 183,331    | 190,028    |
| Income before income taxes | 53,849     | 99,120     |
| Income taxes               | 18,354     | 37,360     |
| Net income                 | \$35,495   | \$61,760   |
| Average shares outstanding | 10,283,842 | 10,434,453 |
| Net income per share       | \$3.45     | \$5.92     |

See accompanying Notes to Consolidated Financial Statements.

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Table of ContentsConsolidated Statements of Comprehensive Income  
First Citizens BancShares, Inc. and Subsidiaries

|   | Three Months Ended March |          |
|---|--------------------------|----------|
|   | 2012                     | 2011     |
|   | (thousands, unaudited)   |          |
| Net income  | \$35,495                 | \$61,760 |
| Other comprehensive income (loss)   |                          |          |
| Unrealized gains on securities:   |                          |          |
| Change in unrealized securities gains arising during period                           | (2,898                   | ) (9,139 |
| Deferred tax benefit (expense)  | 1,123                    | 3,447    |
| Reclassification adjustment for losses (gains) included in income before income taxes | —                        | 449      |
| Deferred tax expense (benefit)  | —                        | (177     |
| Total change in unrealized gains on securities, net of tax                            | (1,775                   | ) (5,420 |
| Change in fair value of cash flow hedges:   |                          |          |
| Change in unrecognized loss on cash flow hedges                                       | 1,138                    | 3,175    |
| Deferred tax benefit (expense)  | (450                     | ) (1,254 |
| Reclassification adjustment for gains (losses) included in income before income taxes | (749                     | ) (1,458 |
| Deferred tax benefit (expense)  | 296                      | 576      |
| Total change in unrecognized loss on cash flow hedges, net of tax                     | 235                      | 1,039    |
| Change in pension obligation:   |                          |          |
| Change in pension obligation  | 2,790                    | 1,648    |
| Deferred tax benefit (expense)  | (1,092                   | ) (645   |
| Total change in pension obligation, net of tax  | 1,698                    | 1,003    |
| Other comprehensive income (loss)   | 158                      | (3,378   |
| Total comprehensive income  | \$35,653                 | \$58,382 |

See accompanying Notes to Consolidated Financial Statements.



Table of ContentsConsolidated Statements of Changes in Shareholders' Equity  
First Citizens BancShares, Inc. and Subsidiaries

|   | Class A<br>Common Stock | Class B<br>Common Stock | Surplus   | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Total<br>Shareholders'<br>Equity |
|---|-------------------------|-------------------------|-----------|----------------------|--|----------------------------------|
| (thousands, except share data, unaudited)             |                         |                         |           |                      |  |                                  |
| Balance at December 31, 2010                          | \$8,757                 | \$ 1,678                | \$143,766 | \$1,615,290          | \$ (36,529 )   | \$1,732,962                      |
| Comprehensive income:                                 |                         |                         |           |                      |  |                                  |
| Net income  | —                       | —                       | —         | 61,760               | —  | 61,760                           |
| Other comprehensive loss, net<br>of tax               | —                       | —                       | —         | —                    | (3,378 )   | (3,378 )                         |
| Total comprehensive income                            |                         |                         |           |                      |  | 58,382                           |
| Cash dividends (\$0.30 per<br>share)                  | —                       | —                       | —         | (3,130 )             | —  | (3,130 )                         |
| Balance at March 31, 2011                             | \$8,757                 | \$ 1,678                | \$143,766 | \$1,673,920          | \$ (39,907 )   | \$1,788,214                      |
| Balance at December 31, 2011                          | \$8,644                 | \$ 1,640                | \$143,766 | \$1,773,652          | \$ (66,574 )   | \$1,861,128                      |
| Comprehensive income:                                 |                         |                         |           |                      |  |                                  |
| Net income  | —                       | —                       | —         | 35,495               | —  | 35,495                           |
| Other comprehensive income,<br>net of tax             | —                       | —                       | —         | —                    | 158  | 158                              |
| Total comprehensive income                            |                         |                         |           |                      |  | 35,653                           |
| Repurchase of 8,388 shares of<br>Class B common stock | —                       | (9 )                    | —         | (1,564 )             | —  | (1,573 )                         |
| Cash dividends (\$0.30 per<br>share)                  | —                       | —                       | —         | (3,085 )             | —  | (3,085 )                         |
| Balance at March 31, 2012                             | \$8,644                 | \$ 1,631                | \$143,766 | \$1,804,498          | \$ (66,416 )   | \$1,892,123                      |

See accompanying Notes to Consolidated Financial Statements.

Table of ContentsFirst Citizens BancShares, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows

|   | Three months ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2012                            | 2011        |
|   | (thousands, unaudited)          |             |
| <b>OPERATING ACTIVITIES</b>   |                                 |             |
| Net income  | \$35,495                        | \$61,760    |
| Adjustments to reconcile net income to cash provided by operating activities: |                                 |             |
| Provision for loan and lease losses   | 30,715                          | 44,419      |
| Deferred tax (benefit) expense  | (5,692                          | ) 1,155     |
| Change in current taxes payable   | 22,857                          | 30,455      |
| Depreciation  | 16,620                          | 16,114      |
| Change in accrued interest payable  | (2,233                          | ) (9,074    |
| Change in income earned not collected   | (10,190                         | ) (9,582    |
| Gains on acquisitions   | —                               | (63,474     |
| Securities losses   | 45                              | 449         |
| Origination of loans held for sale  | (135,897                        | ) (87,719   |
| Proceeds from sale of loans   | 158,391                         | 130,641     |
| Gain on sale of loans   | (3,412                          | ) (2,211    |
| Loss on sale of other real estate   | 1,495                           | 2,074       |
| Net amortization (accretion) of premiums and discounts                        | (60,822                         | ) (34,455   |
| FDIC receivable for loss share agreements                                     | 130,722                         | 128,845     |
| Net change in other assets  | 23,564                          | 143,341     |
| Net change in other liabilities   | 6,487                           | (14,193     |
| Net cash provided by operating activities                                     | 208,145                         | 338,545     |
| <b>INVESTING ACTIVITIES</b>   |                                 |             |
| Net change in loans outstanding   | 277,719                         | 119,185     |
| Purchases of investment securities available for sale                         | (1,681,584                      | ) (141,592  |
| Proceeds from maturities of investment securities held to maturity            | 134                             | 191         |
| Proceeds from maturities of investment securities available for sale          | 1,275,014                       | 522,893     |
| Proceeds from sales of investment securities available for sale               | —                               | 191,697     |
| Net change in overnight investments   | (317,359                        | ) (186,896  |
| Proceeds from sale of other real estate                                       | 23,853                          | 18,067      |
| Additions to premises and equipment   | (26,610                         | ) (12,832   |
| Net cash received from acquisitions   | —                               | 961,862     |
| Net cash provided (used) by investing activities                              | (448,833                        | ) 1,472,575 |
| <b>FINANCING ACTIVITIES</b>   |                                 |             |
| Net change in time deposits   | (306,338                        | ) (367,974  |
| Net change in demand and other interest-bearing deposits                      | 488,556                         | (1,060,414  |
| Net change in short-term borrowings   | 62,771                          | (217,033    |
| Repayment of long-term obligations  | (37,781                         | ) (216,495  |
| Repurchase of common stock  | (1,573                          | ) —         |
| Cash dividends paid   | (3,085                          | ) (3,130    |
| Net cash provided (used) by financing activities                              | 202,550                         | (1,865,046  |
| Change in cash and due from banks   | (38,138                         | ) (53,926   |
| Cash and due from banks at beginning of period                                | 590,801                         | 460,178     |
| Cash and due from banks at end of period                                      | \$552,663                       | \$406,252   |
| <b>CASH PAYMENTS FOR:</b>   |                                 |             |

|  |          |              |
|--|----------|--------------|
| Interest   | \$28,033 | \$50,287     |
| Income taxes   | 84       | 9,100        |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: |          |              |
| Change in unrealized securities gains (losses)                         | \$(2,898 | ) \$(9,339 ) |
| Change in fair value of cash flow hedge                                | 389      | 1,717        |
| Change in pension obligation   | 2,790    | 1,648        |
| Transfers of loans to other real estate                                | 26,840   | 46,929       |
| Acquisitions:  |          |              |
| Assets acquired  | —        | 2,225,370    |
| Liabilities assumed  | —        | 2,161,896    |
| Net assets acquired  | —        | 63,474       |

See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

Note A

Accounting Policies and Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements.

In the opinion of management, the consolidated financial statements contain all material adjustments necessary to present fairly the financial position of First Citizens BancShares, Inc. and Subsidiaries (BancShares) as of and for each of the periods presented, and all such adjustments are of a normal recurring nature. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Management has evaluated subsequent events through the filing date of the Quarterly Report on Form 10-Q.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in BancShares' 2011 Form 10-K. Certain amounts for prior periods have been reclassified to conform with statement presentations for 2012. The reclassifications have no effect on shareholders' equity or net income as previously reported. Fair values are subject to refinement for up to one year after the closing date of the transaction as additional information regarding closing date fair values becomes available. There were no adjustments to previously reported acquisition gains during the first quarter of 2012.

Recently Adopted Accounting Policies and Other Regulatory Issues

In May 2011, the FASB issued Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 creates a uniform framework for applying fair value measurement principles for companies around the world. It eliminates differences between GAAP and International Financial Reporting Standards issued by the International Accounting Standards Board. New disclosures required by the guidance include: quantitative information about the significant unobservable inputs used for Level 3 measurements; a qualitative discussion about the sensitivity of recurring Level 3 measurements to changes in the unobservable inputs disclosed, including the interrelationship between inputs; and a description of the company's valuation processes. The updates in ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011, and all amendments are to be applied prospectively with any changes in measurements recognized in income in the period of adoption. The provisions of this update have affected BancShares' financial statement disclosures, but had no impact on BancShares' financial condition, results of operations or liquidity.

In June, 2011, the FASB issued Comprehensive Income: Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 allows financial statement issuers to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, in December, 2011, the FASB issued Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12) which deferred the portion of ASU 2011-05 that relates to the presentation of reclassification adjustments. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity, which is the presentation method previously utilized by BancShares. The updates in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and have been applied retrospectively. The provisions of these updates have affected BancShares' financial statement format, but had no impact on BancShares' financial condition, results of operations or liquidity.

In September, 2011, the FASB issued Intangibles - Goodwill and Other Intangible Assets: Testing Goodwill for Impairment (ASU 2011-08), which allows an entity the option to first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Under ASU 2011-08, if, after that assessment is made, an entity determines that it is more likely than not that the carrying value of goodwill is not impaired, then the two-step impairment test is not required. However, if the entity concludes otherwise, the two-step impairment test would be required. The provisions of ASU 2011-08 are

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effective for interim and annual periods beginning after December 15, 2011, although early adoption was allowed. Adoption of ASU 2011-08 has had no material impact on BancShares' financial condition, results of operations or liquidity.

## Note B

## Investments

The aggregate values of investment securities at March 31, 2012, December 31, 2011, and March 31, 2011 along with unrealized gains and losses determined on an individual security basis are as follows:

|  | Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--|-------------|------------------------------|-------------------------------|---------------|
| Investment securities available for sale       |             |                              |                               |               |
| March 31, 2012                                 |             |                              |                               |               |
| U. S. Treasury                                 | \$1,065,035 | \$306                        | \$305                         | \$1,065,036   |
| Government agency                              | 2,859,197   | 1,228                        | 5,040                         | 2,855,385     |
| Corporate bonds                                | 225,214     | 1,214                        | —                             | 226,428       |
| Residential mortgage-backed securities         | 282,706     | 8,393                        | 191                           | 290,908       |
| Equity securities                              | 894         | 18,049                       | —                             | 18,943        |
| State, county and municipal                    | 1,026       | 14                           | 1                             | 1,039         |
| Total investment securities available for sale | \$4,434,072 | \$29,204                     | \$5,537                       | \$4,457,739   |
| December 31, 2011                              |             |                              |                               |               |
| U. S. Treasury                                 | \$887,041   | \$808                        | \$30                          | \$887,819     |
| Government agency                              | 2,591,974   | 1,747                        | 1,512                         | 2,592,209     |
| Corporate bonds                                | 250,476     | 2,344                        | —                             | 252,820       |
| Residential mortgage-backed securities         | 298,402     | 9,165                        | 346                           | 307,221       |
| Equity securities                              | 939         | 14,374                       | —                             | 15,313        |
| State, county and municipal                    | 1,026       | 16                           | 1                             | 1,041         |
| Total investment securities available for sale | \$4,029,858 | \$28,454                     | \$1,889                       | \$4,056,423   |
| March 31, 2011                                 |             |                              |                               |               |
| U. S. Treasury                                 | \$1,464,513 | \$2,691                      | \$234                         | \$1,466,970   |
| Government agency                              | 2,115,575   | 352                          | 17,394                        | 2,098,533     |
| Corporate bonds                                | 453,390     | 6,327                        | —                             | 459,717       |
| Residential mortgage-backed securities         | 152,483     | 3,971                        | 532                           | 155,922       |
| Equity securities                              | 965         | 18,656                       | —                             | 19,621        |
| State, county and municipal                    | 1,238       | 19                           | 4                             | 1,253         |
| Total investment securities available for sale | \$4,188,164 | \$32,016                     | \$18,164                      | \$4,202,016   |
| Investment securities held to maturity         |             |                              |                               |               |
| March 31, 2012                                 |             |                              |                               |               |
| Residential mortgage-backed securities         | \$1,688     | \$183                        | \$27                          | \$1,844       |
| December 31, 2011                              |             |                              |                               |               |
| Residential mortgage-backed securities         | \$1,822     | \$184                        | \$26                          | \$1,980       |
| March 31, 2011                                 |             |                              |                               |               |
| Residential mortgage-backed securities         | \$2,341     | \$217                        | \$21                          | \$2,537       |

Investments in residential mortgage-backed securities primarily represent securities issued by the Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

Investments in corporate bonds represent debt securities issued by various financial institutions under the



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Temporary Liquidity Guarantee Program. These debt obligations were issued with the full faith and credit of the United States of America. The guarantee for these securities is triggered when an issuer defaults on a scheduled payment.

The following table provides maturity information for investment securities as of the dates indicated. Callable securities are assumed to mature on their earliest call date.

|  | March 31, 2012 |             | December 31, 2011 |             | March 31, 2011 |             |
|--|----------------|-------------|-------------------|-------------|----------------|-------------|
|  | Cost           | Fair Value  | Cost              | Fair Value  | Cost           | Fair Value  |
| Investment securities available for sale       |                |             |                   |             |                |             |
| Maturing in:                                   |                |             |                   |             |                |             |
| One year or less                               | \$2,750,247    | \$2,748,710 | \$3,238,657       | \$3,241,415 | \$2,966,749    | \$2,958,654 |
| One through five years                         | 1,469,876      | 1,469,236   | 548,459           | 549,351     | 895,234        | 895,807     |
| Five through 10 years                          | 67,229         | 67,683      | 90,605            | 91,087      | 21,099         | 21,099      |
| Over 10 years                                  | 145,826        | 153,167     | 151,198           | 159,257     | 304,117        | 306,835     |
| Equity securities                              | 894            | 18,943      | 939               | 15,313      | 965            | 19,621      |
| Total investment securities available for sale | \$4,434,072    | \$4,457,739 | \$4,029,858       | \$4,056,423 | \$4,188,164    | \$4,202,016 |
| Investment securities held to maturity         |                |             |                   |             |                |             |
| Maturing in:                                   |                |             |                   |             |                |             |
| One through five years                         | \$379          | \$393       | \$12              | \$11        | \$5            | \$3         |
| Five through 10 years                          | 1,201          | 1,306       | 1,699             | 1,820       | 2,214          | 2,368       |
| Over 10 years                                  | 108            | 145         | 111               | 149         | 122            | 166         |
| Total investment securities held to maturity   | \$1,688        | \$1,844     | \$1,822           | \$1,980     | \$2,341        | \$2,537     |

For each period presented, securities gains (losses) include the following:

|   | Three months ended March 31, |           |
|---|------------------------------|-----------|
|   | 2012                         | 2011      |
| Gross gains on sales of investment securities available for sale  | \$—                          | \$156     |
| Gross losses on sales of investment securities available for sale | —                            | (605)     |
| Other than temporary impairment loss on equity securities         | (45)                         | ) —       |
| Total securities losses   | \$(45)                       | ) \$(449) |



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The following table provides information regarding securities with unrealized losses as of March 31, 2012 and March 31, 2011:

|   | Less than 12 months |                      | 12 months or more |                      | Total<br>Fair<br>Value | Unrealized<br>Losses |
|---|---------------------|----------------------|-------------------|----------------------|------------------------|----------------------|
|   | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses |                        |                      |
| March 31, 2012                            |                     |                      |                   |                      |                        |                      |
| Investment securities available for sale: |                     |                      |                   |                      |                        |                      |
| U. S. Treasury                            | \$579,673           | \$305                | \$—               | \$—                  | \$579,673              | \$305                |
| Government agency                         | 2,143,742           | 5,040                | —                 | —                    | 2,143,742              | 5,040                |
| Residential mortgage-backed securities    | 28,595              | 156                  | 1,113             | 35                   | 29,708                 | 191                  |
| State, county and municipal               | 127                 | 1                    | 10                | —                    | 137                    | 1                    |
| Total                                     | \$2,752,137         | \$5,502              | \$1,123           | \$35                 | \$2,753,260            | \$5,537              |
| Investment securities held to maturity:   |                     |                      |                   |                      |                        |                      |
| Residential mortgage-backed securities    | \$—                 | \$—                  | \$20              | \$27                 | \$20                   | \$27                 |
| March 31, 2011                            |                     |                      |                   |                      |                        |                      |
| Investment securities available for sale: |                     |                      |                   |                      |                        |                      |
| U.S. Treasury                             | \$200,561           | \$234                | \$—               | \$—                  | \$200,561              | \$234                |
| Government agency                         | 1,937,968           | 17,394               | —                 | —                    | 1,937,968              | 17,394               |
| Residential mortgage-backed securities    | 33,644              | 503                  | 462               | 29                   | 34,106                 | 532                  |
| State, county and municipal               | 528                 | 4                    | 10                | —                    | 538                    | 4                    |
| Total                                     | \$2,172,701         | \$18,135             | \$472             | \$29                 | \$2,173,173            | \$18,164             |
| Investment securities held to maturity:   |                     |                      |                   |                      |                        |                      |
| Residential mortgage-backed securities    | \$—                 | \$—                  | \$19              | \$21                 | \$19                   | \$21                 |

Investment securities with an aggregate fair value of \$1,143 have had continuous unrealized losses for more than twelve months as of March 31, 2012 with an aggregate unrealized loss of \$62. These 19 investments include residential mortgage-backed and state, county and municipal securities. None of the unrealized losses identified as of March 31, 2012 December 31, 2011, or March 31, 2011 relate to the marketability of the securities or the issuer's ability to honor redemption obligations. For all periods presented, BancShares had the ability and intent to retain these securities for a period of time sufficient to recover all unrealized losses. Therefore, none of the securities were deemed to be other than temporarily impaired.

Investment securities having an aggregate carrying value of \$2,540,463 at March 31, 2012, \$2,588,704 at December 31, 2011 and \$2,604,467 at March 31, 2011 were pledged as collateral to secure public funds on deposit, to secure certain short-term borrowings and for other purposes as required by law.



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## Note C

## Loans and Leases

Loans and leases outstanding include the following as of the dates indicated:

|                                   | March 31,<br>2012 | December 31,<br>2011 | March 31,<br>2011 |
|-----------------------------------|-------------------|----------------------|-------------------|
| Covered loans                     | \$2,183,869       | \$2,362,152          | \$2,658,134       |
| Noncovered loans and leases:      |                   |                      |                   |
| Commercial:                       |                   |                      |                   |
| Construction and land development | 346,557           | 381,163              | 373,769           |
| Commercial mortgage               | 5,127,948         | 5,104,993            | 4,763,393         |
| Other commercial real estate      | 150,316           | 144,771              | 147,150           |
| Commercial and industrial         | 1,739,724         | 1,764,407            | 1,792,042         |
| Lease financing                   | 315,704           | 312,869              | 295,994           |
| Other                             | 149,792           | 158,369              | 174,370           |
| Total commercial loans            | 7,830,041         | 7,866,572            | 7,546,718         |
| Non-commercial:                   |                   |                      |                   |
| Residential mortgage              | 793,612           | 784,118              | 808,650           |
| Revolving mortgage                | 2,282,138         | 2,296,306            | 2,299,668         |
| Construction and land development | 132,677           | 137,271              | 145,864           |
| Consumer                          | 451,061           | 497,370              | 591,451           |
| Total non-commercial loans        | 3,659,488         | 3,715,065            | 3,845,633         |
| Total noncovered loans and leases | 11,489,529        | 11,581,637           | 11,392,351        |
| Total loans and leases            | \$13,673,398      | \$13,943,789         | \$14,050,485      |

|                                   | March 31, 2012                  |                                |           | December 31, 2011               |                                |           | March 31, 2011                  |                                |           |
|-----------------------------------|---------------------------------|--------------------------------|-----------|---------------------------------|--------------------------------|-----------|---------------------------------|--------------------------------|-----------|
|                                   | Impaired<br>acquisition<br>date | All other<br>acquired<br>loans | Total     | Impaired<br>acquisition<br>date | All other<br>acquired<br>loans | Total     | Impaired<br>acquisition<br>date | All other<br>acquired<br>loans | Total     |
| Covered loans:                    |                                 |                                |           |                                 |                                |           |                                 |                                |           |
| Commercial:                       |                                 |                                |           |                                 |                                |           |                                 |                                |           |
| Construction and land development | \$100,736                       | \$209,865                      | \$310,601 | \$117,603                       | \$221,270                      | \$338,873 | \$112,271                       | \$290,045                      | \$402,316 |
| Commercial mortgage               | 122,876                         | 1,072,665                      | 1,195,541 | 138,465                         | 1,122,124                      | 1,260,589 | 141,869                         | 1,290,763                      | 1,432,632 |
| Other commercial real estate      | 31,727                          | 113,251                        | 144,978   | 33,370                          | 125,024                        | 158,394   | 36,338                          | 126,967                        | 163,305   |
| Commercial and industrial         | 17,397                          | 75,864                         | 93,261    | 27,802                          | 85,640                         | 113,442   | 31,124                          | 139,917                        | 171,041   |
| Lease financing                   | —                               | 45                             | 45        | —                               | 57                             | 57        | 22                              | 249                            | 271       |
| Other                             | —                               | 1,283                          | 1,283     | —                               | 1,330                          | 1,330     | —                               | 1,729                          | 1,729     |
| Total commercial loans            | 272,736                         | 1,472,973                      | 1,745,709 | 317,240                         | 1,555,445                      | 1,872,685 | 321,624                         | 1,849,670                      | 2,171,294 |
| Non-commercial:                   |                                 |                                |           |                                 |                                |           |                                 |                                |           |
| Residential mortgage              | 46,905                          | 251,633                        | 298,538   | 46,130                          | 281,438                        | 327,568   | 19,846                          | 327,547                        | 347,393   |
|                                   | 14,125                          | 35,891                         | 50,016    | 15,350                          | 36,202                         | 51,552    | 7,341                           | 16,068                         | 23,409    |

|                                   |           |             |             |           |             |             |           |             |             |
|-----------------------------------|-----------|-------------|-------------|-----------|-------------|-------------|-----------|-------------|-------------|
| Revolving mortgage                |           |             |             |           |             |             |           |             |             |
| Construction and land development | 56,722    | 28,833      | 85,555      | 78,108    | 27,428      | 105,536     | 56,829    | 54,596      | 111,425     |
| Consumer                          | 1,453     | 2,598       | 4,051       | 1,477     | 3,334       | 4,811       | 140       | 4,473       | 4,613       |
| Total non-commercial loans        | 119,205   | 318,955     | 438,160     | 141,065   | 348,402     | 489,467     | 84,156    | 402,684     | 486,840     |
| Total covered loans               | \$391,941 | \$1,791,928 | \$2,183,869 | \$458,305 | \$1,903,847 | \$2,362,152 | \$405,780 | \$2,252,354 | \$2,658,134 |

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At March 31, 2012, \$2,398,476 in noncovered loans were pledged to secure debt obligations, compared to \$2,492,644 at December 31, 2011 and \$2,376,716 at March 31, 2011.

Description of segment and class risks

Each portfolio segment and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of the loan and lease portfolio. Management has identified the most significant risks as described below which are generally similar among the segments and classes. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

Commercial loans and leases

Each commercial loan or lease is centrally underwritten based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower's businesses including the experience and background of the principals is obtained prior to approval. To the extent that the loan or lease is secured by collateral, which is true for the majority of commercial loans and leases, the likely value of the collateral and what level of strength the collateral brings to the transaction is evaluated. To the extent that the principals or other parties provide personal guarantees, the relative financial strength and liquidity of each guarantor is assessed. Common risks to each class of commercial loans include general economic conditions within the markets BancShares serves, as well as risks that are specific to each transaction including demand for products and services, personal events such as disability or change in marital status, and reductions in the value of collateral. Due to the concentration of loans in the medical, dental, and related fields, BancShares is susceptible to risks that legislative and governmental actions will fundamentally alter the economic structure of the medical care industry in the United States.

In addition to these common risks for the majority of commercial loans and leases, additional risks are inherent in certain classes of commercial loans and leases.

Commercial construction and land development

Commercial construction and land development loans are highly dependent on the supply and demand for commercial real estate in the markets served by BancShares as well as the demand for newly constructed residential homes and lots that customers are developing. Continuing deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for customers.

Commercial mortgage, commercial and industrial and lease financing

Commercial mortgage and commercial and industrial loans and lease financing are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a customer's business results are significantly unfavorable versus the original projections, the ability for the loan to be serviced on a basis consistent with the contractual terms may be at risk. While these loans and leases are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

Other commercial real estate

Other commercial real estate loans consist primarily of loans secured by multifamily housing and agricultural loans. The primary risk associated with multifamily loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. High unemployment or generally weak economic conditions may result in customers having to provide rental rate concessions to achieve adequate occupancy rates. The performance of agricultural loans is highly dependent on favorable weather, reasonable costs for seed and fertilizer, and the ability to successfully market the product at a profitable margin. The demand for these products is also dependent on macroeconomic conditions that are beyond the control of the borrower.

Non-commercial loans

Each non-commercial loan is centrally underwritten using automated credit scoring and analysis tools. These credit scoring tools take into account factors such as payment history, credit utilization, length of credit history, types of credit



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currently in use, and recent credit inquiries. To the extent that the loan is secured by collateral, the likely value of that collateral is evaluated. Common risks to each class of non-commercial loans include risks that are not specific to individual transactions such as general economic conditions within the markets BancShares serves, particularly unemployment and potential declines in real estate values. Personal events such as disability or change in marital status also add risk to non-commercial loans.

In addition to these common risks for the majority of non-commercial loans, additional risks are inherent in certain classes of non-commercial loans.

### Revolving mortgage

Revolving mortgage loans are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render a second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lienholders that may further weaken the collateral position. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

### Consumer

The consumer loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles including boats and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

### Residential mortgage and non-commercial construction and land development

Residential mortgage and non-commercial construction and land development loans are made to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Such a decline in values has led to unprecedented levels of foreclosures and losses within the banking industry.

Non-commercial construction and land development projects can experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project. Such cost overruns can routinely result in foreclosure of partially completed and unmarketable collateral.

### Covered loans

The risks associated with covered loans are generally consistent with the risks identified for commercial and non-commercial loans and the classes of loans within those segments. An additional risk with respect to covered loans relates to the FDIC loss share agreements, specifically the ability to receive timely and full reimbursement from the FDIC for losses and related expenses that are believed to be covered by the loss share agreements. Further, these loans were underwritten by other institutions with weaker lending standards. Therefore, there is a significant risk that the loans are not adequately supported by the paying capacity of the borrower or the values of underlying collateral at the time of origination.

### Credit quality indicators

Loans and leases are monitored for credit quality on a recurring basis. The credit quality indicators used are dependent on the portfolio segment to which the loan relates. Commercial loans and leases, non-commercial loans and leases, and covered loans have different credit quality indicators as a result of the methods used to monitor each of these loan segments.

The credit quality indicators for commercial loans and leases and all covered loans and leases are developed through review of individual borrowers on an ongoing basis. Each borrower is evaluated at least annually with more frequent evaluation of more severely criticized loans or leases. The indicators represent the rating for loans or leases as of the date presented based on the most recent assessment performed. These credit quality indicators are defined as follows: Pass – A pass rated asset is not adversely classified because it does not display any of the characteristics for adverse classification.

Special mention – A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some

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future date. Special mention assets are not adversely classified and do not warrant adverse classification.

Substandard – A substandard asset is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These assets are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful – An asset classified doubtful has all the weaknesses inherent in an asset classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.

Loss – Assets classified loss are considered uncollectible and of such little value that their continuing to be carried as an asset is not warranted. This classification is not necessarily equivalent to no potential for recovery or salvage value, but rather that it is not appropriate to defer a full write-off even though partial recovery may be effected in the future.

Ungraded – Ungraded loans represent loans that are not included in the individual credit grading process due to their relatively small balances or borrower type. The majority of noncovered, ungraded loans at March 31, 2012 relate to business credit cards and tobacco buyout loans. Business credit card loans are subject to automatic charge off when they become 120 days past due in the same manner as unsecured consumer lines of credit. Tobacco buyout loans with an outstanding balance of \$41,580 at March 31, 2012 are secured by assignments of receivables made pursuant to the Fair and Equitable Tobacco Reform Act of 2004. The credit risk associated with these loans is considered low as the payments that began in 2005 and continue through 2014 are to be made by the Commodity Credit Corporation which is part of the United States Department of Agriculture.

The credit quality indicators for noncovered, non-commercial loans are based on the delinquency status of the borrower. As the borrower becomes more delinquent, the likelihood of loss increases.

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The composition of the loans and leases outstanding at March 31, 2012 and December 31, 2011 and March 31, 2011 by credit quality indicator is provided below:

| Grade:                                     | Commercial noncovered loans and leases |                      |                              |                                   |                 |                                       | Total Commercial Loans Not Covered by Loss Share |
|--|--|----------------------|------------------------------|-----------------------------------|-----------------|---------------------------------------|--|
|  | Construction and Land Development      | Commercial Mortgage  | Other Commercial Real Estate | Commercial and Industrial         | Lease Financing | Other                                 |  |
| March 31, 2012                             |  |                      |                              |                                   |                 |                                       |  |
| Pass                                       | \$303,018                              | \$4,744,063          | \$136,776                    | \$1,554,112                       | \$309,681       | \$147,767                             | \$7,195,417                                      |
| Special mention                            | 20,097                                 | 243,495              | 6,805                        | 35,497                            | 3,336           | 2,018                                 | 311,248  |
| Substandard                                | 21,297                                 | 130,815              | 6,068                        | 27,057                            | 2,453           | —                                     | 187,690  |
| Doubtful                                   | 1,821                                  | 6,588                | 365                          | 1,676                             | —               | —                                     | 10,450   |
| Ungraded                                   | 324                                    | 2,987                | 302                          | 121,382                           | 234             | 7                                     | 125,236  |
| Total                                      | \$346,557                              | \$5,127,948          | \$150,316                    | \$1,739,724                       | \$315,704       | \$149,792                             | \$7,830,041                                      |
| December 31, 2011                          |  |                      |                              |                                   |                 |                                       |  |
| Pass                                       | \$332,742                              | \$4,749,254          | \$130,586                    | \$1,556,651                       | \$306,225       | \$157,089                             | \$7,232,547                                      |
| Special mention                            | 18,973                                 | 220,235              | 5,821                        | 36,951                            | 4,537           | 1,271                                 | 287,788  |
| Substandard                                | 28,793                                 | 129,391              | 7,794                        | 28,240                            | 2,107           | —                                     | 196,325  |
| Doubtful                                   | 17                                     | 1,164                | 377                          | 643                               | —               | —                                     | 2,201  |
| Ungraded                                   | 638                                    | 4,949                | 193                          | 141,922                           | —               | 9                                     | 147,711  |
| Total                                      | \$381,163                              | \$5,104,993          | \$144,771                    | \$1,764,407                       | \$312,869       | \$158,369                             | \$7,866,572                                      |
| March 31, 2011                             |  |                      |                              |                                   |                 |                                       |  |
| Pass                                       | \$316,395                              | \$4,403,652          | \$133,931                    | \$1,571,193                       | \$285,699       | \$173,025                             | \$6,883,895                                      |
| Special mention                            | 22,416                                 | 232,019              | 7,415                        | 40,023                            | 6,228           | 1,299                                 | 309,400  |
| Substandard                                | 32,864                                 | 119,229              | 5,271                        | 30,992                            | 3,796           | 12                                    | 192,164  |
| Doubtful                                   | 2,094                                  | 6,004                | 401                          | 1,182                             | 271             | —                                     | 9,952  |
| Ungraded                                   | —                                      | 2,489                | 132                          | 148,652                           | —               | 34                                    | 151,307  |
| Total                                      | \$373,769                              | \$4,763,393          | \$147,150                    | \$1,792,042                       | \$295,994       | \$174,370                             | \$7,546,718                                      |
| Non-commercial noncovered loans and leases |  |                      |                              |                                   |                 |                                       |  |
|  |  | Residential Mortgage | Revolving Mortgage           | Construction and Land Development | Consumer        | Total Non-commercial Noncovered Loans |  |
| March 31, 2012                             |  |                      |                              |                                   |                 |                                       |  |
| Current                                    |  | \$763,411            | \$2,274,091                  | \$130,561                         | \$446,421       | \$3,614,484                           |  |
| 31-60 days past due                        |  | 14,001               | 2,349                        | 808                               | 1,885           | 19,043                                |  |
| 61-90 days past due                        |  | 2,812                | 1,212                        | 446                               | 1,028           | 5,498                                 |  |
| Over 90 days past due                      |  | 13,388               | 4,486                        | 862                               | 1,727           | 20,463                                |  |
| Total                                      |  | \$793,612            | \$2,282,138                  | \$132,677                         | \$451,061       | \$3,659,488                           |  |
| December 31, 2011                          |  |                      |                              |                                   |                 |                                       |  |
| Current                                    |  | \$757,113            | \$2,286,511                  | \$135,774                         | 491,142         | \$3,670,540                           |  |
| 31-60 days past due                        |  | 11,790               | 3,437                        | 798                               | 3,514           | 19,539                                |  |
| 61-90 days past due                        |  | 2,686                | 2,042                        | 127                               | 1,271           | 6,126                                 |  |
| Over 90 days past due                      |  | 12,529               | 4,316                        | 572                               | 1,443           | 18,860                                |  |
| Total                                      |  | \$784,118            | \$2,296,306                  | \$137,271                         | \$497,370       | \$3,715,065                           |  |
| March 31, 2011                             |  |                      |                              |                                   |                 |                                       |  |
| Current                                    |  | \$777,982            | \$2,287,726                  | \$142,423                         | \$580,544       | \$3,788,675                           |  |

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|                       |           |             |           |           |             |
|-----------------------|-----------|-------------|-----------|-----------|-------------|
| 31-60 days past due   | 16,439    | 5,462       | 1,116     | 6,911     | 29,928      |
| 61-90 days past due   | 2,207     | 3,285       | 364       | 2,216     | 8,072       |
| Over 90 days past due | 12,022    | 3,195       | 1,961     | 1,780     | 18,958      |
| Total                 | \$808,650 | \$2,299,668 | \$145,864 | \$591,451 | \$3,845,633 |

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| Grade:            | Covered loans                                |                     |                              |                           |               |                      |                    |  |                    | Total Covered Loans |
|-------------------|--|---------------------|------------------------------|---------------------------|---------------|----------------------|--------------------|--|--------------------|---------------------|
|                   | Construction and Land Development Commercial | Commercial Mortgage | Other Commercial Real Estate | Commercial and Industrial | Lease Finance | Residential Mortgage | Revolving Mortgage | Construction and Land Development Non-commercial | Consumer and Other |                     |
| March 31, 2012    |  |                     |                              |                           |               |                      |                    |  |                    |                     |
| Pass              | \$31,445                                     | \$392,233           | \$56,689                     | \$31,768                  | \$45          | \$173,640            | \$35,684           | \$7,020  | \$2,478            | \$731,002           |
| Special mention   | 89,243                                       | 335,020             | 26,736                       | 21,376                    | —             | 18,054               | 802                | 14,263   | 546                | 506,040             |
| Substandard       | 86,750                                       | 382,134             | 51,918                       | 24,905                    | —             | 70,545               | 11,153             | 53,919   | 1,082              | 682,406             |
| Doubtful          | 99,747                                       | 85,993              | 9,635                        | 15,212                    | —             | 9,934                | 2,377              | 10,353   | 816                | 234,067             |
| Ungraded          | 3,416  | 161                 | —                            | —                         | —             | 26,365               | —                  | —  | 412                | 30,354              |
| Total             | \$310,601                                    | \$1,195,541         | \$144,978                    | \$93,261                  | \$45          | \$298,538            | \$50,016           | \$85,555   | \$5,334            | \$2,183,869         |
| December 31, 2011 |  |                     |                              |                           |               |                      |                    |  |                    |                     |
| Pass              | \$29,321                                     | \$397,526           | \$49,259                     | \$36,409                  | \$57          | \$189,794            | \$34,164           | \$4,958  | \$2,393            | \$743,881           |
| Special mention   | 92,758                                       | 348,482             | 33,754                       | 32,257                    | —             | 25,464               | 3,566              | 13,394   | 942                | 550,617             |
| Substandard       | 125,158                                      | 427,996             | 58,351                       | 21,914                    | —             | 70,582               | 9,863              | 72,349   | 1,096              | 787,309             |
| Doubtful          | 87,936                                       | 84,871              | 17,030                       | 22,862                    | —             | 13,833               | 3,959              | 14,835   | 982                | 246,308             |
| Ungraded          | 3,700  | 1,714               | —                            | —                         | —             | 27,895               | —                  | —  | 728                | 34,037              |
| Total             | \$338,873                                    | \$1,260,589         | \$158,394                    | \$113,442                 | \$57          | \$327,568            | \$51,552           | \$105,536  | \$6,141            | \$2,362,152         |
| March 31, 2011    |  |                     |                              |                           |               |                      |                    |  |                    |                     |
| Pass              | \$76,319                                     | \$574,681           | \$60,238                     | \$49,260                  | \$2           | \$42,014             | \$5,000            | \$4,217  | \$3,927            | \$815,658           |
| Special mention   | 112,999                                      | 339,385             | 31,218                       | 49,511                    | —             | 36,430               | 2,225              | 23,127   | 247                | 595,142             |
| Substandard       | 109,509                                      | 356,396             | 46,393                       | 48,081                    | —             | 27,761               | 5,509              | 66,829   | 324                | 660,802             |
| Doubtful          | 98,757                                       | 62,984              | 24,833                       | 3,795                     | 22            | 7,484                | 1,966              | 17,252   | 1,047              | 218,140             |
| Ungraded          | 4,732  | 99,186              | 623                          | 20,394                    | 247           | 233,704              | 8,709              | —  | 797                | 368,392             |
| Total             | \$402,316                                    | \$1,432,632         | \$163,305                    | \$171,041                 | \$271         | \$347,393            | \$23,409           | \$111,425  | \$6,342            | \$2,658,134         |

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The aging of the outstanding loans and leases, by class, at March 31, 2012, December 31, 2011 and March 31, 2011 (excluding loans and leases acquired with deteriorated credit quality) is provided in the table below. The calculation of days past due begins on the day after payment is due and includes all days through which all required interest or principal have not been paid. Loans and leases 30 days or less past due are considered current due to certain grace periods that allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

|  | 31-60 Days<br>Past Due | 61-90 Days<br>Past Due | Greater<br>Than 90<br>Days | Total Past<br>Due | Current      | Total Loans<br>and Leases |
|--|------------------------|------------------------|----------------------------|-------------------|--------------|---------------------------|
| March 31, 2012                                     |                        |                        |                            |                   |              |                           |
| Noncovered loans and leases:                       |                        |                        |                            |                   |              |                           |
| Construction and land development - commercial     | \$2,030                | \$1,366                | \$3,288                    | \$6,684           | \$339,873    | \$346,557                 |
| Commercial mortgage                                | 27,947                 | 6,548                  | 13,939                     | 48,434            | 5,079,514    | 5,127,948                 |
| Other commercial real estate                       | 787                    | 43                     | 193                        | 1,023             | 149,293      | 150,316                   |
| Commercial and industrial                          | 5,522                  | 1,006                  | 1,754                      | 8,282             | 1,731,442    | 1,739,724                 |
| Lease financing                                    | 824                    | 99                     | 1,269                      | 2,192             | 313,512      | 315,704                   |
| Other  | —                      | —                      | —                          | —                 | 149,792      | 149,792                   |
| Residential mortgage                               | 14,001                 | 2,812                  | 13,388                     | 30,201            | 763,411      | 793,612                   |
| Revolving mortgage                                 | 2,349                  | 1,212                  | 4,486                      | 8,047             | 2,274,091    | 2,282,138                 |
| Construction and land development - non-commercial | 808                    | 446                    | 862                        | 2,116             | 130,561      | 132,677                   |
| Consumer   | 1,885                  | 1,028                  | 1,727                      | 4,640             | 446,421      | 451,061                   |
| Total noncovered loans and leases                  | \$56,153               | \$14,560               | \$40,906                   | \$111,619         | \$11,377,910 | \$11,489,529              |
| December 31, 2011                                  |                        |                        |                            |                   |              |                           |
| Noncovered loans and leases:                       |                        |                        |                            |                   |              |                           |
| Construction and land development - commercial     | \$2,623                | \$1,494                | \$2,177                    | \$6,294           | \$374,869    | \$381,163                 |
| Commercial mortgage                                | 18,308                 | 4,438                  | 15,626                     | 38,372            | 5,066,621    | 5,104,993                 |
| Other commercial real estate                       | 657                    | 147                    | 561                        | 1,365             | 143,406      | 144,771                   |
| Commercial and industrial                          | 5,235                  | 1,230                  | 1,438                      | 7,903             | 1,756,504    | 1,764,407                 |
| Lease financing                                    | 637                    | 212                    | 620                        | 1,469             | 311,400      | 312,869                   |
| Other  | —                      | —                      | —                          | —                 | 158,369      | 158,369                   |
| Residential mortgage                               | 11,790                 | 2,686                  | 12,529                     | 27,005            | 757,113      | 784,118                   |
| Revolving mortgage                                 | 3,437                  | 2,042                  | 4,316                      | 9,795             | 2,286,511    | 2,296,306                 |
| Construction and land development - non-commercial | 798                    | 127                    | 572                        | 1,497             | 135,774      | 137,271                   |
| Consumer   | 3,514                  | 1,271                  | 1,443                      | 6,228             | 491,142      | 497,370                   |
| Total noncovered loans and leases                  | \$46,999               | \$13,647               | \$39,282                   | \$99,928          | \$11,481,709 | \$11,581,637              |
| March 31, 2011                                     |                        |                        |                            |                   |              |                           |
| Noncovered loans and leases:                       |                        |                        |                            |                   |              |                           |
| Construction and land development - commercial     | \$2,006                | \$116                  | \$3,572                    | \$5,694           | \$368,075    | \$373,769                 |
| Commercial mortgage                                | 21,304                 | 4,576                  | 19,091                     | 44,971            | 4,718,422    | 4,763,393                 |
| Other commercial real estate                       | 860                    | 147                    | 585                        | 1,592             | 145,558      | 147,150                   |
| Commercial and industrial                          | 5,016                  | 1,110                  | 4,700                      | 10,826            | 1,781,216    | 1,792,042                 |
| Lease financing                                    | 841                    | 269                    | 864                        | 1,974             | 294,020      | 295,994                   |

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|  |          |          |          |           |              |              |
|--|----------|----------|----------|-----------|--------------|--------------|
| Other  | 2        | —        | —        | 2         | 174,368      | 174,370      |
| Residential mortgage                               | 16,439   | 2,207    | 12,022   | 30,668    | 777,982      | 808,650      |
| Revolving mortgage                                 | 5,462    | 3,285    | 3,195    | 11,942    | 2,287,726    | 2,299,668    |
| Construction and land development - non-commercial | 1,116    | 364      | 1,961    | 3,441     | 142,423      | 145,864      |
| Consumer   | 6,911    | 2,216    | 1,780    | 10,907    | 580,544      | 591,451      |
| Total noncovered loans and leases                  | \$59,957 | \$14,290 | \$47,770 | \$122,017 | \$11,270,334 | \$11,392,351 |

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The recorded investment, by class, in loans and leases on nonaccrual status and loans and leases greater than 90 days past due and still accruing at March 31, 2012, December 31, 2011, and March 31, 2011 (excluding loans and leases acquired with deteriorated credit quality) is as follows:

|  | March 31, 2012      |                     | December 31, 2011   |                     | March 31, 2011      |                     |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | Loans and           | Loans and           | Loans and           | Loans and           | Loans and           | Loans and           |
|  | Nonaccrual leases > | Nonaccrual leases > | Nonaccrual leases > | Nonaccrual leases > | Nonaccrual leases > | Nonaccrual leases > |
|  | loans and 90        | loans and 90        | loans and 90        | loans and 90        | loans and 90        | loans and 90        |
|  | leases              | leases              | leases              | leases              | leases              | leases              |
|  | days and            | days and            | days and            | days and            | days and            | days and            |
|  | accruing            | accruing            | accruing            | accruing            | accruing            | accruing            |
| Noncovered loans and leases:                       |                     |                     |                     |                     |                     |                     |
| Construction and land development - commercial     | \$11,995            | \$182               | \$15,102            | \$313               | \$25,789            | \$658               |
| Commercial mortgage                                | 31,222              | 1,180               | 23,748              | 3,107               | 33,428              | 1,929               |
| Commercial and industrial                          | 8,148               | 599                 | 1,864               | 320                 | 4,583               | 683                 |
| Lease financing                                    | 146                 | 1,268               | 200                 | 554                 | 1,115               | 65                  |
| Other commercial real estate                       | 783                 | —                   | 1,170               | —                   | 871                 | —                   |
| Construction and land development - non-commercial | —                   | 862                 | —                   | 572                 | 1,140               | 1,139               |
| Residential mortgage                               | 14,069              | 3,542               | 10,657              | 4,227               | 12,932              | 1,646               |
| Revolving mortgage                                 | —                   | 4,467               | —                   | 4,306               | —                   | 3,189               |
| Consumer   | —                   | 1,728               | —                   | 1,441               | —                   | 1,769               |
| Total noncovered loans and leases                  | \$66,363            | \$13,828            | \$52,741            | \$14,840            | \$79,858            | \$11,078            |

## Acquired Loans

When the fair values of covered loans were established, certain loans were identified as impaired. The following table provides changes in the carrying value of acquired loans during the three months ended March 31, 2012 and 2011:

|   | 2012                         |                          | 2011                         |                          |
|---|------------------------------|--------------------------|------------------------------|--------------------------|
|   | Impaired at acquisition date | All other acquired loans | Impaired as acquisition date | All other acquired loans |
| Balance, January 1  | \$458,305                    | \$1,903,847              | \$330,705                    | \$1,676,747              |
| Fair value of acquired loans covered by loss share agreements       | —                            | —                        | 120,670                      | 646,489                  |
| Reductions for repayments, foreclosures and decreases in fair value | (66,364                      | ) (111,919               | ) (45,595                    | ) (70,882                |
| Balance, March 31   | \$391,941                    | \$1,791,928              | \$405,780                    | \$2,252,354              |
| Outstanding principal balance at March 31                           | \$1,222,862                  | \$2,395,860              | \$1,011,908                  | \$2,908,609              |

Analyses of the timing and amounts of cash flows were prepared at the acquisition dates for all acquired loans deemed impaired at acquisition except loans acquired in the Venture Bank (VB) and Temecula Valley Bank (TVB) transactions and those analyses are used to determine the amount of accretable yield recognized on those loans. Subsequent changes in cash flow estimates result in changes to the amount of accretable yield to be recognized. The timing of cash flows for nonperforming loans acquired in the VB and TVB transactions were not estimated due to relative unfamiliarity with the markets in which the collateral was located, inexperience with the type of borrowers, and general uncertainty of the time required for disposition of the assets. These factors were alleviated to a large degree in later transactions where prior experience provided the ability to make reasonable estimates as to the timing of future cash flows.

The cost recovery method is being applied for the nonperforming loans acquired from the TVB and VB transactions unless cash flow estimates in the later periods indicated subsequent improvement that would lead to the recognition of accretable yield. The cost recovery method is also being applied to loans from other transactions where the timing of the cash flows is no longer reasonably estimable due to subsequent nonperformance by the borrower or uncertainty in the ultimate disposition of the asset. The remaining carrying value of loans on the cost recovery method was \$171,951 at March 31, 2012, \$200,819 at December 31, 2011 and \$202,873 at March 31, 2011.



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The following table documents changes to the amount of accretable yield for the first three months of 2012 and 2011. For acquired loans, improved cash flow estimates and receipt of unscheduled loan payments result in the reclassification of nonaccretable difference to accretable yield.

|   | 2012      | 2011      |
|---|-----------|-----------|
| Balance, January 1                              | \$276,690 | \$164,586 |
| Additions                                       | —         | 57,998    |
| Accretion                                       | (64,896   | ) (51,694 |
| Reclassifications from nonaccretable difference | 73,150    | 40,752    |
| Disposals                                       | —         | —         |
| Balance, March 31                               | \$284,944 | \$211,642 |

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## Note D

## Allowance for Loan and Lease Losses

Activity in the allowance for loan and lease losses, ending balances of loans and leases and related allowance by class of loans is summarized as follows:

|  | Construction<br>and Land<br>Development<br>- Commercial | Commercial<br>Mortgage<br>Real Estate | Other<br>Commercial<br>Real Estate | Commercial<br>and Industrial | Lease<br>Financing | Other   | Residential<br>Mortgage | Revolving<br>Mortgage | Construction<br>and<br>Land<br>Development<br>- Non-<br>commercial | Consumer | Non-<br>specific | Total    |
|--|---|---------------------------------------|------------------------------------|------------------------------|--------------------|---------|-------------------------|-----------------------|--|----------|------------------|----------|
| Noncovered Loans                                     |   |                                       |                                    |                              |                    |         |                         |                       |  |          |                  |          |
| Allowance for loan and lease losses:                 |   |                                       |                                    |                              |                    |         |                         |                       |  |          |                  |          |
| Three months ended March 31, 2012                    |   |                                       |                                    |                              |                    |         |                         |                       |  |          |                  |          |
| Balance at January 1                                 | \$5,467   | \$67,486                              | \$2,169                            | \$23,723                     | \$3,288            | \$1,315 | \$8,879                 | \$27,045              | \$1,427  | \$25,962 | \$14,122         | \$180,8  |
| Charge-offs  | (5,729 )  | (2,464 )                              | (142 )                             | (1,447 )                     | (191 )             | —       | (1,035 )                | (2,940 )              | (676 )   | (3,008 ) | —                | (17,63   |
| Recoveries   | 42  | 996                                   | —                                  | 250                          | 31                 | 4       | 42                      | 216                   | 7  | 432      | —                | 2,020    |
| Provision  | 6,828   | 6,137                                 | 221                                | 1,720                        | 192                | (38 )   | 1,221                   | 2,590                 | 639  | 902      | 700              | 21,112   |
| Balance at March 31                                  | \$6,608   | \$72,155                              | \$2,248                            | \$24,246                     | \$3,320            | \$1,281 | \$9,107                 | \$26,911              | \$1,397  | \$24,288 | \$14,822         | \$186,3  |
| Three months ended March 31, 2011                    |   |                                       |                                    |                              |                    |         |                         |                       |  |          |                  |          |
| Balance at January 1                                 | \$10,512  | \$64,772                              | \$2,200                            | \$24,089                     | \$3,384            | \$1,473 | \$7,009                 | \$18,016              | \$1,751  | \$29,448 | \$13,863         | \$176,5  |
| Charge-offs  | (711 )  | (1,801 )                              | —                                  | (2,057 )                     | (12 )              | (38 )   | (1,688 )                | (2,363 )              | (456 )   | (3,296 ) | —                | (12,42   |
| Recoveries   | 92  | 157                                   | 6                                  | 313                          | 11                 | 1       | 787                     | 186                   | 65   | 393      | —                | 2,011    |
| Provision  | 835   | 3,062                                 | (2 )                               | 2,020                        | (14 )              | (17 )   | 1,021                   | 3,524                 | (32 )  | 1,233    | 232              | 11,862   |
| Balance at March 31                                  | \$10,728  | \$66,190                              | \$2,204                            | \$24,365                     | \$3,369            | \$1,419 | \$7,129                 | \$19,363              | \$1,328  | \$27,778 | \$14,095         | \$177,9  |
| Allowance for loan and lease losses:                 |   |                                       |                                    |                              |                    |         |                         |                       |  |          |                  |          |
| March 31, 2012                                       |   |                                       |                                    |                              |                    |         |                         |                       |  |          |                  |          |
| ALLL for loans and leases individually evaluated for | \$2,605   | \$6,662                               | \$256                              | \$838                        | \$19               | \$—     | \$782                   | \$—                   | \$145  | \$42     | \$—              | \$11,349 |

|  |          |          |         |          |         |         |         |          |         |          |          |           |
|--|----------|----------|---------|----------|---------|---------|---------|----------|---------|----------|----------|-----------|
| impairment<br>ALLL for<br>loans and<br>leases<br>collectively<br>evaluated for<br>impairment | 4,003    | 65,493   | 1,992   | 23,408   | 3,301   | 1,281   | 8,325   | 26,911   | 1,252   | 24,246   | —        | 160,212   |
| Non-specific<br>ALLL<br>Total  | —        | —        | —       | —        | —       | —       | —       | —        | —       | —        | 14,822   | 14,822    |
| allowance for<br>loan and<br>lease losses<br>December 31,<br>2011                            | \$6,608  | \$72,155 | \$2,248 | \$24,246 | \$3,320 | \$1,281 | \$9,107 | \$26,911 | \$1,397 | \$24,288 | \$14,822 | \$186,383 |
| ALLL for<br>loans and<br>leases<br>individually<br>evaluated for<br>impairment               | \$1,139  | \$5,266  | \$283   | \$640    | \$17    | \$14    | \$411   | \$—      | \$145   | \$47     | \$—      | \$7,962   |
| ALLL for<br>loans and<br>leases<br>collectively<br>evaluated for<br>impairment               | 4,328    | 62,220   | 1,886   | 23,083   | 3,271   | 1,301   | 8,468   | 27,045   | 1,282   | 25,915   | —        | 158,799   |
| Non-specific<br>ALLL<br>Total  | —        | —        | —       | —        | —       | —       | —       | —        | —       | —        | 14,122   | 14,122    |
| allowance for<br>loan and<br>lease losses<br>March 31,<br>2011                               | \$5,467  | \$67,486 | \$2,169 | \$23,723 | \$3,288 | \$1,315 | \$8,879 | \$27,045 | \$1,427 | \$25,962 | \$14,122 | \$180,883 |
| ALLL for<br>loans and<br>leases<br>individually<br>evaluated for<br>impairment               | \$6,170  | \$4,716  | \$62    | \$727    | \$73    | \$—     | \$354   | \$—      | \$5     | \$8      | \$—      | \$12,115  |
| ALLL for<br>loans and<br>leases<br>collectively<br>evaluated for<br>impairment               | 4,558    | 61,474   | 2,142   | 23,638   | 3,296   | 1,419   | 6,775   | 19,363   | 1,323   | 27,770   | —        | 151,758   |
| Non-specific<br>ALLL<br>Total  | —        | —        | —       | —        | —       | —       | —       | —        | —       | —        | 14,095   | 14,095    |
| allowance for  | \$10,728 | \$66,190 | \$2,204 | \$24,365 | \$3,369 | \$1,419 | \$7,129 | \$19,363 | \$1,328 | \$27,778 | \$14,095 | \$177,968 |

loan and  
lease losses

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|  | Construction<br>and Land<br>Development<br>- Commercial | Commercial<br>Mortgage | Other<br>Commercial<br>Real<br>Estate | Commercial<br>and Industrial | Lease<br>Financing | Other     | Residential<br>Mortgage | Revolving<br>Mortgage | Construction<br>and Land<br>Development<br>- Non-<br>commercial | Consumer  |     |
|--|---|------------------------|---------------------------------------|------------------------------|--------------------|-----------|-------------------------|-----------------------|---|-----------|-----|
| Loans and<br>leases:<br>March 31,<br>2012                          |   |                        |                                       |                              |                    |           |                         |                       |   |           |     |
| Loans and<br>leases<br>individually<br>evaluated for<br>impairment | \$21,621  | \$95,265               | \$2,721                               | \$17,261                     | \$375              | \$—       | \$12,772                | \$—                   | \$3,345   | \$915     | \$— |
| Loans and<br>leases<br>collectively<br>evaluated for<br>impairment | 324,936   | 5,032,683              | 147,595                               | 1,722,463                    | 315,329            | 149,792   | 780,840                 | 2,282,138             | 129,332   | 450,146   | —   |
| Total loan<br>and leases<br>December 31,<br>2011                   | \$346,557   | \$5,127,948            | \$150,316                             | \$1,739,724                  | \$315,704          | \$149,792 | \$793,612               | \$2,282,138           | \$132,677   | \$451,061 | \$— |
| Loans and<br>leases<br>individually<br>evaluated for<br>impairment | \$26,782  | \$92,872               | \$5,686                               | \$15,996                     | \$328              | \$193     | \$9,776                 | \$—                   | \$3,676   | \$992     | \$— |
| Loans and<br>leases<br>collectively<br>evaluated for<br>impairment | 354,381   | 5,012,121              | 139,085                               | 1,748,411                    | 312,541            | 158,176   | 774,342                 | 2,296,306             | 133,595   | 496,378   | —   |
| Total loan<br>and leases<br>March 31,<br>2011                      | \$381,163   | \$5,104,993            | \$144,771                             | \$1,764,407                  | \$312,869          | \$158,369 | \$784,118               | \$2,296,306           | \$137,271   | \$497,370 | \$— |
| Loans and<br>leases<br>individually<br>evaluated for<br>impairment | \$30,369  | \$69,017               | \$946                                 | \$14,631                     | \$963              | \$—       | \$7,186                 | \$—                   | \$514   | \$102     | \$— |
| Loans and<br>leases<br>collectively<br>evaluated for<br>impairment | 343,400   | 4,694,376              | 146,204                               | 1,777,411                    | 295,031            | 174,370   | 801,464                 | 2,299,668             | 145,350   | 591,349   | —   |
| Total loan<br>and leases   | \$373,769   | \$4,763,393            | \$147,150                             | \$1,792,042                  | \$295,994          | \$174,370 | \$808,650               | \$2,299,668           | \$145,864   | \$591,451 | \$— |



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|   | Construction<br>and Land<br>Development<br>Commercial | Commercial<br>Mortgage | Other<br>Commercial<br>Real<br>Estate | Commercial<br>and<br>Industrial | Lease<br>Financing | Residential<br>Mortgage | Revolving<br>Mortgage | Construction<br>and Land<br>Development<br>Non-commercial | Consumer<br>and<br>Other | Total     |
|---|---|------------------------|---------------------------------------|---------------------------------|--------------------|-------------------------|-----------------------|---|--------------------------|-----------|
| Covered Loans   |   |                        |                                       |                                 |                    |                         |                       |   |                          |           |
| Allowance for<br>loan and lease<br>losses (1):  |   |                        |                                       |                                 |                    |                         |                       |   |                          |           |
| Three months<br>ended March<br>31, 2012   |   |                        |                                       |                                 |                    |                         |                       |   |                          |           |
| Balance at<br>January 1   | \$ 16,693   | \$ 39,557              | \$ 16,862                             | \$ 5,500                        | \$ 13              | \$ 5,433                | \$ 77                 | \$ 4,652  | \$ 474                   | \$ 89,261 |
| Charge-offs   | (1,387 )  | (6,211 )               | —                                     | (3,189 )                        | —                  | (1,955 )                | —                     | —   | (5 )                     | (12,747 ) |
| Recoveries  | —   | —                      | —                                     | —                               | —                  | —                       | —                     | —   | —                        | —         |
| Provision   | (2,570 )  | 6,398                  | (5,712 )                              | 11,417                          | (10 )              | 1,254                   | 950                   | (1,932 )  | (192 )                   | 9,603     |
| Balance at<br>March 31  | \$ 12,736   | \$ 39,744              | \$ 11,150                             | \$ 13,728                       | \$ 3               | \$ 4,732                | \$ 1,027              | \$ 2,720  | \$ 277                   | \$ 86,117 |
| Three months<br>ended March<br>31, 2011   |   |                        |                                       |                                 |                    |                         |                       |   |                          |           |
| Balance at<br>January 1   | \$ 20,654   | \$ 13,199              | \$ 4,148                              | \$ 6,828                        | \$ —               | \$ 113                  | \$ 676                | \$ 5,607  | \$ 23                    | \$ 51,248 |
| Charge-offs   | (4,318 )  | (6,775 )               | (4,117 )                              | (13,141 )                       | —                  | (323 )                  | (2,072 )              | (496 )  | (12 )                    | (31,254 ) |
| Recoveries  | 1,188   | 426                    | 4                                     | 252                             | —                  | 60                      | —                     | 148   | —                        | 2,078     |
| Provision   | 2,895   | 7,799                  | 4,870                                 | 12,773                          | —                  | 1,162                   | 2,847                 | 209   | 2                        | 32,557    |
| Balance at<br>March 31  | \$ 20,419   | \$ 14,649              | \$ 4,905                              | \$ 6,712                        | \$ —               | \$ 1,012                | \$ 1,451              | \$ 5,468  | \$ 13                    | \$ 54,629 |
| Allowance for<br>loan and lease<br>losses (1):  |   |                        |                                       |                                 |                    |                         |                       |   |                          |           |
| March 31, 2012  |   |                        |                                       |                                 |                    |                         |                       |   |                          |           |
| ALLL for loans<br>and leases<br>acquired with<br>deteriorated<br>credit quality<br>December 31,<br>2011 | \$ 12,736   | \$ 39,744              | \$ 11,150                             | \$ 13,728                       | \$ 3               | \$ 4,732                | \$ 1,027              | \$ 2,720  | \$ 277                   | \$ 86,117 |
| ALLL for loans<br>and leases<br>acquired with<br>deteriorated<br>credit quality<br>March 31, 2011       | 16,693  | 39,557                 | 16,862                                | 5,500                           | 13                 | 5,433                   | 77                    | 4,652   | 474                      | 89,261    |
| ALLL for loans<br>and leases<br>acquired with   | 20,419  | 14,649                 | 4,905                                 | 6,712                           | —                  | 1,012                   | 1,451                 | 5,468   | 13                       | 54,629    |

|  |         |           |         |         |     |         |        |         |       |           |  |
|--|---------|-----------|---------|---------|-----|---------|--------|---------|-------|-----------|--|
| deteriorated<br>credit quality<br>Loans and<br>leases:<br>March 31, 2012 |         |           |         |         |     |         |        |         |       |           |  |
| Loans and<br>leases acquired<br>with                                     | 310,601 | 1,195,541 | 144,978 | 93,261  | 45  | 298,538 | 50,016 | 85,555  | 5,334 | 2,183,869 |  |
| deteriorated<br>credit quality<br>December 31,<br>2011                   |         |           |         |         |     |         |        |         |       |           |  |
| Loans and<br>leases acquired<br>with                                     | 338,873 | 1,260,589 | 158,394 | 113,442 | 57  | 327,568 | 51,552 | 105,536 | 6,141 | 2,362,152 |  |
| deteriorated<br>credit quality<br>March 31, 2011                         |         |           |         |         |     |         |        |         |       |           |  |
| Loans and<br>leases acquired<br>with                                     | 402,316 | 1,432,632 | 163,305 | 171,041 | 271 | 347,393 | 23,409 | 111,425 | 6,342 | 2,658,134 |  |
| deteriorated<br>credit quality   |         |           |         |         |     |         |        |         |       |           |  |

(1) The allowance of \$2,936 at March 31, 2012 and \$1,099 at December 31, 2011 relating to pooled loans is included in the loan classes above based on the primary loan class within each pool.



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The following table provides information on noncovered impaired loans and leases, exclusive of loans and leases evaluated collectively as a homogeneous group, including interest income recognized in the period during which the loans and leases were considered impaired.

|  | With a<br>recorded<br>allowance | With no<br>recorded<br>allowance | Total     | Related<br>allowance<br>recorded |
|--|---------------------------------|----------------------------------|-----------|----------------------------------|
| March 31, 2012                                     |                                 |                                  |           |                                  |
| Impaired noncovered loans and leases               |                                 |                                  |           |                                  |
| Construction and land development - commercial     | \$19,768                        | \$—                              | \$19,768  | \$2,487                          |
| Commercial mortgage                                | 54,593                          | 8,773                            | 63,366    | 4,915                            |
| Other commercial real estate                       | 1,521                           | —                                | 1,521     | 196                              |
| Commercial and industrial                          | 6,797                           | 5,801                            | 12,598    | 574                              |
| Lease financing                                    | 79                              | —                                | 79        | 4                                |
| Other  | —                               | —                                | —         | —                                |
| Residential mortgage                               | 10,438                          | —                                | 10,438    | 674                              |
| Construction and land development - non-commercial | 3,345                           | —                                | 3,345     | 145                              |
| Consumer   | 915                             | —                                | 915       | 42                               |
| Total impaired noncovered loans and leases         | \$97,456                        | \$14,574                         | \$112,030 | \$9,037                          |
| December 31, 2011                                  |                                 |                                  |           |                                  |
| Impaired noncovered loans and leases               |                                 |                                  |           |                                  |
| Construction and land development - commercial     | \$24,994                        | \$—                              | \$24,994  | \$1,027                          |
| Commercial mortgage                                | 53,687                          | 11,840                           | 65,527    | 3,813                            |
| Other commercial real estate                       | 1,558                           | 1,022                            | 2,580     | 114                              |
| Commercial and industrial                          | 7,157                           | 7,111                            | 14,268    | 549                              |
| Lease financing                                    | 322                             | —                                | 322       | 16                               |
| Other  | —                               | —                                | —         | —                                |
| Residential mortgage                               | 9,776                           | —                                | 9,776     | 411                              |
| Construction and land development - non-commercial | 3,676                           | —                                | 3,676     | 145                              |
| Consumer   | 992                             | —                                | 992       | 47                               |
| Total impaired noncovered loans and leases         | \$102,162                       | \$19,973                         | \$122,135 | \$6,122                          |
| March 31, 2011                                     |                                 |                                  |           |                                  |
| Impaired noncovered loans and leases               |                                 |                                  |           |                                  |
| Construction and land development - commercial     | \$30,369                        | \$—                              | \$30,369  | \$6,170                          |
| Commercial mortgage                                | 65,807                          | 3,210                            | 69,017    | 4,716                            |
| Other commercial real estate                       | 946                             | —                                | 946       | 62                               |
| Commercial and industrial                          | 7,473                           | 7,158                            | 14,631    | 727                              |
| Lease financing                                    | 963                             | —                                | 963       | 73                               |
| Other  | —                               | —                                | —         | —                                |
| Residential mortgage                               | 7,186                           | —                                | 7,186     | 354                              |
| Construction and land development - non-commercial | 514                             | —                                | 514       | 5                                |
| Consumer   | 102                             | —                                | 102       | 8                                |
| Total impaired noncovered loans and leases         | \$113,360                       | \$10,368                         | \$123,728 | \$12,115                         |

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|  | Average<br>Balance | Unpaid<br>Principal<br>Balance | Interest<br>Income<br>Recognized |
|--|--------------------|--------------------------------|----------------------------------|
| Three months ended March 31, 2012                  |                    |                                |                                  |
| Noncovered impaired loans and leases:              |                    |                                |                                  |
| Construction and land development - commercial     | \$23,129           | \$33,430                       | \$58                             |
| Commercial mortgage                                | 64,206             | 64,551                         | 530                              |
| Other commercial real estate                       | 2,050              | 1,521                          | 15                               |
| Commercial and industrial                          | 12,466             | 12,598                         | 66                               |
| Lease financing                                    | 201                | 79                             | 1                                |
| Other  | —                  | —                              | —                                |
| Residential mortgage                               | 10,107             | 10,438                         | 90                               |
| Construction and land development - non-commercial | 3,510              | 3,345                          | 23                               |
| Consumer   | 954                | 915                            | 4                                |
| Total noncovered impaired loans and leases         | \$116,623          | \$126,877                      | \$787                            |
| Three months ended March 31, 2011                  |                    |                                |                                  |
| Noncovered impaired loans and leases:              |                    |                                |                                  |
| Construction and land development - commercial     | \$29,181           | \$29,018                       | \$72                             |
| Commercial mortgage                                | 65,364             | 71,442                         | 738                              |
| Other commercial real estate                       | 955                | 946                            | 10                               |
| Commercial and industrial                          | 11,706             | 14,631                         | 165                              |
| Lease financing                                    | 828                | 963                            | 12                               |
| Other  | 38                 | —                              | —                                |
| Residential mortgage                               | 6,674              | 7,186                          | 60                               |
| Construction and land development - non-commercial | 514                | 514                            | 6                                |
| Consumer   | 102                | 102                            | 2                                |
| Total noncovered impaired loans and leases         | \$115,362          | \$124,802                      | \$1,065                          |

Noncovered impaired loans presented in the preceding table exclude troubled debt restructurings of \$42,246 that are considered performing as a result of the loans carrying a market interest rate and evidence of sustained performance after restructuring.

At March 31, 2012, covered loans of \$291,148 have had no adverse change in expected cashflows since the date of acquisition and have no allowance for loan losses recorded.

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## Troubled Debt Restructurings

The following table provides the types of troubled debt restructurings made for the three and twelve month periods ended March 31, 2012 as well as the loans restructured during those periods that have experienced payment default subsequent to restructuring.

|  | Three months ended March 31, 2012 |                                   |                                     |                                   | Twelve Months Ended March 31, 2012 |                                   |                                     |                                   |
|--|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
|  | All Restructurings                |                                   | Restructurings with payment default |                                   | All Restructurings                 |                                   | Restructurings with payment default |                                   |
|  | Number of Loans                   | Recorded investment at period end | Number of Loans                     | Recorded investment at period end | Number of Loans                    | Recorded investment at period end | Number of Loans                     | Recorded investment at period end |
| Noncovered loans                                   |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Interest only period provided                      |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Construction and land development - commercial     | —                                 | \$—                               | —                                   | \$—                               | 4                                  | \$1,424                           | 3                                   | \$1,231                           |
| Commercial mortgage                                | 10                                | 4,625                             | 1                                   | 669                               | 26                                 | 13,958                            | 4                                   | 3,493                             |
| Other commercial real estate                       | —                                 | —                                 | —                                   | —                                 | 1                                  | 365                               | 1                                   | 365                               |
| Commercial and industrial                          | 1                                 | 531                               | —                                   | —                                 | 6                                  | 1,907                             | 1                                   | 28                                |
| Lease financing                                    | —                                 | —                                 | —                                   | —                                 | —                                  | —                                 | —                                   | —                                 |
| Residential mortgage                               | —                                 | —                                 | —                                   | —                                 | 2                                  | 291                               | —                                   | —                                 |
| Construction and land development - non-commercial | —                                 | —                                 | —                                   | —                                 | 1                                  | 476                               | —                                   | —                                 |
| Consumer   | 1                                 | 900                               | —                                   | —                                 | 1                                  | 900                               | —                                   | —                                 |
| Total interest only                                | 12                                | 6,056                             | 1                                   | 669                               | 41                                 | 19,321                            | 9                                   | 5,117                             |
| Loan term extension                                |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Construction and land development - commercial     | 1                                 | 7,169                             | —                                   | —                                 | 3                                  | 8,739                             | —                                   | —                                 |
| Commercial mortgage                                | 13                                | 3,692                             | 2                                   | 585                               | 41                                 | 15,520                            | 7                                   | 1,836                             |
| Other commercial real estate                       | —                                 | —                                 | —                                   | —                                 | 4                                  | 1,156                             | 1                                   | 127                               |
| Commercial and industrial                          | 3                                 | 282                               | —                                   | —                                 | 18                                 | 3,106                             | 3                                   | 722                               |
| Lease financing                                    | 2                                 | 73                                | —                                   | —                                 | 3                                  | 79                                | —                                   | —                                 |
| Residential mortgage                               | 5                                 | 805                               | —                                   | —                                 | 11                                 | 2,168                             | 2                                   | 278                               |
| Construction and land development - non-commercial | 1                                 | 2,001                             | —                                   | —                                 | 2                                  | 2,396                             | 1                                   | 395                               |
| Consumer   | —                                 | —                                 | —                                   | —                                 | 1                                  | 15                                | 1                                   | 15                                |
| Total loan term extension                          | 25                                | 14,022                            | 2                                   | 585                               | 83                                 | 33,179                            | 15                                  | 3,373                             |
| Below market interest rate                         |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Construction and land development - commercial     | 1                                 | 231                               | —                                   | —                                 | 7                                  | 8,794                             | 2                                   | 763                               |
| Commercial mortgage                                | 2                                 | 1,956                             | —                                   | —                                 | 26                                 | 18,172                            | 6                                   | 2,887                             |
| Other commercial real estate                       | —                                 | —                                 | —                                   | —                                 | —                                  | —                                 | —                                   | —                                 |
| Commercial and industrial                          | 1                                 | 764                               | —                                   | —                                 | 5                                  | 1,276                             | —                                   | —                                 |
| Residential mortgage                               | 3                                 | 878                               | —                                   | —                                 | 11                                 | 2,815                             | 1                                   | 52                                |
| Construction and land development - non-commercial | —                                 | —                                 | —                                   | —                                 | 1                                  | 356                               | 1                                   | 356                               |
| Total below market interest rate                   | 7                                 | 3,829                             | —                                   | —                                 | 50                                 | 31,413                            | 10                                  | 4,058                             |

|                                 |    |          |   |         |     |          |    |          |  |
|---------------------------------|----|----------|---|---------|-----|----------|----|----------|--|
| Other concession                |    |          |   |         |     |          |    |          |  |
| Commercial mortgage             | 1  | 168      | — | —       | 1   | 168      | —  | —        |  |
| Commercial and industrial       | 1  | 23       | 1 | 23      | 1   | 23       | 1  | 23       |  |
| Total other concession          | 2  | 191      | 1 | 23      | 2   | 191      | 1  | 23       |  |
| Total noncovered restructurings | 46 | \$24,098 | 4 | \$1,277 | 176 | \$84,104 | 35 | \$12,571 |  |

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|  | Three months ended March 31, 2012 |                                   |                                     |                                   | Twelve Months Ended March 31, 2012 |                                   |                                     |                                   |
|--|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
|  | All Restructurings                |                                   | Restructurings with payment default |                                   | All Restructurings                 |                                   | Restructurings with payment default |                                   |
|  | Number of Loans                   | Recorded investment at period end | Number of Loans                     | Recorded investment at period end | Number of Loans                    | Recorded investment at period end | Number of Loans                     | Recorded investment at period end |
| Covered loans                                      |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Interest only period provided                      |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Construction and land development - commercial     | 1                                 | \$133                             | —                                   | \$—                               | 5                                  | \$9,419                           | 1                                   | \$4,272                           |
| Commercial mortgage                                | —                                 | —                                 | —                                   | —                                 | 2                                  | 8,378                             | —                                   | —                                 |
| Residential mortgage                               | —                                 | —                                 | —                                   | —                                 | 2                                  | 5,433                             | 1                                   | 4,371                             |
| Total interest only                                | 1                                 | 133                               | —                                   | —                                 | 9                                  | 23,230                            | 2                                   | 8,643                             |
| Loan term extension                                |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Construction and land development - commercial     | 2                                 | 161                               | —                                   | —                                 | 9                                  | 3,186                             | 3                                   | 1,389                             |
| Commercial mortgage                                | 1                                 | 480                               | —                                   | —                                 | 7                                  | 4,491                             | —                                   | —                                 |
| Other commercial real estate                       | —                                 | —                                 | —                                   | —                                 | 4                                  | 6,271                             | —                                   | —                                 |
| Commercial and industrial                          | —                                 | —                                 | —                                   | —                                 | 3                                  | 271                               | 1                                   | 145                               |
| Residential mortgage                               | 1                                 | 49                                | —                                   | —                                 | 6                                  | 1,031                             | 3.00                                | 736                               |
| Total loan term extension                          | 4                                 | 690                               | —                                   | —                                 | 29                                 | 15,250                            | 7                                   | 2,270                             |
| Below market interest rate                         |                                   |                                   |                                     |                                   |                                    |                                   |                                     |                                   |
| Construction and land development - commercial     | 10                                | 1,794                             | —                                   | —                                 | 24                                 | 9,913                             | 4                                   | 4,689                             |
| Commercial mortgage                                | 7                                 | 9,194                             | —                                   | —                                 | 26                                 | 57,504                            | 3                                   | 3,699                             |
| Other commercial real estate                       | —                                 | —                                 | —                                   | —                                 | 1                                  | 71                                | 1                                   | 71                                |
| Commercial and industrial                          | 3                                 | 260                               | —                                   | —                                 | 9                                  | 1,609                             | 1                                   | 746                               |
| Residential mortgage                               | 7                                 | 1,557                             | 1                                   | 103                               | 21                                 | 5,405                             | 6                                   | 1,524                             |
| Construction and land development - non-commercial | —                                 | —                                 | —                                   | —                                 | 1                                  | 1,570                             | —                                   | —                                 |
| Total below market interest rate                   | 27                                | 12,805                            | 1                                   | 103                               | 82                                 | 76,072                            | 15                                  | 10,729                            |
| Total covered restructurings                       | 32                                | \$13,628                          | 1                                   | \$103                             | 120                                | \$114,552                         | 24                                  | \$21,642                          |

For the three and twelve month periods ended March 31, 2012, the recorded investment in troubled debt restructurings prior to modification was not materially impacted by the modification since forgiveness of principal is not a restructuring option frequently used by BancShares.

Total troubled debt restructurings at March 31, 2012 equaled \$318,323, of which \$165,857 were covered and \$152,466 were noncovered.

The majority of troubled debt restructurings are included in the special mention, substandard, or doubtful grading categories which results in more elevated loss expectations when determining the expected cash flows that are used to determine the allowance for loan losses associated with these loans. When a restructured loan subsequently defaults, it is evaluated and downgraded if appropriate. The more severely graded the loans, the lower the estimated expected cash flows and the greater the allowance recorded. Further, troubled debt restructurings over \$1,000 and on

nonaccrual status are evaluated individually for impairment through review of collateral values.

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## Note E

## Receivable from FDIC for Loss Share Agreements

The following table provides changes in the receivable from the FDIC for the three month period ended March 31, 2012 and 2011:

|   | Three Months Ended March 31 |            |
|---|-----------------------------|------------|
|   | 2012                        | 2011       |
| Balance at beginning of period              | \$539,511                   | \$623,261  |
| Additional receivable from acquisitions     | —                           | 140,285    |
| Accretion of discounts and premiums, net    | 1,562                       | 1,046      |
| Receipt of payments from FDIC               | (123,204                    | ) (128,845 |
| Post-acquisition and other adjustments, net | (7,518                      | ) (11,425  |
| Balance at March 31                         | \$410,351                   | \$624,322  |

The receivable from the FDIC for loss share agreements is measured separately from the related covered assets and is recorded at fair value. The fair value was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages.

Post-acquisition adjustments represent the net change in loss estimates related to covered loans and OREO as a result of changes in expected cash flows and the allowance for loan and lease losses related to covered loans. For loans covered by loss share agreements, subsequent decreases in the amount expected to be collected from the borrower or collateral liquidation result in a provision for loan and lease losses, an increase in the allowance for loan and lease losses, and a proportional adjustment to the receivable from the FDIC for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected from the borrower or collateral liquidation result in the reversal of any previously recorded provision for loan and lease losses and related allowance for loan and lease losses and adjustments to the receivable from the FDIC, or prospective adjustment to the accretable yield and the related receivable from the FDIC if no provision for loan and lease losses had been recorded previously. Other adjustments include those resulting from unexpected recoveries of amounts previously charged off. Adjustments related to acquisition date fair values, made within one year after the closing date of the respective acquisition, are reflected in the acquisition gain. There were no adjustments to previously reported acquisition gains during the first quarter of 2012.

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### Note F

#### Estimated Fair Values

Fair value estimates are made at a specific point in time based on relevant market information and information about each financial instrument. Where information regarding the fair value of a financial instrument is publicly available, those values are used, as is the case with investment securities, residential mortgage loans and certain long-term obligations. In these cases, an open market exists in which those financial instruments are actively traded.

Because no market exists for many financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. For financial instruments with a fixed interest rate, an analysis of the related cash flows is the basis for estimating fair values. The expected cash flows are discounted to the valuation date using an appropriate discount rate. The discount rates used represent the rates under which similar transactions would be currently negotiated. For financial instruments with fixed and variable rates, fair value estimates also consider the impact of liquidity discounts appropriate as of the measurement date.

Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements BancShares considers the principal or most advantageous market in which the specific assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. As required under US GAAP, individual fair value estimates are ranked based on the relative reliability of the inputs used in the valuation. Fair values determined using level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based on level 3 inputs, which are considered to be nonobservable. BancShares recognizes transfers between levels of the fair value hierarchy at the end of the respective reporting period.

Estimated fair values of financial assets and financial liabilities are provided in the following table. The methodologies used to estimate the fair value of financial assets and financial liabilities are discussed below:

**Investment securities.** Investment securities are measured based on quoted market prices, when available. For certain residential mortgage backed securities and state, county, and municipal securities, fair values are determined using broker prices based on recent sales of similar securities. The inputs used in the fair value measurement of investment securities are considered Level 1 or Level 2 inputs. The details of investment securities available for sale and the corresponding level of inputs are provided in the below table of assets measured at fair value on a recurring basis.

**Loans held for sale.** Fair value for loans held for sale is generally based on market prices for loans with similar characteristics or external valuations. The inputs used in the fair value measurements for loans held for sale are considered Level 2 inputs.

**Loans and leases.** For variable rate loans, carrying value is a reasonable estimate of fair value. For other fixed rate loans, fair values are estimated based on discounted future cash flows using the current interest rates at which loans with similar terms would be made to borrowers of similar credit quality. Additional valuation adjustments are made for liquidity and credit risk. The inputs used in the fair value measurements for loans and leases are considered Level 3 inputs.

**Receivable from the FDIC for loss share agreements.** Fair value is estimated based on discounted future cash flows using current discount rates. The inputs used in the fair value measurements for the receivable from the FDIC are



considered Level 3 inputs.

Deposits. For non-time deposits and variable rate time deposits, carrying value is a reasonable estimate of fair value. The fair value of fixed-rate time deposits is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities. The inputs used in the fair value measurements for deposits are considered Level 2 inputs.

Long-term obligations. For fixed rate trust preferred securities, the fair values are determined based on recent trades of the actual security. For other long-term obligations, fair values are estimated by discounting future cash flows using current interest rates for similar financial instruments. The inputs used in the fair value measurements for long-term obligations are considered Level 2 inputs.

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Interest Rate Swap. Under the terms of the existing cash flow hedge, BancShares pays a fixed payment to the counterparty in exchange for receipt of a variable payment that is determined based on the 3-month LIBOR rate. The fair value of the cash flow hedge is therefore based on projected LIBOR rates for the duration of the hedge, values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument. If the fair value of the swap is a net asset, the risk of default by the counterparty is considered in the determination of fair value. The inputs used in the fair value measurements the interest rate swap are considered Level 2 inputs.

For all other financial assets and financial liabilities, the carrying value is a reasonable estimate of the fair value as of March 31, 2012, December 31, 2011 and March 31, 2011. The carrying value and fair value for these assets and liabilities are equivalent because they are relatively short term in nature and there is no interest rate or credit risk relating to them that would cause the fair value to differ from carrying value.

|   | March 31, 2012 |            | December 31, 2011 |            | March 31, 2011 |            |
|---|----------------|------------|-------------------|------------|----------------|------------|
|   | Carrying Value | Fair Value | Carrying Value    | Fair Value | Carrying Value | Fair Value |
| Cash and due from banks   | \$552,663      | \$552,663  | \$590,801         | \$590,801  | \$406,252      | \$406,252  |
| Overnight investments   | 752,334        | 752,334    | 434,975           | 434,975    | 585,286        | 585,286    |
| Investment securities available for sale  | 4,457,739      | 4,457,739  | 4,056,423         | 4,056,423  | 4,202,016      | 4,202,016  |
| Investment securities held to maturity  | 1,688          | 1,844      | 1,822             | 1,980      | 2,341          | 2,537      |
| Loans held for sale   | 73,457         | 75,342     | 92,539            | 93,235     | 48,222         | 48,222     |
| Loans covered by loss share agreements, net of allowance for loan and lease losses                | 2,097,752      | 2,055,797  | 2,272,891         | 2,236,343  | 2,603,505      | 2,590,214  |
| Loans and leases not covered by loss share agreements, net of allowance for loan and lease losses | 11,303,146     | 11,171,217 | 11,400,754        | 11,312,900 | 11,214,383     | 11,062,010 |
| Receivable from FDIC for loss share agreements (1)  | 410,351        | 297,963    | 539,511           | 446,172    | 624,322        | 557,356    |
| Income earned not collected   | 52,406         | 52,406     | 42,216            | 42,216     | 98,501         | 98,501     |
| Stock issued by:  |                |            |                   |            |                |            |
| Federal Home Loan Bank of Atlanta   | 41,043         | 41,043     | 41,042            | 41,042     | 47,123         | 47,123     |
| Federal Home Loan Bank of San   | 12,356         | 12,356     | 12,976            | 12,976     | 14,875         | 14,875     |

|  |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|
| Francisco<br>Federal Home<br>Loan Bank of<br>Seattle | 4,490      | 4,490      | 4,490      | 4,490      | 4,490      | 4,490      |
| Deposits   | 17,759,492 | 17,810,831 | 17,577,274 | 17,638,359 | 17,811,736 | 17,862,769 |
| Short-term<br>borrowings                             | 677,993    | 677,993    | 615,222    | 615,222    | 666,417    | 666,417    |
| Long-term<br>obligations                             | 649,818    | 679,727    | 687,599    | 719,999    | 801,081    | 813,652    |
| Accrued interest<br>payable                          | 21,486     | 21,486     | 23,719     | 23,719     | 27,930     | 27,930     |
| Interest rate swap                                   | 10,325     | 10,325     | 10,714     | 10,714     | 7,775      | 7,775      |

(1) The fair value of the receivable from FDIC for loss share agreements excludes amounts expected to be recovered through accretion income in prospective periods.

At March 31, 2012 and 2011, other assets include \$57,889 and \$66,488 of stock in various Federal Home Loan Banks (FHLB). The FHLB stock, which is redeemable only through the issuer, is carried at its par value. The investment in the FHLB stock is considered a long-term investment and its value is based on the ultimate recoverability of par value which is considered a level 1 input. Management has concluded that the investment in FHLB stock was not other-than-temporarily impaired for any period presented.

For off-balance sheet commitments and contingencies, carrying amounts are reasonable estimates of the fair values for such financial instruments. Carrying amounts include unamortized fee income and, in some cases, reserves for any credit losses from those financial instruments. These amounts are not material to BancShares' financial position.

Among BancShares' assets and liabilities, investment securities available for sale and interest rate swaps accounted for as cash flow hedges are reported at their fair values on a recurring basis. Certain other assets are adjusted to their fair value on a nonrecurring basis, including loans held for sale, which are carried at the lower of cost or market. Impaired loans, OREO,

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goodwill and other intangible assets are periodically tested for impairment. Loans held for investment, deposits, short-term borrowings and long-term obligations are not reported at fair value. BancShares did not elect to voluntarily report any assets or liabilities at fair value.

For assets and liabilities carried at fair value on a recurring basis, the following table provides fair value information as of March 31, 2012, December 31, 2011 and March 31, 2011:

| Description   | Fair value   | Fair value measurements using:  |   |  |
|---|--------------|---|---|--|
|   |              | Quoted prices in active markets for identical assets and liabilities (Level 1 inputs) | Quoted prices for similar assets and liabilities (Level 2 inputs) | Significant unobservable inputs (Level 3 inputs) |
| March 31, 2012  |              |   |   |  |
| Assets measured at fair value                         |              |   |   |  |
| Investment securities available for sale              |              |   |   |  |
| U.S. Treasury   | \$ 1,065,036 | \$ 1,065,036  | \$ —  | \$ —   |
| Government agency                                     | 2,855,385    | 2,855,385   | —   | —  |
| Corporate bonds                                       | 226,428      | 226,428   | —   | —  |
| Residential mortgage-backed securities                | 290,908      | —   | 290,908   | —  |
| Equity securities                                     | 18,943       | 18,943  | —   | —  |
| State, county, municipal                              | 1,039        | —   | 1,039   | —  |
| Total   | \$4,457,739  | \$4,165,792   | \$ 291,947  | \$ —   |
| Liabilities measured at fair value                    |              |   |   |  |
| Interest rate swaps accounted for as cash flow hedges | \$ 10,325    | \$ —  | \$ 10,325   | \$ —   |
| December 31, 2011                                     |              |   |   |  |
| Assets measured at fair value                         |              |   |   |  |
| Investment securities available for sale              |              |   |   |  |
| U.S. Treasury   | \$ 887,819   | \$ 887,819  | \$ —  | \$ —   |
| Government agency                                     | 2,592,209    | 2,592,209   | —   | —  |
| Corporate bonds                                       | 252,820      | 252,820   | —   | —  |
| Residential mortgage-backed securities                | 307,221      | —   | 307,221   | —  |
| Equity securities                                     | 15,313       | 15,313  | —   | —  |
| State, county, municipal                              | 1,041        | —   | 1,041   | —  |
| Total   | \$4,056,423  | \$3,748,161   | \$ 308,262  | \$ —   |
| Liabilities measured at fair value                    |              |   |   |  |
| Interest rate swaps accounted for as cash flow hedges | \$ 10,714    | \$ —  | \$ 10,714   | \$ —   |
| March 31, 2011  |              |   |   |  |
| Assets measured at fair value                         |              |   |   |  |
| Investment securities available for sale              |              |   |   |  |
| U.S. Treasury   | \$ 3,565,503 | \$ 3,565,503  | \$ —  | \$ —   |
| Government agency                                     | —            | —   | —   | —  |
| Corporate bonds                                       | 459,717      | 459,717   | —   | —  |
| Residential mortgage-backed securities                | 155,922      | —   | 155,922   | —  |
| Equity securities                                     | 19,621       | 19,621  | —   | —  |
| State, county, municipal                              | 1,253        | —   | 1,253   | —  |
| Total   | \$4,202,016  | \$4,044,841   | \$ 157,175  | \$ —   |

Liabilities measured at fair value

|   |         |     |         |     |
|---|---------|-----|---------|-----|
| Interest rate swaps accounted for as cash flow hedges | \$7,775 | \$— | \$7,775 | \$— |
|---|---------|-----|---------|-----|

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Prices for US Treasury securities, government agency securities, corporate bonds and equity securities are readily available in the active markets in which those securities are traded and the resulting fair values are shown in the 'Level 1 input' column. Prices for mortgage-backed securities and state, county and municipal securities are obtained using the fair values of similar assets and the resulting fair values are shown in the 'Level 2 input' column. There were no assets or liabilities valued on a recurring basis using level 3 inputs at March 31, 2012, December 31, 2011 or March 31, 2011, and there were no transfers between Level 1 and Level 2 categories during the three month periods ended March 31, 2012 and 2011.

There were no investment securities with fair values determined by reliance on significant nonobservable inputs during 2012 or 2011.

Certain assets and liabilities are carried at fair value on a nonrecurring basis. Loans held for sale are carried at the lower of aggregate cost or fair value and are therefore carried at fair value only when fair value is less than the asset cost. Certain impaired loans are also carried at fair value. For assets and liabilities carried at fair value on a nonrecurring basis, the following table provides fair value information as of March 31, 2012, December 31, 2011 and March 31, 2011:

| Description   | Fair value | Fair value measurements using:  |   |   |
|---|------------|---|---|---|
|   |            | Quoted prices in active markets for identical assets and liabilities (Level 1 inputs) | Quoted prices for similar assets and liabilities (Level 2 inputs) | Significant nonobservable inputs (Level 3 inputs) |
| March 31, 2012                                      |            |   |   |   |
| Loans held for sale                                 | \$45,146   | \$—   | \$ 45,146   | \$—   |
| Impaired loans not covered by loss share agreements | 82,882     | —   | —   | 82,882  |
| December 31, 2011                                   |            |   |   |   |
| Loans held for sale                                 | 63,470     | —   | 63,470  | —   |
| Impaired loans not covered by loss share agreements | 128,365    | —   | —   | 128,365   |
| March 31, 2011                                      |            |   |   |   |
| Loans held for sale                                 | 48,222     | —   | 48,222  | —   |
| Impaired loans not covered by loss share agreements | 101,245    | —   | —   | 101,245   |

The values of loans held for sale are generally based on market prices for loans with similar characteristics or external valuations. The values of impaired loans are determined by either collateral valuations or discounted present value of the expected cash flow calculations.

Collateral values are determined using appraisals or other third-party value estimates of the subject property with discounts generally between 10 and 14 percent applied for estimated holding and selling costs and other external factors that may impact the marketability of the property. Impaired loans are assigned to an asset manager and monitored monthly for significant changes since the last valuation. If significant changes are noted, the asset manager orders a new valuation or adjusts the valuation accordingly.

Expected cash flows are determined using expected loss rates developed from historic experience for loans with similar risk characteristics. No financial liabilities were carried at fair value on a nonrecurring basis as of March 31, 2012, December 31, 2011 or March 31, 2011.

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OREO is measured and reported at fair value using level 3 inputs for valuations based on nonobservable criteria. The values of OREO is determined by collateral valuations. Collateral values are determined using appraisals or other third-party value estimates of the subject property with discounts generally between 10 and 14 percent applied for estimated holding and selling costs and other external factors that may impact the marketability of the property. Changes to the value of the assets between scheduled valuation dates are monitored through continued communication with brokers and monthly reviews by the asset manager assigned to each asset. The asset manager uses the information gathered from brokers and other market sources to identify any significant changes in the market or the subject property as they occur. Valuations are then adjusted or new appraisals are ordered to ensure the reported values reflect the most current information. The following table provides information regarding OREO for the three month periods ended March 31, 2012 and 2011.

|   | Three Months Ended March 31 |          |
|---|-----------------------------|----------|
|   | 2012                        | 2011     |
| Current year foreclosures:  |                             |          |
| Covered under loss share agreements   | \$20,532                    | \$40,800 |
| Not covered under loss share agreements   | 6,308                       | 6,129    |
| Loan charge-offs recorded due to the measurement and initial recognition of OREO: |                             |          |
| Covered under loss share agreements   | 959                         | 3,787    |
| Not covered under loss share agreements   | 458                         | 668      |
| Write-downs recorded subsequent to foreclosure for OREO:                          |                             |          |
| Covered under loss share agreements   | 122                         | 4,566    |
| Not covered under loss share agreements   | 483                         | 749      |
| Fair value of OREO remeasured in current year:                                    |                             |          |
| Covered under loss share agreements   | 21,344                      | 48,016   |
| Not covered under loss share agreements   | 8,048                       | 10,705   |

## Note G

## Employee Benefit Plans

Pension expense is a component of employee benefits expense. For the three-month periods ended March 31, 2012 and 2011 the components of pension expense are as follows:

|                                    | Three Months Ended March 31 |          |
|------------------------------------|-----------------------------|----------|
|                                    | 2012                        | 2011     |
| Service cost                       | \$2,827                     | \$2,571  |
| Interest cost                      | 4,496                       | 4,507    |
| Expected return on assets          | (5,379                      | ) (5,535 |
| Amortization of prior service cost | 53                          | 39       |
| Amortization of net actuarial loss | 2,737                       | 1,213    |
| Total pension expense              | \$4,734                     | \$2,795  |

The assumed discount rate for 2012 is 4.75 percent, the expected long-term rate of return on plan assets is 7.50 percent and the assumed rate of salary increases is 4.00 percent. For 2011 the assumed discount rate was 5.50 percent, expected long-term rate of return was 7.75 percent and the assumed rate of salary increases was 4.50 percent.

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Note H

Commitments and Contingencies

In order to meet the financing needs of its customers, BancShares and its subsidiaries have financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, standby letters of credit, and recourse obligations on mortgage loans sold. These instruments involve elements of credit, interest rate or liquidity risk.

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. Established credit standards control the credit-risk exposure associated with these commitments. In some cases, BancShares requires that collateral be pledged to secure the commitment including cash deposits, securities and other assets. At March 31, 2012 BancShares had unused commitments totaling \$5,748,952 compared to \$5,636,942 at December 31, 2011 and \$5,704,757 at March 31, 2011.

Standby letters of credit are commitments guaranteeing performance of a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements. In order to minimize its exposure, BancShares' credit policies govern the issuance of standby letters of credit. At March 31, 2012, December 31, 2011, and March 31, 2011, BancShares had standby letters of credit amounting to \$59,798, \$57,446 and \$71,942, respectively. The credit risk related to the issuance of these letters of credit is essentially the same as that involved in extending loans to clients, and therefore, these letters of credit are collateralized when necessary.

Residential mortgage loans sold with limited recourse liability represent guarantees to repurchase the loans or repay a portion of the sale proceeds in the event of nonperformance by the borrower. The recourse period is generally 120 days or less. At March 31, 2012, December 31, 2011 and March 31, 2011, BancShares has sold loans of approximately \$210,789, \$207,963 and \$191,606 respectively for which the recourse period had not yet elapsed. Of these loans at March 31, 2012, \$161,937 represent loans that would require repurchase in the event of nonperformance by the borrower. Any loans that are repurchased under the recourse obligation would carry the same credit risk as mortgage loans originated by the company and would be collateralized in the same manner.

BancShares and various subsidiaries have been named as defendants in various legal actions arising from their normal business activities in which damages in various amounts are claimed. BancShares is also exposed to litigation risk relating to the prior business activities of banks from which assets were acquired and liabilities assumed in the various FDIC-assisted transactions. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, any such liability will not have a material effect on BancShares' consolidated financial statements.

During February 2011, United Western Bank, United Western's parent company, United Western Bancorp, and five of their directors filed a complaint in the United States District Court for the District of Columbia against the FDIC, the OTS and others, claiming that the seizure of United Western by the OTS and the subsequent appointment of the FDIC as receiver was illegal. The complaint requested the court to direct the OTS to remove the FDIC as receiver, return control of United Western to the plaintiffs, reimburse the plaintiffs for their costs and attorney fees and to award plaintiffs other relief as may be just and equitable. Neither BancShares nor FCB were named in the complaint. The defendants filed motions to dismiss all claims against them and, during June 2011, the Court dismissed all claims by the holding company and the individual directors, and it dismissed United Western Bank's claim against the FDIC. However, the Court denied the motion to dismiss United Western Bank's claim against the OTS, which permits that claim to proceed. It is unclear what impact, if any, the litigation will have on FCB or the assets acquired in the United Western transaction.

During March 2012, FCB received communications from the U.S. Small Business Administration (SBA) asserting that the SBA is entitled to receive proportionate shares of certain amounts paid or to be paid by the FDIC to FCB pursuant to the Loss Share Agreement between FCB and the FDIC applicable to Temecula Valley Bank. The SBA makes reference to the treatment of guarantee, insurance and surety proceeds under the SBA 750 Loan Guaranty Agreement and the 7(a) Loan Program Requirements. FCB disagrees with the SBA's position, and intends to



vigorously protect its interests in this matter. FCB is presently unable to determine the related outcome or range of loss, if any, related to this claim.

FCB has recently identified issues in its compliance with certain Treasury Regulations governing the provision of information returns to customers relating to debt presumed to have been forgiven for tax purposes. FCB is currently investigating this matter, including analyzing the scope and potential financial impact. FCB is presently unable to determine the related outcome or range of loss, if any, and the period of time necessary to resolve this matter is uncertain.

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## Note I

## Derivatives

At March 31, 2012, BancShares had an interest rate swap that qualifies as a cash flow hedge under US GAAP. BancShares had two earlier interest rate swaps that were entered into in 2006 and 2009, respectively. The 2006 swap matured on June 30, 2011 while the 2009 swap was terminated in December 2011. Both of the earlier interest rate swaps qualified as cash flow hedges during the period of time they were in effect. For all periods presented, the fair value of the outstanding derivatives is included in other liabilities in the consolidated balance sheets and the net change in fair value is included in other liabilities in the consolidated statements of cash flows.

The interest rate swaps are used for interest rate risk management purposes and convert variable-rate exposure on outstanding debt to a fixed rate. The 2011 interest rate swap has a notional amount of \$93,500, representing the amount of variable-rate trust preferred capital securities issued during 2006 and still outstanding at the swap inception date. The 2011 interest rate swap hedges interest payments through June 2016 and requires fixed-rate payments by BancShares at 5.50 percent in exchange for variable-rate payments of 175 basis points above 3-month LIBOR, which is equal to the interest paid to the holders of the trust preferred capital securities. Settlement of the swap occurs quarterly. As of March 31, 2012, collateral with a fair value of \$14,668 was pledged to secure the existing obligation under the interest rate swap.

The 2006 interest rate swap hedged interest payments through June 2011 and required fixed-rate payments by BancShares at 7.125 percent in exchange for variable-rate payments of 175 basis points above 3-month LIBOR, which is equal to the interest paid to the holders of the trust preferred capital securities. The 2009 Swap, which was intended to convert variable-rate exposure on outstanding debt to a fixed rate during the period July 2011 through June 2016, required fixed-rate payments by BancShares at 5.50 percent in exchange for variable-rate payments of 175 basis points above 3-month LIBOR. The 2009 interest rate swap was terminated in December 2011 due to the purchase of \$21,500 of the underlying trust preferred capital securities.

|  | March 31, 2012  |                                   | December 31, 2011 |                                   | March 31, 2011  |                                   |
|--|-----------------|-----------------------------------|-------------------|-----------------------------------|-----------------|-----------------------------------|
|  | Notional amount | Estimated fair value of liability | Notional amount   | Estimated fair value of liability | Notional amount | Estimated fair value of liability |
| 2006 interest rate swap hedging variable rate exposure on trust preferred securities 2006-2011 | \$—             | \$—                               | \$—               | \$—                               | \$115,000       | \$1,450                           |
| 2009 interest rate swap hedging variable rate exposure on trust preferred securities 2011      | —               | —                                 | —                 | —                                 | 115,000         | 6,325                             |
| 2011 interest rate swap hedging variable rate exposure on trust preferred securities 2011-2016 | 93,500          | 10,325                            | 93,500            | 10,714                            | —               | —                                 |
|  |                 | \$10,325                          |                   | \$10,714                          |                 | \$7,775                           |

For cash flow hedges, the effective portion of the gain or loss due to changes in the fair value of the derivative hedging instrument is included in other comprehensive income, while the ineffective portion, representing the excess of the cumulative change in the fair value of the derivative over the cumulative change in expected future discounted cash flows on the hedged transaction, is recorded in the consolidated income statement. BancShares' interest rate swaps have been fully effective since inception. Therefore, changes in the fair value of the interest rate swaps have had no impact on net income. For the three month periods ended March 31, 2012 and 2011, BancShares recognized interest expense of \$749 and \$1,458, respectively, resulting from incremental interest paid to the interest rate swap counterparty, none of which related to ineffectiveness.

The following table discloses activity in accumulated other comprehensive income (loss) related to the interest rate swaps during the three month periods ended March 31, 2012 and 2011.

|   |             |            |
|---|-------------|------------|
|   | 2012        | 2011       |
| Accumulated other comprehensive loss resulting from interest rate swaps as of January 1 | \$(10,714 ) | \$(9,492 ) |
| Other comprehensive income (loss) recognized during three month period ended March 31   | 389         | 1,717      |
| Accumulated other comprehensive loss resulting from interest rate swaps as of March 31  | \$(10,325 ) | \$(7,775 ) |

BancShares monitors the credit risk of the interest rate swap counterparty.

Note J

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) included the following as of March 31, 2012, December 31, 2011 and March 31, 2011:

|  | March 31, 2012  |   | December 31, 2011  |   |   | March 31, 2011   |   |   |  |
|--|---|---|--|---|---|--|---|---|--|
|  | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Deferred<br>tax<br>expense<br>(benefit) | Accumulated<br>other<br>comprehensive<br>income<br>(loss),<br>net of tax | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Deferred<br>tax<br>expense<br>(benefit) | Accumulated<br>other<br>comprehensive<br>income<br>(loss),<br>net of tax | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Deferred<br>tax<br>expense<br>(benefit) | Accumulated<br>other<br>comprehensive<br>income<br>(loss),<br>net of tax |
| Unrealized gains on investment securities available for sale | \$23,667  | \$9,327                                 | \$ 14,340  | \$26,565  | \$10,450                                | \$ 16,115  | \$13,856  | \$5,223                                 | \$ 8,633   |
| Funded status of defined benefit plan                        | (122,465 )  | (47,957 )                               | (74,508 )  | (125,255 )  | (49,049 )                               | (76,206 )  | (72,694 )   | (28,859 )                               | (43,835 )  |
| Unrealized loss on cash flow hedge                           | (10,325 )   | (4,077 )                                | (6,248 )   | (10,714 )   | (4,231 )                                | (6,483 )   | (7,775 )  | (3,070 )                                | (4,705 )   |
| Total  | \$(109,123)   | \$(42,707)                              | \$(66,416)   | \$(109,404)   | \$(42,830)                              | \$(66,574)   | \$(66,613)  | \$(26,706)                              | \$(39,907)   |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management's discussion and analysis of earnings and related financial data are presented to assist in understanding the financial condition and results of operations of First Citizens BancShares, Inc. and Subsidiaries (BancShares). This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and related notes presented within this report. Intercompany accounts and transactions have been eliminated. Although certain amounts for prior years have been reclassified to conform to statement presentations for 2012, the reclassifications have no effect on shareholders' equity or net income as previously reported. Unless otherwise noted, the terms we, us and BancShares refer to the consolidated financial position and consolidated results of operations for BancShares.

BancShares is a financial holding company headquartered in Raleigh, North Carolina that offers full-service banking through its wholly-owned banking subsidiary, First-Citizens Bank & Trust Company (FCB), a North Carolina-chartered bank. Prior to 2011, BancShares operated through two wholly-owned subsidiaries, First-Citizens Bank & Trust Company (FCB) and IronStone Bank (ISB). On January 7, 2011, ISB was merged into FCB. FCB is a state-chartered bank organized under the laws of the state of North Carolina and ISB was a federally-charted thrift institution. As of March 31, 2012, FCB operated 430 branches in North Carolina, Virginia, West Virginia, Maryland, Tennessee, Washington, California, Florida, Georgia, Texas, Arizona, New Mexico, Oregon, Colorado, Oklahoma, Kansas, Missouri and Washington, DC.

While our growth has historically been achieved primarily through de novo activities, since mid-2009 BancShares has participated in six FDIC-assisted transactions involving failed financial institutions. These transactions have had a significant impact on BancShares' financial condition and results of operations in subsequent periods.

FDIC-ASSISTED TRANSACTIONS

FDIC-assisted transactions have provided significant growth opportunities for BancShares during 2011, 2010, and 2009. These transactions have allowed us to increase our presence in markets in which we presently operate, and to expand our banking presence to contiguous markets. Additionally, purchase discounts and fair value adjustments on acquired assets and assumed liabilities resulted in significant acquisition gains recorded at the time of each acquisition. All of the FDIC-assisted transactions include loss share agreements which protect us from a substantial portion of the credit and asset quality risk that we would otherwise incur.

Acquisition accounting and issues affecting comparability of financial statements. As estimated exposures related to the acquired assets covered by the loss share agreements change based on post-acquisition events, our adherence to accounting principles generally accepted in the United States of America (US GAAP) and accounting policy elections that we have made affect the comparability of our current results of operations to earlier periods. Adjustments affecting assets covered by loss share agreements are recorded on a gross basis. Several of the key issues affecting comparability are as follows:

• When post acquisition events suggest that the amount of cash flows we will ultimately receive for a loan covered by a loss share agreement is less than originally expected:

An allowance for loan and lease losses is established for the post-acquisition exposure that has emerged with a corresponding charge to provision for loan and lease losses;

The receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding increase to noninterest income;

• When post acquisition events suggest that the amount of cash flows we will ultimately receive for a loan covered under a loss share agreement is greater than originally expected:

Any allowance for loan and lease losses that was previously established for post-acquisition exposure is reversed with a corresponding reduction to provision for loan and lease losses; if no allowance was established in earlier periods, the amount of the improvement in the cash flow projection results in a reclassification from the nonaccretable difference created at the acquisition date to an accretable yield; the newly-identified accretable yield is accreted into income in future periods over the remaining life of the loan as a credit to interest income;

The receivable from the FDIC is adjusted immediately for reversals of previously recognized impairment and prospectively for reclassifications from non-accretable difference to reflect the indemnified portion of the post-acquisition change in exposure. A corresponding reduction in noninterest income is also recorded immediately or over the shorter of the remaining life of the related loan or loss share agreement;

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When actual payments received on loans are greater than initial estimates, large nonrecurring discount accretion may be recognized during a specific period; discount accretion is recognized as an increase to interest income. Adjustments to the FDIC receivable resulting from changes in estimated loan cash flows are based on the reimbursement provision of the applicable loss share agreement with the FDIC. Adjustments to the FDIC receivable partially offset the adjustment to the covered loan carrying value, but the rate of the change to the FDIC receivable relative to the change in the covered loan carrying value is not constant. The loss share agreements establish reimbursement rates for losses incurred within certain ranges. In some loss share agreements, higher loss estimates result in higher reimbursement rates, while in other loss share agreements, higher loss estimates trigger a reduction in the reimbursement rates. In addition, some of the loss share agreements include clawback provisions that require the purchaser to remit a payment to the FDIC in the event that the aggregate amount of losses is less than a loss estimate established by the FDIC. The adjustments to the FDIC receivable based on changes in loss estimates are measured based on the actual reimbursement rates and consider the impact of changes in the projected clawback payment. Table 2 provides details on the various reimbursement rates for each loss share agreement.

Balance sheet impact. Table 1 provides information regarding the six FDIC-assisted transactions consummated during 2011, 2010 and 2009. Adjustments to acquisition date fair values are subject to change for one year following the closing date of each respective acquisition. No adjustments were made to previously reported fair values during the first quarter of 2012.

## FDIC-ASSISTED TRANSACTIONS

Table 1

| Entity                               | Date of transaction | Fair value of  |                  | Short-term borrowings assumed | Long-term obligations assumed | Gains on acquisition |
|--------------------------------------|---------------------|----------------|------------------|-------------------------------|-------------------------------|----------------------|
|                                      |                     | Loans acquired | Deposits assumed |                               |                               |                      |
|                                      |                     | (thousands)    |                  |                               |                               |                      |
| Colorado Capital Bank (CCB)          | July 8, 2011        | \$322,162      | \$606,501        | \$15,212                      | \$—                           | \$86,943             |
| United Western Bank (United Western) | January 21, 2011    | 759,351        | 1,604,858        | 336,853                       | 207,627                       | 63,474               |
| Sun American Bank (SAB)              | March 5, 2010       | 290,891        | 420,012          | 42,533                        | 40,082                        | 27,777               |
| First Regional Bank (First Regional) | January 29, 2010    | 1,260,249      | 1,287,719        | 361,876                       | —                             | 107,738              |
| Venture Bank (VB)                    | September 11, 2009  | 456,995        | 709,091          | —                             | 55,618                        | 48,000               |
| Temecula Valley Bank (TVB)           | July 17, 2009       | 855,583        | 965,431          | 79,096                        | —                             | 56,400               |
| Total                                |                     | \$3,945,231    | \$5,593,612      | \$835,570                     | \$303,327                     | \$390,332            |

US GAAP permits acquired loans to be accounted for in designated pools based on common risk characteristics. For all CCB loans and for United Western residential mortgage loans, we assigned loans to pools based on various factors including loan type, collateral type and performance status. When loans are pooled, improvements in some loans within a pool may offset against deterioration in other loans within the same pool resulting in less volatility in net interest income and provision for loan and lease losses. The CCB loans had a fair value of \$320.8 million at the acquisition date; the residential mortgage loans acquired from United Western had a fair value of \$223.1 million at the acquisition date. All other acquired loans are not assigned to loan pools and are being accounted for at the individual loan level. The non-pool election for the majority of our acquired loans could potentially accentuate volatility in net interest income and the provision for loan and lease losses.

Income statement impact. The six FDIC-assisted transactions created acquisition gains recognized at the time of the respective transaction. No acquisition gains were recorded for the three-month period ended March 31, 2012 and acquisition gains of \$63.5 million were recorded for the corresponding period of 2011 relating to the United Western transaction. Additionally, the acquired loans, assumed deposits and assumed borrowings originated by the six banks have affected net interest income, provision for loan and lease losses and noninterest income. Increases to noninterest expense have resulted from incremental staffing and facility costs for the branch locations resulting from the

FDIC-assisted transactions. Various fair value discounts and premiums that were previously recorded are being accreted and amortized into income over the life of the underlying asset or liability.

As previously discussed, post-acquisition changes that affect the amount of expected cash flows can result in recognition of provision for loan and lease losses or the reversal of previously-recognized provision for loan and lease losses. During the three-month period ended March 31, 2012 total provision for loan losses related to acquired loans equaled \$9.6 million compared to \$32.6 million during the same period of 2011. The decrease in the provision for covered loan losses in 2012 is the result of lower charge-offs and less post-acquisition deterioration on the remaining loans.

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During the three-month period ended March 31, 2012, total discount accretion for loans for which a fair value discount had been recorded, equaled \$64.9 million compared to \$51.7 million during the same period of 2011. Accretion income is generated by recognizing accretable yield over the life of acquired loans. Accretable yield is the difference in the expected cash flows and the fair value of acquired loans. The amount of accretable yield related to the loans can change if the estimated cash flows expected to be collected changes subsequent to the initial estimates. Further, the recognition of accretion income can be accelerated in the event of large unscheduled repayments, loan payoffs, other loan settlements for amounts in excess of original estimates, and various other post-acquisition events. Due to the many factors that can influence the amount of accretion income recognized in a given period, this component of net interest income is not easily predictable for future periods and impacts the comparability of interest income, net interest income, and overall results of operations.

Unscheduled prepayment of loan balances and post-acquisition deterioration of covered loans also result in adjustments to the FDIC receivable for changes in the estimated amount that would be covered under the respective loss share agreement. During the three-month period ended March 31, 2012, the adjustment to the FDIC receivable resulting from large unscheduled payments and other favorable adjustments exceeded the amount of the adjustment for post-acquisition deterioration, resulting in a net reduction to the FDIC receivable and a net charge of \$26.8 million to noninterest income compared to a net reduction in the receivable and a corresponding reduction in noninterest income of \$10.4 million during the same period of 2011. When compared to the first quarter of 2011, adjustments to the FDIC receivable resulted in a \$16.4 million net decrease in noninterest income for the first quarter of 2012.

The various terms of each loss share agreement and the components of the resulting FDIC receivable is provided in Table 2 below. The table includes the estimated fair value of the FDIC receivable at the respective acquisition dates of each FDIC-assisted transaction as well as the carrying value of the FDIC receivable for each transaction at March 31, 2012. Additionally, the portion of the carrying value of the receivable that relates to accretable yield from improvements in acquired loan cash flows subsequent to acquisition is provided for each loss share agreement. This component of the FDIC receivable will be recognized as a reduction to noninterest income over the shorter of the remaining life of the associated receivables or the related loss share agreement. The fair value of the FDIC receivable at the respective acquisition dates and the carrying value as of March 31, 2012 include estimated obligations to the FDIC under any applicable clawback provisions.



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Table 2

## LOSS SHARE PROVISIONS AND RECEIVABLE FROM FDIC

| Entity/Loss ranges                      | FDIC receivable    |                                |                                  | Receivable related to accretable yield as of March 31, 2012 | Losses/expenses realized through March 31, 2012 |   |   |
|---|--------------------|--------------------------------|----------------------------------|---|---|---|---|
|   | Reimbursement rate | Fair value at acquisition date | Carrying value at March 31, 2012 |   | Amount incurred                                 | Cumulative amount reimbursed by FDIC through March 31, 2012 | Amount claimed from FDIC for March 31, 2012 filings |
| (dollars in thousands)                  |                    |                                |                                  |   |   |   |   |
| TVB - combined losses                   |                    | \$ 103,558                     | \$ 92,999                        | \$ 24,404   | \$ 178,505                                      | \$—   | \$—   |
| Losses up to \$193,262                  | 0%                 |                                |                                  |   |   |   |   |
| Losses between \$193,262 and \$464,000  | 80%                |                                |                                  |   |   |   |   |
| Losses above \$464,000                  | 95%                |                                |                                  |   |   |   |   |
| No clawback provision applies           |                    |                                |                                  |   |   |   |   |
| VB - combined losses                    |                    | 138,963                        | 30,068                           | 7,850   | 144,186   | 114,311   | 1,039   |
| Losses up to \$235,000                  | 80%                |                                |                                  |   |   |   |   |
| Losses above \$235,000                  | 95%                |                                |                                  |   |   |   |   |
| No clawback provision applies           |                    |                                |                                  |   |   |   |   |
| First Regional - combined losses        |                    | 378,695                        | 69,163                           | 16,598  | 306,894   | 196,699   | 15,361  |
| Losses up to \$41,815                   | 0%                 |                                |                                  |   |   |   |   |
| Losses between \$41,815 and \$1,017,000 | 80%                |                                |                                  |   |   |   |   |
| Losses above \$1,017,000                | 95%                |                                |                                  |   |   |   |   |
| Clawback provisions apply               |                    |                                |                                  |   |   |   |   |
| SAB - combined losses                   |                    | 89,734                         | 34,542                           | 5,938   | 73,556  | 56,130  | 2,715   |
| Losses up to \$99,000                   | 80%                |                                |                                  |   |   |   |   |
| Losses above \$99,000                   | 95%                |                                |                                  |   |   |   |   |
| Clawback provisions apply               |                    |                                |                                  |   |   |   |   |

|   |     |             |           |           |           |           |          |
|---|-----|-------------|-----------|-----------|-----------|-----------|----------|
| United Western                                  |     |             |           |           |           |           |          |
| Non-single family residential losses            |     |             |           |           |           |           |          |
| Losses up to \$111,517                          | 80% | 112,672     | 35,099    | 34,301    | 90,768    | 66,989    | 5,876    |
| Losses between \$111,517 and \$227,032          | 30% |             |           |           |           |           |          |
| Losses above \$227,032                          | 80% |             |           |           |           |           |          |
| Single family residential losses                |     |             |           |           |           |           |          |
| Losses up to \$32,489                           | 80% | 24,781      | 18,141    | 201       | 802       | 549       | 93       |
| Losses between \$32,489 and \$57,653            | 0%  |             |           |           |           |           |          |
| Losses above \$57,653                           | 80% |             |           |           |           |           |          |
| Clawback provisions apply CCB - combined losses |     |             |           |           |           |           |          |
| Losses up to \$230,991                          | 80% | 155,070     | 130,339   | 12,844    | 97,752    | 34,432    | 43,811   |
| Losses between \$230,991 and \$285,947          | 0%  |             |           |           |           |           |          |
| Losses above \$285,947                          | 80% |             |           |           |           |           |          |
| Clawback provisions apply                       |     |             |           |           |           |           |          |
| Total   |     | \$1,003,473 | \$410,351 | \$102,136 | \$892,463 | \$469,110 | \$68,895 |

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EXECUTIVE OVERVIEW AND PERFORMANCE SUMMARY

BancShares' earnings and cash flows are primarily derived from our commercial banking activities. We offer commercial and consumer loans, deposit and treasury services products, cardholder and merchant services, wealth management services as well as various other products and services typically offered by commercial banks. We gather deposits from retail and commercial customers and also secure funding through various non-deposit sources. We invest the liquidity generated from these funding sources in interest-earning assets including loans and leases, investment securities and overnight investments. We also invest in the bank premises, furniture and equipment used to conduct our commercial banking business.

Various external factors influence the focus of our business efforts. Due to unprecedented asset quality challenges, capital shortages and a lingering global economic recession, the U.S. banking industry has experienced serious financial challenges beginning in 2008, and those pressures have continued into the first quarter of 2012. During this period of industry-wide turmoil, we have elected to participate in FDIC-assisted transactions involving distressed financial institutions. Participation in FDIC-assisted transactions has created opportunities to increase our business volumes in markets in which we presently operate and to expand our banking presence to adjacent markets which we deem demographically attractive. For each of the six FDIC-assisted transactions that we have completed as of March 31, 2012, loss share agreements protect us from a substantial portion of the asset quality risk that we would otherwise incur. Additionally, purchase discounts and fair value adjustments on acquired assets and assumed liabilities have resulted in significant acquisition gains that have constituted a substantial portion of the equity required to fund the transactions.

Despite the recognition of significant acquisition gains in 2009, 2010 and 2011, our core earnings are pressured by recessionary economic conditions, tight interest margins, newly imposed restrictions on our ability to collect certain fees from our customers, and a relatively high level of difficulty for businesses and consumers to meet their debt service obligations. Other customers continue to repay existing debt or defer new borrowings due to lingering economic uncertainty, resulting in continuing soft demand for loan products.

Real estate demand in many of our markets remains weak, resulting in continued depressed real estate prices that have adversely affected collateral values for many borrowers. In an effort to assist customers experiencing financial difficulty, we have selectively agreed to modify existing loan terms to provide relief to customers who are experiencing liquidity challenges or other circumstances that could affect their ability to meet debt obligations. These efforts have resulted in an increase in troubled debt restructurings during 2012 and 2011. The majority of the modifications we provide are to customers that are currently performing under existing terms, but may be unable to do so in the near future without a modification.

The demand for our deposit and treasury services products has been adversely influenced by extraordinarily low interest rates, but favorably by the instability in alternative investment markets. Our balance sheet liquidity position remains strong despite our participation in FDIC-assisted transactions and the liquidity management challenge of retaining assumed deposits at a reasonable cost.

Ongoing economic weakness continues to have a significant impact on virtually all financial institutions in the United States. Beyond the profitability pressures resulting from a weak economy, financial institutions continue to face challenges resulting from legislative and governmental efforts to stabilize the financial services industry and provide consumer protection. In addition to the various actions previously enacted by governmental agencies and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), further changes will occur likely leading to higher capital requirements and additional compliance costs for the banking industry.

One of the provisions of the Dodd-Frank Act required the Federal Reserve to adopt rules regarding the interchange fees that may be charged by banks for electronic debit transactions. The final rules required that interchange rates be reduced to the promulgated limits outlined in the regulations beginning October 2011. As a result of the interchange limits, our cardholder and merchant services income declined significantly and will continue to be adversely affected throughout 2012.

We operate in diverse geographic markets and can increase our business volumes and profitability by offering competitive products and superior customer service. In addition to our focus on retaining customers of the six banks

involved in the FDIC-assisted transactions, we continue to concentrate our marketing efforts on business owners, medical and other professionals and financially active individuals. We seek to increase fee income in wealth management, cardholder and merchant services, mortgage banking and insurance and treasury services. BancShares' consolidated net income during the first quarter of 2012 equaled \$35.5 million, a decrease of \$26.3 million from the \$61.8 million earned during the corresponding period of 2011. The annualized return on average assets and equity amounted to 0.68 percent and 7.63 percent respectively, during the first quarter of 2012, compared to 1.18 percent and 14.30 percent during the same period of 2011. Net income per share during the first quarter of 2012 totaled \$3.45, compared to \$5.92 during the first quarter of 2011.

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The decrease in net income in 2012 was due primarily to the gain on the United Western transaction recorded in the first quarter of 2011 which resulted in an after-tax increase in net income of \$38.6 million. No acquisition gains were recorded in the first quarter of 2012. The absence of acquisition gains in 2012 was partially offset by higher net interest income and reductions in the provision for loan and lease losses and noninterest expense.

Net interest income increased \$17.0 million from \$204.0 million in the first quarter of 2011 to \$221.0 million in 2012. This increase is a result of higher discount accretion during 2012 as well as lower funding costs. The taxable-equivalent net yield on interest-earning assets increased by 44 basis points from 4.36 percent in the first quarter 2011 to 4.80 percent in 2012 due to the favorable impact of yields on acquired loans and lower rates on deposits. The impact of accreted loan discounts resulting from large unscheduled prepayments on acquired loans significantly impacted the taxable-equivalent net yield on interest-earning assets. Since large unscheduled prepayments are unpredictable, the yield on interest-earning assets may decline in future periods.

The provision for loan and lease losses recorded during the first quarter of 2012 equaled \$30.7 million, compared to \$44.4 million during the first quarter of 2011. The decrease was caused by lower levels of post-acquisition deterioration of acquired loans covered by loss share agreements with the FDIC. To the extent that the deterioration is covered by a loss share agreement, there is a corresponding adjustment to the FDIC receivable with an offset to noninterest income for the covered portion at the appropriate indemnification rate.

Noninterest income decreased \$82.6 million in the first quarter of 2012 when compared to the first quarter of 2011 due primarily to \$63.5 million in acquisition gains recorded in 2011, adjustments to the FDIC receivable for assets covered by loss share agreements and lower cardholder and merchant services income.

Noninterest expense declined \$6.7 million or 3.5 percent in the first quarter of 2012 when compared to the same period in 2011. The decrease was due to lower FDIC insurance expense and external processing costs partially offset by higher hardware and software expenses.

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## SELECTED QUARTERLY DATA

Table 3

|   | 2012                                      | 2011         |              |              |              |
|---|---|--------------|--------------|--------------|--------------|
|   | First                                     | Fourth       | Third        | Second       | First        |
|   | Quarter                                   | Quarter      | Quarter      | Quarter      | Quarter      |
|   | (thousands, except share data and ratios) |              |              |              |              |
| <b>SUMMARY OF OPERATIONS</b>                                  |   |              |              |              |              |
| Interest income   | \$246,752                                 | \$272,176    | \$252,179    | \$245,604    | \$245,200    |
| Interest expense  | 25,800                                    | 29,758       | 34,992       | 38,229       | 41,213       |
| Net interest income   | 220,952                                   | 242,418      | 217,187      | 207,375      | 203,987      |
| Provision for loan and lease losses                           | 30,715                                    | 89,253       | 44,628       | 53,977       | 44,419       |
| Net interest income after provision for loan and lease losses | 190,237                                   | 153,165      | 172,559      | 153,398      | 159,568      |
| Gains on acquisitions   | —   | —            | 87,788       | —            | 63,474       |
| Other noninterest income                                      | 46,943                                    | 105,238      | 75,956       | 66,649       | 66,106       |
| Noninterest expense   | 183,331                                   | 211,583      | 203,832      | 187,482      | 190,028      |
| Income before income taxes                                    | 53,849                                    | 46,820       | 132,471      | 32,565       | 99,120       |
| Income taxes  | 18,354                                    | 16,273       | 50,536       | 11,265       | 37,360       |
| Net income  | \$35,495                                  | \$30,547     | \$81,935     | \$21,300     | \$61,760     |
| Net interest income, taxable equivalent                       | \$221,765                                 | \$243,309    | \$218,178    | \$208,301    | \$204,939    |
| <b>PER SHARE DATA</b>   |   |              |              |              |              |
| Net income  | \$3.45                                    | \$2.97       | \$7.91       | \$2.04       | \$5.92       |
| Cash dividends  | 0.30                                      | 0.30         | 0.30         | 0.30         | 0.30         |
| Market price at period end (Class A)                          | 182.69                                    | 174.99       | 143.54       | 187.22       | 200.58       |
| Book value at period end                                      | 184.14                                    | 180.97       | 181.58       | 174.11       | 171.46       |
| <b>SELECTED QUARTERLY AVERAGE BALANCES</b>                    |   |              |              |              |              |
| Total assets  | \$20,843,491                              | \$21,042,227 | \$21,157,741 | \$21,042,081 | \$21,385,014 |
| Investment securities   | 4,141,160                                 | 4,056,949    | 4,082,574    | 4,162,397    | 4,568,205    |
| Loans and leases (covered and noncovered)                     | 13,822,226                                | 14,093,034   | 14,173,224   | 14,028,109   | 13,904,054   |
| Interest-earning assets                                       | 18,584,625                                | 18,670,998   | 18,821,838   | 18,742,282   | 19,067,378   |
| Deposits  | 17,498,813                                | 17,679,125   | 17,772,429   | 17,678,210   | 18,065,652   |
| Interest-bearing liabilities                                  | 14,478,901                                | 14,635,353   | 14,991,875   | 15,018,805   | 15,543,484   |
| Long-term obligations   | 682,067                                   | 713,378      | 753,685      | 797,375      | 802,720      |
| Shareholders' equity  | \$1,870,066                               | \$1,869,479  | \$1,830,503  | \$1,803,385  | \$1,752,129  |
| Shares outstanding  | 10,283,842                                | 10,286,271   | 10,363,964   | 10,422,857   | 10,434,453   |
| <b>SELECTED QUARTER-END BALANCES</b>                          |   |              |              |              |              |
| Total assets  | \$21,143,628                              | \$20,881,493 | \$21,015,344 | \$21,021,650 | \$21,167,495 |
| Investment securities   | 4,459,427                                 | 4,058,245    | 3,996,768    | 4,016,339    | 4,204,357    |
| Loans and leases:   |   |              |              |              |              |
| Covered under loss share agreements                           | 2,183,869                                 | 2,362,152    | 2,557,450    | 2,399,738    | 2,658,134    |
| Not covered under loss share agreements                       | 11,489,529                                | 11,581,637   | 11,603,526   | 11,528,854   | 11,392,351   |
| Deposits  | 17,759,492                                | 17,577,274   | 17,663,275   | 17,662,966   | 17,811,736   |
| Long-term obligations   | 649,818                                   | 687,599      | 744,839      | 792,661      | 801,081      |

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|                      |             |             |             |             |             |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Shareholders' equity | \$1,892,123 | \$1,861,128 | \$1,871,930 | \$1,810,189 | \$1,788,214 |
| Shares outstanding   | 10,275,731  | 10,284,119  | 10,309,251  | 10,396,765  | 10,434,453  |

SELECTED RATIOS AND OTHER  
DATA

|   |       |       |       |       |       |   |
|---|-------|-------|-------|-------|-------|---|
| Rate of return on average assets<br>(annualized)  | 0.68  | %0.58 | %1.55 | %0.42 | %1.18 | % |
| Rate of return on average<br>shareholders'<br>equity (annualized)                         | 7.63  | 6.48  | 17.95 | 4.94  | 14.30 |   |
| Net yield on interest-earning assets<br>(taxable equivalent)                              | 4.80  | 5.17  | 4.60  | 4.46  | 4.36  |   |
| Allowance for loan and lease losses<br>to total loans and leases:                         |       |       |       |       |       |   |
| Covered by loss share<br>agreements   | 3.94  | 3.78  | 2.93  | 2.89  | 2.08  |   |
| Not covered by loss share<br>agreements   | 1.62  | 1.56  | 1.54  | 1.57  | 1.56  |   |
| Nonperforming assets to total loans<br>and leases and other real estate at<br>period end: |       |       |       |       |       |   |
| Covered by loss share<br>agreements   | 18.68 | 17.95 | 16.64 | 16.39 | 12.92 |   |
| Not covered by loss share<br>agreements   | 0.99  | 0.89  | 0.93  | 1.06  | 1.13  |   |
| Tier 1 risk-based capital ratio   | 15.74 | 15.41 | 15.46 | 15.38 | 15.24 |   |
| Total risk-based capital ratio  | 17.62 | 17.27 | 17.33 | 17.27 | 17.32 |   |
| Leverage capital ratio  | 10.16 | 9.90  | 9.83  | 9.50  | 9.35  |   |
| Dividend payout ratio   | 8.70  | 10.10 | 3.79  | 14.71 | 5.07  |   |
| Average loans and leases to average<br>deposits   | 78.99 | 79.72 | 79.75 | 79.35 | 76.96 |   |

Average loan and lease balances include nonaccrual loans and leases. See discussion of issues affecting comparability of financial statements under the caption FDIC-Assisted Transactions.

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## INTEREST-EARNING ASSETS

Interest-earning assets include loans and leases, investment securities, and overnight investments, all of which reflect varying interest rates based on the risk level and repricing characteristics of the underlying asset. Riskier investments typically carry a higher interest rate, but expose us to potentially increased levels of default.

We have historically focused on maintaining high asset quality, which results in a loan and lease portfolio subjected to strenuous underwriting and monitoring procedures with a concentration of owner-occupied real estate loans in the medical, dental and related fields. The focus on asset quality also influences the composition of our investment securities portfolio. At March 31, 2012, the mix of our investment securities portfolio is comprised of 23.9 percent United States Treasury securities, 64.0 percent United States government agency securities, 5.1 percent corporate bonds issued under the FDIC's Treasury Liquidity Guaranty Program and 6.6 percent residential mortgage-backed securities. Overnight investments are selectively made with the Federal Reserve Bank and other financial institutions that are within our risk tolerance.

During 2012 and 2011, changes in interest-earning assets primarily reflect the impact of assets acquired in the FDIC-assisted transactions and modest deposit growth within our legacy markets. During the first quarter of 2012, interest-earning assets averaged \$18.58 billion, a decrease of \$482.8 million or 0.0 percent from the first quarter of 2011. The decrease was caused by continued loan and deposit reductions in the 2009 and 2010 acquisition markets offset by the impact of the acquisition of assets and assumption of deposits from United Western and CCB in 2011. Loans and leases. Total noncovered loans and leases increased from March 31, 2011 due to moderately improved commercial loan demand offset by lower levels of consumer loans and construction loans. Total noncovered loans have increased \$97.2 million from \$11.39 billion at March 31, 2011 to \$11.49 billion at March 31, 2012 but declined \$92.1 million since December 31, 2011.

Loans covered by loss share agreements with the FDIC totaled \$2.18 billion at March 31, 2012 compared to \$2.36 billion at December 31, 2011 and \$2.66 billion at March 31, 2011. The balance and mix of covered loans as of March 31, 2012 was impacted by the loans acquired in the CCB transaction during the third quarter of 2011 as well as the continued run-off of acquired loans. Table 4 provides the composition of covered loan and leases.

Commercial mortgage loans not covered by loss share agreements totaled \$5.13 billion at March 31, 2012, 44.6 percent of noncovered loans and leases. This balance represents an increase of \$23.0 million or 0.4 percent since December 31, 2011 and \$364.6 million or 7.7 percent since March 31, 2011. The sustained growth reflects our continued focus on small business customers, particularly among medical-related and other professional customers. These loans are underwritten based primarily upon the cash flow from the operation of the business rather than the value of the real estate collateral.

At March 31, 2012, revolving mortgage loans not covered by loss share agreements totaled \$2.28 billion, representing 19.9 percent of total noncovered loans outstanding, a decrease of \$14.2 million or 0.6 percent since December 31, 2011 and \$17.5 million or 0.8 percent compared to March 31, 2011. The lack of growth in revolving mortgage loans from 2011 is a result of reduced demand for consumer borrowing.

At March 31, 2012, commercial and industrial loans not covered by loss share agreements equaled \$1.74 billion or 15.1 percent of total noncovered loans and leases, a reduction of \$24.7 million or 1.4 percent since December 31, 2011 and \$52.3 million or 2.9 percent since March 31, 2011. Weak economic conditions have limited our ability to originate commercial and industrial loans that meet our underwriting standards. .

Commercial construction and land development loans not covered by loss share agreements totaled \$346.6 million or 3.0 percent of total loans at March 31, 2012, a decrease of \$27.2 million or 7.3 percent since March 31, 2011. This decrease was driven by increased charge-off and foreclosure activity in the construction and land development portfolio as well as a reduction in originations. The noncovered construction and land development loans are generally not comprised of loans to builders to acquire, develop or construct homes in large tracts of real estate, and are located in North Carolina and Virginia where residential real estate values have declined less severely than other markets in which we operate.

Consumer loans not covered by loss share agreements totaled \$451.1 million at March 31, 2012 down \$140.4 million or 23.7 percent since March 31, 2011 and down \$46.3 million or 9.3 percent from December 31, 2011. This decline results from our decision during 2008 to discontinue originations of automobile sales finance loans through our dealer



network and the general contraction in consumer borrowing in 2011 and 2012 due to recessionary economic conditions.

Residential mortgage loans not covered by loss share agreements totaled \$793.6 million at March 31, 2012 down \$15.0 million or 1.9 percent since March 31, 2011 and down \$9.5 million or 1.2 percent from December 31, 2011. The majority of residential mortgage loans that we originated in 2011 and in the first quarter of 2012 were sold to investors while certain loans are retained in the loan portfolio principally due to the nonconforming characteristics of the retained loans.

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Commercial mortgage loans covered by loss share agreements totaled \$1.20 billion at March 31, 2012, representing 54.7 percent of the total covered portfolio compared to \$1.26 billion at December 31, 2011 and \$1.43 billion at March 31, 2011. Commercial construction and land development loans covered by loss share agreements totaled \$310.6 million, or 14.2 percent of total covered loans at March 31, 2012, a decrease of \$28.3 million from the December 31, 2011 total and \$91.7 million from the March 31, 2011 total. Covered residential mortgage loans totaled \$298.5 million or 13.7 percent of the covered portfolio as of March 31, 2012 compared to \$327.6 million or 13.9 percent of total covered loans at December 31, 2011. The changes in covered loan balances since December 31, 2011 and from March 31, 2011 are caused by continued reductions of outstanding loans from the FDIC-assisted transactions from foreclosure, payoffs and normal run-off offset by the acquisition of loans from CCB in July 2011. We expect non-acquisition loan growth for the next several quarters to be limited due to the generally weak demand for loans and widespread customer desire to deleverage. Loan projections are subject to change due to further economic deterioration or improvement and other external factors.

## LOANS AND LEASES

Table 4

|                                   | 2012          | 2011           |               |                |               |
|-----------------------------------|---------------|----------------|---------------|----------------|---------------|
|                                   | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Covered loans                     | \$2,183,869   | \$2,362,152    | \$2,557,450   | \$ 2,399,738   | \$2,658,134   |
| Noncovered loans and leases:      |               |                |               |                |               |
| Commercial:                       |               |                |               |                |               |
| Construction and land development | 346,557       | 381,163        | 416,719       | 407,134        | 373,769       |
| Commercial mortgage               | 5,127,948     | 5,104,993      | 4,996,036     | 4,861,457      | 4,763,393     |
| Other commercial real estate      | 150,316       | 144,771        | 144,538       | 148,977        | 147,150       |
| Commercial and industrial         | 1,739,724     | 1,764,407      | 1,797,581     | 1,805,812      | 1,792,042     |
| Lease financing                   | 315,704       | 312,869        | 304,039       | 303,104        | 295,994       |
| Other                             | 149,792       | 158,369        | 158,782       | 170,758        | 174,370       |
| Total commercial loans            | 7,830,041     | 7,866,572      | 7,817,695     | 7,697,242      | 7,546,718     |
| Non-commercial:                   |               |                |               |                |               |
| Residential mortgage              | 793,612       | 784,118        | 816,738       | 825,610        | 808,650       |
| Revolving mortgage                | 2,282,138     | 2,296,306      | 2,302,482     | 2,303,687      | 2,299,668     |
| Construction and land development | 132,677       | 137,271        | 139,185       | 145,445        | 145,864       |
| Consumer                          | 451,061       | 497,370        | 527,426       | 556,870        | 591,451       |
| Total non-commercial loans        | 3,659,488     | 3,715,065      | 3,785,831     | 3,831,612      | 3,845,633     |
| Total noncovered loans and leases | 11,489,529    | 11,581,637     | 11,603,526    | 11,528,854     | 11,392,351    |
| Total loans and leases            | \$13,673,398  | \$13,943,789   | \$14,160,976  | \$ 13,928,592  | \$14,050,485  |

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|   | March 31, 2012                        |                       |                | December 31, 2011                     |                       |                | March 31, 2011                        |                       |                |
|---|---------------------------------------|-----------------------|----------------|---------------------------------------|-----------------------|----------------|---------------------------------------|-----------------------|----------------|
|   | Impaired<br>at<br>acquisition<br>date | All other<br>acquired | Total<br>loans | Impaired<br>at<br>acquisition<br>date | All other<br>acquired | Total<br>loans | Impaired<br>at<br>acquisition<br>date | All other<br>acquired | Total<br>loans |
| Loans covered<br>by loss share<br>agreements:         |                                       |                       |                |                                       |                       |                |                                       |                       |                |
| Commercial:   |                                       |                       |                |                                       |                       |                |                                       |                       |                |
| Construction<br>and land<br>development               | \$ 100,736                            | \$ 209,865            | \$ 310,601     | \$ 117,603                            | \$ 221,270            | \$ 338,873     | \$ 112,271                            | \$ 290,045            | \$ 402,316     |
| Commercial<br>mortgage                                | 122,876                               | 1,072,665             | 1,195,541      | 138,465                               | 1,122,124             | 1,260,589      | 141,869                               | 1,290,763             | 1,432,632      |
| Other   |                                       |                       |                |                                       |                       |                |                                       |                       |                |
| commercial real<br>estate                             | 31,727                                | 113,251               | 144,978        | 33,370                                | 125,024               | 158,394        | 36,338                                | 126,967               | 163,305        |
| Commercial and<br>industrial                          | 17,397                                | 75,864                | 93,261         | 27,802                                | 85,640                | 113,442        | 31,124                                | 139,917               | 171,041        |
| Lease financing                                       | —                                     | 45                    | 45             | —                                     | 57                    | 57             | 22                                    | 249                   | 271            |
| Other   | —                                     | 1,283                 | 1,283          | —                                     | 1,330                 | 1,330          | —                                     | 1,729                 | 1,729          |
| Total<br>commercial<br>loans                          | 272,736                               | 1,472,973             | 1,745,709      | 317,240                               | 1,555,445             | 1,872,685      | 321,624                               | 1,849,670             | 2,171,294      |
| Noncommercial:  |                                       |                       |                |                                       |                       |                |                                       |                       |                |
| Residential<br>mortgage                               | 46,905                                | 251,633               | 298,538        | 46,130                                | 281,438               | 327,568        | 19,846                                | 327,547               | 347,393        |
| Revolving<br>mortgage                                 | 14,125                                | 35,891                | 50,016         | 15,350                                | 36,202                | 51,552         | 7,341                                 | 16,068                | 23,409         |
| Construction<br>and land<br>development               | 56,722                                | 28,833                | 85,555         | 78,108                                | 27,428                | 105,536        | 56,829                                | 54,596                | 111,425        |
| Consumer  | 1,453                                 | 2,598                 | 4,051          | 1,477                                 | 3,334                 | 4,811          | 140                                   | 4,473                 | 4,613          |
| Total<br>noncommercial<br>loans                       | 119,205                               | 318,955               | 438,160        | 141,065                               | 348,402               | 489,467        | 84,156                                | 402,684               | 486,840        |
| Total loans<br>covered by loss<br>share<br>agreements | \$ 391,941                            | \$ 1,791,928          | \$ 2,183,869   | \$ 458,305                            | \$ 1,903,847          | \$ 2,362,152   | \$ 405,780                            | \$ 2,252,354          | \$ 2,658,134   |

Investment securities. Investment securities available for sale equaled \$4.46 billion at March 31, 2012, compared to \$4.06 billion at December 31, 2011 and \$4.20 billion at March 31, 2011. Available for sale securities are reported at their aggregate fair value, and unrealized gains and losses are included as a component of other comprehensive income, net of deferred taxes.

Changes in the investment securities portfolio result from trends among loans and leases, deposits and short-term borrowings. When inflows arising from deposit and treasury services products exceed loan and lease demand, we invest excess funds in the securities portfolio. Conversely, when loan demand exceeds growth in deposits and short-term borrowings, we allow overnight investments to decline and use proceeds from maturing securities to fund

loan demand. Details of investment securities at March 31, 2012 and March 31, 2011 are provided in Table 5. Income on interest-earning assets. Interest income amounted to \$246.8 million during the first quarter of 2012, a \$1.6 million or 0.6 percent increase from the first quarter of 2011. The increase in interest income resulted from higher yields on loans resulting from an increase in accretable yield recognized on acquired loans. Average interest-earning assets decreased \$482.8 million or 0.0 percent from \$19.07 billion to \$18.58 billion. The taxable-equivalent yield on interest-earning assets equaled 5.36 percent for the first quarter of 2012, compared to 5.24 percent for the corresponding period of 2011 as reflected in Table 6.

Loan and lease interest income for the first quarter of 2012 equaled \$238.1 million, an increase of \$6.7 million from the first quarter of 2011, the result of higher yields resulting from an increase in accretable yield recognized on acquired loans offset by lower average balances. Average loans and leases decreased \$81.8 million or 0.0 percent from the first quarter of 2011 to the first quarter of 2012. The taxable-equivalent yield was 6.95 percent during the first quarter of 2012, an 18 basis point increase from the same period of 2011. The increased yield resulted partially from \$64.9 million of discount accreted into income during the first quarter of 2012 related to acquired loans compared to \$51.7 million of discount accreted in the first quarter of 2011.

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|  | March 31, 2012 |            |                      |                              | March 31, 2011 |             |                      |                              | Table |
|--|----------------|------------|----------------------|------------------------------|----------------|-------------|----------------------|------------------------------|-------|
|  | Cost           | Fair Value | Average Maturity (1) | Taxable Equivalent Yield (1) | Cost           | Fair Value  | Average Maturity (1) | Taxable Equivalent Yield (1) | 5     |
|  |                |            |                      |                              |                |             |                      |                              |       |
| INVESTMENT SECURITIES                          |                |            |                      |                              |                |             |                      |                              |       |
| Investment securities available for sale:      |                |            |                      |                              |                |             |                      |                              |       |
| U. S. Treasury:                                |                |            |                      |                              |                |             |                      |                              |       |
| Within one year                                | \$688,017      | \$688,176  | 0/6                  | 0.28                         | %\$1,153,338   | \$1,156,016 | 0/6                  | 0.76                         | %     |
| One to five years                              | 377,018        | 376,860    | 1/5                  | 0.26                         | 311,175        | 310,954     | 1/3                  | 0.365                        |       |
| Total  | 1,065,035      | 1,065,036  | 0/10                 | 0.27                         | 1,464,513      | 1,466,970   | 0/8                  | 0.672                        |       |
| Government agency:                             |                |            |                      |                              |                |             |                      |                              |       |
| Within one year                                | 1,836,533      | 1,833,624  | 0/5                  | 0.70                         | 1,585,457      | 1,572,500   | 0/8                  | 1.07                         |       |
| One to five years                              | 1,022,664      | 1,021,761  | 2/0                  | 0.47                         | 347,288        | 343,628     | 1/5                  | 0.91                         |       |
| Five to ten years                              | —              | —          | —                    | —                            | 19,287         | 19,247      | 7/0                  | 3.65                         |       |
| Over ten years                                 | —              | —          | —                    | —                            | 163,543        | 163,158     | 25/1                 | 2.14                         |       |
| Total  | 2,859,197      | 2,855,385  | 1/0                  | 0.62                         | 2,115,575      | 2,098,533   | 2/7                  | 1.14                         |       |
| Residential mortgage-backed securities:        |                |            |                      |                              |                |             |                      |                              |       |
| Within one year                                | 241            | 239        | 0/9                  | 3.12                         | 3              | 2           | 0/8                  | 4.97                         |       |
| One to five years                              | 69,835         | 70,244     | 3/8                  | 2.73                         | 10,104         | 10,401      | 3/5                  | 1.23                         |       |
| Five to ten years                              | 67,219         | 67,673     | 6/7                  | 1.37                         | 1,802          | 1,842       | 7/9                  | 3.76                         |       |
| Over ten years                                 | 145,411        | 152,752    | 25/2                 | 4.36                         | 140,574        | 143,677     | 27/2                 | 4.70                         |       |
| Total  | 282,706        | 290,908    | 15/5                 | 3.25                         | 152,483        | 155,922     | 25/5                 | 4.46                         |       |
| State, county and municipal:                   |                |            |                      |                              |                |             |                      |                              |       |
| Within one year                                | 242            | 243        | 0/10                 | 5.34                         | 755            | 755         | 0/7                  | 4.69                         |       |
| One to five years                              | 359            | 371        | 1/0                  | 4.95                         | 473            | 488         | 1/11                 | 4.90                         |       |
| Five to ten years                              | 10             | 10         | 8/8                  | 4.97                         | 10             | 10          | 9/8                  | 4.97                         |       |
| Over ten years                                 | 415            | 415        | 10/8                 | 4.80                         | —              | —           | 0                    | —                            |       |
| Total  | 1,026          | 1,039      | 4/11                 | 4.98                         | 1,238          | 1,253       | 1/2                  | 4.77                         |       |
| Corporate bonds:                               |                |            |                      |                              |                |             |                      |                              |       |
| Within one year                                | 225,214        | 226,428    | 0/4                  | 1.96                         | 227,196        | 229,381     | 0/8                  | 1.78                         |       |
| One to five years                              | —              | —          | 0                    | —                            | 226,194        | 230,336     | 1/4                  | 1.96                         |       |
| Total  | 225,214        | 226,428    | 0/4                  | 1.96                         | 453,390        | 459,717     | 1/0                  | 1.87                         |       |
| Equity securities                              | 894            | 18,943     |                      |                              | 965            | 19,621      |                      |                              |       |
| Total investment securities available for sale | 4,434,072      | 4,457,739  |                      |                              | 4,188,164      | 4,202,016   |                      |                              |       |
| Investment securities held to maturity:        |                |            |                      |                              |                |             |                      |                              |       |
| Residential mortgage-backed securities:        |                |            |                      |                              |                |             |                      |                              |       |

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|  |             |             |      |      |             |             |      |      |
|--|-------------|-------------|------|------|-------------|-------------|------|------|
| One to five years                            | 379         | 393         | 4/11 | 5.79 | 5           | 3           | 4/10 | 4.11 |
| Five to ten years                            | 1,201       | 1,306       | 5/1  | 5.5  | 2,214       | 2,368       | 6/0  | 5.56 |
| Over ten years                               | 108         | 145         | 16/0 | 6.61 | 122         | 166         | 17/0 | 6.54 |
| Total investment securities held to maturity | 1,688       | 1,844       | 5/9  | 5.64 | 2,341       | 2,537       | 6/7  | 5.61 |
| Total investment securities                  | \$4,435,760 | \$4,459,583 |      |      | \$4,190,505 | \$4,204,553 |      |      |

Average maturity assumes callable securities mature on their earliest call date; yields are based on amortized cost; (1) yields related to securities exempt from federal and/or state income taxes are stated on a taxable yield basis assuming statutory rates of 35.0 percent.

Interest income earned on the investment securities portfolio amounted to \$8.3 million during the first quarter of 2012 and \$13.4 million during the same period of 2011, a decrease of \$5.1 million or 37.8 percent. This decrease in income is the result of lower yields and a decrease in average balances. The taxable-equivalent yield decreased 39 basis points from 1.21 percent in the first quarter of 2011 to 0.82 percent in the first quarter of 2012. This yield reduction was caused by extraordinarily low market interest rates. We anticipate the yield on investment securities will generally remain at current levels until the Federal Reserve begins to raise the benchmark fed funds rates, an action that would likely lead to higher asset yields.

INTEREST-BEARING LIABILITIES

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Interest-bearing liabilities include interest-bearing deposits as well as short-term borrowings and long-term obligations. Deposits represent our primary funding source, although we also utilize non-deposit borrowings to stabilize our liquidity base and to fulfill commercial customer demand for treasury services. Interest-bearing liabilities totaled \$14.52 billion as of March 31, 2012, down \$599.8 million from March 31, 2011 due to continued reductions in deposits assumed in FDIC-assisted transactions.

Deposits. At March 31, 2012, total deposits equaled \$17.76 billion, an increase of \$182.2 million or 1.0 percent since December 31, 2011 and a reduction of \$52.2 million or 0.3 percent since March 31, 2011. The relative stability of deposits resulted from a net reduction in assumed deposits offset by moderate increases in legacy markets. The net reduction of assumed deposits from March 31, 2011 occurred despite the assumption of deposits in the CCB FDIC-assisted transaction in the third quarter of 2011 caused by continued declines in this, and other, acquisition markets.

Due to the ongoing industry-wide liquidity challenges and our historic focus on maintaining a significant level of free liquidity, we will continue to focus on deposit retention as a key business objective. While we believe that continuing economic uncertainty makes traditional bank deposit products an attractive investment option for many customers, once economic conditions improve our liquidity position could be adversely impacted as bank deposits are invested elsewhere. Our ability to fund future loan growth could be constrained unless we are able to generate new deposits at a reasonable cost.

Short-term borrowings At March 31, 2012, short-term borrowings totaled \$678.0 million compared to \$615.2 million at December 31, 2011 and \$666.4 million at March 31, 2011. The increase in short term borrowings since December 31, 2011 is primarily the result of the reclassification of long term debt with current maturities.

Long-term obligations. Long-term obligations equaled \$649.8 million at March 31, 2012, down \$37.8 million from December 31, 2011 and \$151.3 million from March 31, 2011. The decrease since March 31, 2011 resulted from maturities and paydowns of Federal Home Loan Bank (FHLB) obligations, the redemption of \$21.5 million in trust preferred securities during the fourth quarter of 2011, and reclassifications of obligations with current maturities to short-term borrowings.

At March 31, 2012 and 2011 respectively, long-term obligations included \$251.7 million and \$273.2 million in junior subordinated debentures representing obligations to two special purpose entities, FCB/NC Capital Trust I and FCB/NC Capital Trust III (the Capital Trusts). The Capital Trusts are the grantor trusts for \$243.5 million of trust preferred securities outstanding as of March 31, 2012 and \$265.0 million outstanding as of March 31, 2011. The proceeds from the trust preferred securities were used to purchase the junior subordinated debentures issued by BancShares. The \$150.0 million in trust preferred securities issued by FCB/NC Capital Trust I mature in 2028 and may be redeemed in whole or in part at a premium that declines until 2018, when the redemption price equals the par value of the securities. The remaining \$93.5 million in trust preferred securities issued by FCB/NC Capital Trust III mature in 2036 and may be redeemed at par in whole or in part on or after June 30, 2011. BancShares has guaranteed all obligations of the Capital Trusts. The Dodd-Frank Act contains provisions that, over a three-year period, will eliminate our ability to include the trust preferred securities in tier 1 risk-based capital. The phase-out begins January 1, 2013, when one-third of the outstanding trust preferred securities will be excluded. All trust preferred securities will be excluded from risk-based capital effective January 1, 2015. The inability to include the securities in tier 1 risk-based capital may lead us to redeem a portion of the securities prior to their scheduled maturity dates.

Expense on interest-bearing liabilities. Interest expense amounted to \$25.8 million during the first quarter of 2012, a \$15.4 million or 37.4 percent decrease from the first quarter of 2011. The reduced level of interest expense resulted from lower rates and average balances. The rate on average interest-bearing liabilities equaled 0.72 percent during the first quarter of 2012, a 35 basis point decrease from the first quarter of 2011. Average interest-bearing liabilities decreased \$1.06 billion or 6.8 percent from the first quarter of 2011 to the first quarter of 2012 due to the run-off of deposits assumed in FDIC-assisted transactions and a reduction in long term obligations resulting from maturities and paydowns of FHLB borrowings.

Average interest-bearing deposits equaled \$13.16 billion during the first quarter of 2012, a decrease of \$937.4 million or 6.6 percent from the first quarter of 2011. Average money market accounts increased \$296.6 million or 5.4 percent from the first quarter of 2011, due to the FDIC-assisted transactions and customers holding available liquidity in

flexible deposit accounts. During the first quarter of 2012, time deposits averaged \$4.48 billion, down \$1.36 billion or 23.3 percent from the first quarter of 2011 resulting from customer preference for non-time deposits, partially offset by new balances assumed in the 2011 FDIC-assisted transactions.

For the quarters ended March 31, 2012 and March 31, 2011, short-term borrowings averaged \$632.3 million and \$638.8 million, respectively. The \$6.5 million or 1.0 percent decrease in average short-term borrowings since the first quarter of 2011 is the result of relatively stable funding needs.

**NET INTEREST INCOME**

Net interest income totaled \$221.0 million during the first quarter of 2012, an increase of \$17.0 million or 8.3 percent



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from the first quarter of 2011. The taxable-equivalent net yield on interest-earning assets equaled 4.80 percent for the first quarter of 2012, up 44 basis points from the 4.36 percent recorded for the first quarter of 2011. Higher current year net interest income and net yield on interest-earning assets was attributable to the favorable impact of yields on acquired loans due to accretion of discounts and lower deposit costs.

Net interest income for the first quarter of 2012 included \$64.9 million of accretion income, compared to \$51.7 million in the first quarter of 2011.

Accretion income is generated by recognizing accretable yield over the life of acquired loans. Accretable yield is the difference in the expected cash flows and the fair value of acquired loans. The amount of accretable yield related to the loans can change if the estimated cash flows expected to be collected changes subsequent to the initial estimates. Further, the recognition of accretion income can be accelerated in the event of large unscheduled repayments, loan payoffs, other loan settlements for amounts in excess of original estimates, and various other post-acquisition events. Due to the many factors that can influence the amount of accretion income recognized in a given period, this component of net interest income is not predictable and impacts the comparability of interest income, net interest income, and overall results of operations.

The continuing accretion of fair value discounts resulting from acquired loans will likely contribute to volatility in net interest income in future periods. Fair value discounts related to loans that have been repaid unexpectedly will be accreted into interest income at the time the loan obligation is satisfied. Unless additional uncertainty about future payments exists, discounts associated with loans that display large unscheduled payments will be recognized in interest income on an accelerated basis.

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ANALYSIS - THREE MONTHS

|   | 2012                 |                                | 2011           |                      | Increase (decrease) due to:    |                |                  |                  | Table 6           |
|---|----------------------|--------------------------------|----------------|----------------------|--------------------------------|----------------|------------------|------------------|-------------------|
| (thousands)                                   | Average<br>Balance   | Interest<br>Income/<br>Expense | Yield/<br>Rate | Average<br>Balance   | Interest<br>Income/<br>Expense | Yield/<br>Rate | Volume           | Yield/<br>Rate   | Total<br>Change   |
| <b>Assets</b>                                 |                      |                                |                |                      |                                |                |                  |                  |                   |
| Loans and leases                              | \$ 13,822,226        | \$ 238,732                     | 6.95 %         | \$ 13,904,054        | \$ 232,054                     | 6.77 %         | \$(430 )         | \$ 7,108         | \$ 6,678          |
| <b>Investment securities:</b>                 |                      |                                |                |                      |                                |                |                  |                  |                   |
| U. S. Treasury                                | 964,015              | 770                            | 0.32           | 1,788,491            | 3,344                          | 0.76           | (1,089 )         | (1,485 )         | (2,574 )          |
| Government agency                             | 2,611,298            | 4,512                          | 0.69           | 1,953,946            | 5,256                          | 1.08           | 1,443            | (2,187 )         | (744 )            |
| Corporate bonds                               | 247,673              | 1,199                          | 1.94           | 480,519              | 2,176                          | 1.81           | (1,085 )         | 108              | (977 )            |
| <b>Residential mortgage-backed securities</b> |                      |                                |                |                      |                                |                |                  |                  |                   |
| State, county and municipal                   | 301,780              | 1,889                          | 2.52           | 299,577              | 2,653                          | 3.59           | 23               | (787 )           | (764 )            |
| Other   | 1,041                | 19                             | 7.34           | 1,258                | 21                             | 6.77           | (4 )             | 2                | (2 )              |
| Total investment securities                   | 4,141,160            | 8,520                          | 0.82           | 4,568,205            | 13,709                         | 1.21           | (919 )           | (4,270 )         | (5,189 )          |
| Overnight investments                         | 621,239              | 313                            | 0.20           | 595,119              | 389                            | 0.27           | 22               | (98 )            | (76 )             |
| <b>Total interest-earning assets</b>          | <b>\$ 18,584,625</b> | <b>\$ 247,565</b>              | <b>5.36 %</b>  | <b>\$ 19,067,378</b> | <b>\$ 246,152</b>              | <b>5.24 %</b>  | <b>\$(1,327)</b> | <b>\$ 2,740</b>  | <b>\$ 1,413</b>   |
| <b>Liabilities</b>                            |                      |                                |                |                      |                                |                |                  |                  |                   |
| <b>Interest-bearing deposits:</b>             |                      |                                |                |                      |                                |                |                  |                  |                   |
| Checking With Interest                        | \$ 2,049,885         | \$ 340                         | 0.07 %         | \$ 1,956,020         | \$ 458                         | 0.09 %         | \$—              | \$(118 )         | \$(118 )          |
| Savings                                       | 836,499              | 112                            | 0.05           | 806,207              | 365                            | 0.18           | 9                | (262 )           | (253 )            |
| Money market accounts                         | 5,798,321            | 4,272                          | 0.30           | 5,501,694            | 6,039                          | 0.45           | 299              | (2,066 )         | (1,767 )          |
| Time deposits                                 | 4,479,784            | 11,748                         | 1.05           | 5,838,009            | 22,958                         | 1.59           | (4,381 )         | (6,829 )         | (11,210 )         |
| <b>Total interest-bearing deposits</b>        | <b>13,164,489</b>    | <b>16,472</b>                  | <b>0.50</b>    | <b>14,101,930</b>    | <b>29,820</b>                  | <b>0.86</b>    | <b>(4,073 )</b>  | <b>(9,275 )</b>  | <b>(13,348 )</b>  |
| Short-term borrowings                         | 632,345              | 1,391                          | 0.88           | 638,835              | 1,697                          | 1.08           | (4 )             | (302 )           | (306 )            |
| Long-term obligations                         | 682,067              | 7,937                          | 4.65           | 802,720              | 9,696                          | 4.83           | (4,492 )         | 2,733            | (1,759 )          |
| <b>Total interest-bearing liabilities</b>     | <b>\$ 14,478,901</b> | <b>\$ 25,800</b>               | <b>0.72 %</b>  | <b>\$ 15,543,485</b> | <b>\$ 41,213</b>               | <b>1.07 %</b>  | <b>\$(8,569)</b> | <b>\$(6,844)</b> | <b>\$(15,413)</b> |
| Interest rate spread                          |                      |                                | 4.64 %         |                      |                                | 4.17 %         |                  |                  |                   |

Net interest income  
and net yield  
on interest-earning  
assets

\$221,765 4.80 %

\$204,939 4.36 % \$7,242 \$9,584 \$16,826

Loans and leases include loans covered under loss share agreements, loans not covered under loss share agreements, nonaccrual loans and loans held for sale. Yields related to loans, leases and securities exempt from both federal and state income taxes, federal income taxes only, or state income taxes only are stated on a taxable-equivalent basis assuming statutory federal income tax rates of 35.0 percent and state income tax rates of 6.9 percent for each period. The taxable-equivalent adjustment was \$813 and \$952 for 2012 and 2011, respectively. The rate/volume variance is allocated equally between the changes in volume and rate.

Table of Contents**NONINTEREST INCOME**

Noninterest income is an essential component of our total revenue and is critical to our ability to sustain adequate profitability levels. The primary sources of noninterest income have traditionally consisted of cardholder and merchant services income, service charges on deposit accounts, revenues derived from wealth management services and fees from processing services. During 2012 and 2011, noninterest income has been significantly influenced by post-acquisition adjustments to the FDIC receivable resulting from FDIC-assisted transactions. During the first quarter of 2011, noninterest income included the \$63.5 million United Western acquisition gain. No acquisition gains were recorded during the first quarter of 2012.

Noninterest income for the first quarter of 2012 equaled \$46.9 million compared to \$129.6 million in the comparable period of 2011. This decrease of \$82.6 million was primarily caused by acquisition gains of \$63.5 million in the first quarter of 2011, a \$16.4 million unfavorable variance resulting from adjustments to the FDIC receivable and lower cardholder and merchant services income resulting from the enactment of debit interchange fee limits in the fourth quarter of 2011 as part of Dodd-Frank.

Cardholder and merchant services generated \$22.5 million of revenue during the first quarter of 2012, a decrease of \$4.3 million or 16.2 percent compared to the first quarter of 2011. This decrease resulted from a reduction in interchange income derived from Visa check cards. Cardholder income will continue to be adversely affected by the new interchange rates during 2012.

Service charges on deposit accounts equaled \$14.8 million and \$15.8 million for the first quarter of 2012 and 2011, respectively resulting in a \$944,000 decrease. This reduction is a result of changes to assessment methodology for overdraft service charges beginning in the third quarter of 2011 including establishing a daily maximum overdraft charge and implementing transaction amounts beneath which overdraft charges would not be assessed.

Mortgage income equaled \$4.6 million and \$2.3 million for the first quarter of 2012 and 2011, respectively, a \$2.3 million increase over 2011. The improvement results from higher origination activity during 2012.

**NONINTEREST EXPENSE**

The primary components of noninterest expense are salaries and related employee benefits, occupancy costs for branch offices and support facilities, and our technology and operations infrastructure. Noninterest expense decreased \$6.7 million in the first quarter of 2012 to \$183.3 million compared to \$190.0 million in the first quarter of 2011 as a result of a reduction in FDIC deposit insurance expense and certain other noninterest expenses.

Other than FDIC insurance expense, most of the components of noninterest expense have remained constant from the same period of 2011 due to the relative stability of our operations during this time. While the CCB transaction occurred in the third quarter of 2011, the residual impact of that transaction on noninterest expense was minimal.

Occupancy expense totaled \$18.6 million in the first quarter of 2012, compared to \$18.3 million for the corresponding period of 2011. The increase is attributable to an increase in costs to update branch facilities.

Equipment expense increased 4.5 percent in the first quarter 2012 when compared to the first quarter of 2011 caused primarily by higher hardware and software costs.

FDIC deposit insurance expense decreased \$5.2 million in the first quarter of 2012 when compared to the same period of 2011 due to the new formula adopted by the FDIC to calculate the assessment effective April 1, 2011. The new formula alters the assessment base from deposits to total assets less equity thereby placing a larger assessment burden on banks with large levels of non-deposit funding. Our assessment amount declined due primarily to our general lack of reliance on non-deposit funding.

Other expenses for the first quarter of 2012 decreased \$2.2 million or 4.9 percent when compared to the same period of 2011. This reduction is primarily the result of lower external processing costs for deposits acquired from UWB and that have subsequently been eliminated.

**INCOME TAXES**

We monitor and evaluate the potential impact of current events on the estimates used to establish income tax expenses and income tax liabilities. On a periodic basis, we evaluate our income tax positions based on current tax law, positions taken by various tax auditors within the jurisdictions where BancShares is required to file income tax returns as well as potential or pending audits or assessments by such tax auditors.



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Income tax expense totaled \$18.4 million and \$37.4 million for the first quarters of 2012 and 2011, equaling effective tax rates of 34.1 percent and 37.7 percent during the respective periods. The lower effective tax rates for 2012 reflect the proportionately larger impact of favorable permanent differences including tax credits on the lower level of current year's pre-tax income.

**SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY**

We are committed to managing our capital to protect our depositors, creditors and shareholders. We continually monitor the capital levels and ratios for BancShares and FCB to ensure that they comfortably exceed the minimum requirements imposed by their respective regulatory authorities and to ensure that they are appropriate given growth projections, risk profile and potential changes in regulatory environment. Failure to meet certain capital requirements may result in actions by regulatory agencies that could have a material effect on the financial statements. Table 7 provides information on capital adequacy for BancShares as of March 31, 2012, December 31, 2011 and March 31, 2011.

**ANALYSIS OF CAPITAL ADEQUACY**

|                           | March 31, 2012         | December 31, 2011 | March 31, 2011 | Regulatory Minimum | Table 7 Well-capitalized Requirement |   |
|---------------------------|------------------------|-------------------|----------------|--------------------|--------------------------------------|---|
|                           | (dollars in thousands) |                   |                |                    |                                      |   |
| Tier 1 capital            | 2,108,473              | 2,072,610         | 1,995,259      |                    |                                      |   |
| Tier 2 capital            | 251,442                | 250,412           | 272,547        |                    |                                      |   |
| Total capital             | \$2,359,915            | \$2,323,022       | \$2,267,806    |                    |                                      |   |
| Risk-adjusted assets      | \$13,394,789           | \$13,447,702      | \$13,094,075   |                    |                                      |   |
| Risk-based capital ratios |                        |                   |                |                    |                                      |   |
| Tier 1 capital            | 15.74                  | % 15.41           | % 15.24        | % 4.00             | % 6.00                               | % |
| Total capital             | 17.62                  | % 17.27           | % 17.32        | % 8.00             | % 10.00                              | % |
| Tier 1 leverage ratio     | 10.16                  | % 9.90            | % 9.35         | % 3.00             | % 5.00                               | % |

BancShares continues to exceed minimum capital standards and FCB remains well-capitalized. Based on the capital structure at March 31, 2012, BancShares exceeded the Tier 1 capital needed to maintain all well capitalized requirements by \$1.07 billion.

BancShares repurchased 8,388 shares of Class B common stock in 2012 from a former director and related parties. These repurchases were made pursuant to an authorization approved by the Board of Directors, and were consummated at a price approved by an independent committee of the Board. No shares were repurchased in the first quarter of 2011. The share repurchases were made pursuant to authorizations approved by the Board of Directors. As of March 31, 2012, under existing authorizations, BancShares had the ability to purchase 87,529 and 16,437 shares of Class A and Class B common stock, respectively.

The Dodd-Frank Act contains provisions that will gradually eliminate our ability to include \$243.5 million of trust preferred capital securities in tier 1 risk-based capital. BancShares' trust preferred capital securities that currently qualify as tier 1 capital will be phased out in equal increments of \$81.2 million over a three-year term, beginning in 2013. Based on BancShares' capital structure as of March 31, 2012, the impact of the reduction of \$81.2 million would result in a tier 1 leverage capital ratio of 9.77 percent, a tier 1 risk-based capital ratio of 15.13 percent, and a total risk-based capital ratio of 16.83 percent. Elimination of the full \$243.5 million of trust preferred capital securities from the March 31, 2012 capital structure would result in a proforma tier 1 leverage capital ratio of 8.99 percent, a tier 1 risk-based capital ratio of 13.92 percent, and a total risk-based capital ratio of 15.24 percent. Although these are significant decreases, BancShares and FCB would continue to remain well-capitalized under current regulatory guidelines.

The tier 2 capital of BancShares and FCB includes qualifying subordinated debt that was issued in 2005 with a scheduled maturity date of June 1, 2015. Under current regulatory guidelines, when subordinated debt is within five years of its scheduled maturity date, issuers must discount the amount included in tier 2 capital by 20 percent for each year until the debt matures. The amount of subordinated debt that qualifies as tier 2 capital totaled \$75.0 million as of March 31, 2012 compared to \$100.0 million at March 31, 2011. The amount of subordinated debt that may be included in tier 2 capital will decline \$25.0 million in the second quarter of 2012 to \$50.0 million, and will decrease by \$25.0 million each year until the scheduled maturity date.

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In September 2010, the Basel Committee on Banking Supervision announced new global regulatory capital guidelines (Basel III) aimed at strengthening existing capital requirements for bank holding companies, through a combination of higher minimum capital requirements, new capital conservation buffers, and more conservative definitions of capital and exposure. Basel III would impose a new tier 1 common equity requirement of 7.00 percent, comprised of a minimum of 4.50 percent plus a capital conservation buffer of 2.50 percent. The transition period for banks to meet the revised common equity requirement will begin in 2013, with full implementation in 2019. The committee has also stated that it may require a counter-cyclical capital buffer in addition to Basel III standards. The new rule also proposes the deduction of certain assets in measuring tier 1 capital. The Federal Reserve has adopted the Basel III guidelines for bank holding companies with assets over \$50 billion, and it is expected that other United States banking regulators will also adopt new regulatory capital requirements similar to those proposed in Basel III for all other banks and bank holding companies. We will monitor proposed capital requirement amendments and manage our capital to meet what we believe the new measures will require. BancShares' tier 1 common equity ratio is 13.92 percent at March 31, 2012 as calculated in Table 8 compared to the fully phased-in Basel III requirement of 7.00 percent.

## TIER 1 COMMON EQUITY

|                               | Table 8<br>March 31, 2012<br>(dollars in thousands) |   |
|-------------------------------|---|---|
| Tier 1 capital                | \$2,108,473   |   |
| Less: restricted core capital | 243,500   |   |
| Tier 1 common equity          | \$1,864,973   |   |
| Risk-adjusted assets          | \$13,395,100  |   |
| Tier 1 common equity ratio    | 13.92   | % |

## RISK MANAGEMENT

Effective management of risk is a critical component of our financial and operational structure. The most significant risks that we confront are credit, interest-rate and liquidity risk. Credit risk is the risk of not collecting payments pursuant to the contractual terms of loan, lease and investment assets. Interest rate risk results from changes in interest rates which may impact the re-pricing of assets and liabilities in different amounts or at different dates. Liquidity risk is the risk that we will be unable to fund obligations to loan customers, depositors or other creditors. To manage these risks as well as other risks that are inherent in our operations and to provide reasonable assurance that our long-term business objectives will be attained, various policies and risk management processes identify, monitor and manage risk within appropriate ranges. Management continually refines and enhances its risk management policies and procedures to maintain effective risk management programs and processes.

In response to provisions of the Dodd-Frank Act, federal regulators have proposed annual, enterprise-wide, stress testing of banks with more than \$10.00 billion in assets. These proposals, when implemented, will require BancShares and FCB to perform procedures in addition to those already in place. The results of these procedures will be considered in combination with other risk management and monitoring practices to maintain an effective risk management program.

Credit risk management. The maintenance of excellent asset quality has historically been one of our key performance measures. Loans and leases not covered by loss share agreements with the FDIC were underwritten in accordance with our credit policies and procedures and are subject to periodic ongoing reviews. Loans covered by loss share agreements with the FDIC were recorded at fair value at the date of the acquisition and are subject to periodic reviews to identify any further credit deterioration. Our independent credit review function conducts risk reviews and analyses for the purpose of ensuring compliance with credit policies and to closely monitor asset quality trends. The risk



reviews include portfolio analysis by geographic location and horizontal reviews across industry, collateral type and product. We strive to identify potential problem loans as early as possible, to record charge-offs or write-downs as appropriate, and to maintain adequate allowances for loan and lease losses that are inherent in the loan and lease portfolio.

We maintain a well-diversified loan and lease portfolio, and seek to minimize the risk associated with large concentrations within specific geographic areas, collateral types or industries. Despite our focus on diversification, several characteristics of our loan portfolio subject us to significant risk. These include our concentration of real estate loans, medical-

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related loans, and the existence of high loan-to-value loans.

We have historically carried a significant concentration of real estate secured loans. Within our noncovered loan portfolio, we mitigate that exposure through our underwriting policies that principally rely on adequate borrower cash flow rather than underlying collateral values. When we do rely on underlying real property values, we favor financing secured by owner-occupied real property and, as a result, a large percentage of our real estate secured loans are owner-occupied. At March 31, 2012, loans secured by real estate not covered by loss share agreements totaled \$8.83 billion or 76.9 percent of total noncovered loans and leases compared to \$8.85 billion or 76.4 percent of noncovered loans and leases at December 31, 2011 and \$8.54 billion or 74.9 percent at March 31, 2011.

Revolving mortgage loans secured by real estate amounted to \$2.28 billion, or 19.9 percent of loans not covered by loss share agreements at March 31, 2012 compared to \$2.30 billion or 19.8 percent at December 31, 2011 and \$2.30 billion or 20.2 percent at March 31, 2011.

Our revolving mortgage loans present a heightened risk due to the longer term nature of the commitments, the presence of a large number of loans secured by junior liens, and the possibility that the financial position of the borrower or the value of the collateral may deteriorate significantly during the term of the loan. A substantial decline in collateral value could render a junior lien position to be effectively unsecured. We have not acquired revolving mortgages in the secondary market, and we have not originated these loans to customers outside of our market areas. All noncovered revolving mortgage loans were originated by us and were underwritten based on our standard lending criteria. The revolving mortgage loan portfolio consists largely of variable rate lines of credit which allow customer draws during the entire contractual period of the line of credit which is typically 15 years. Approximately 85 percent of outstanding balances as of March 31, 2012 require interest-only payments, while the remaining require monthly payments equal to 1.5 percent of the outstanding balance. Over 90 percent of the revolving mortgage portfolio relates to properties in North Carolina and Virginia, and approximately one-third of the loan balances outstanding are secured by senior collateral positions while the remaining balances are secured by junior liens. The credit profile of the borrowers is reviewed at least annually and most borrowers have maintained excellent ratings based on credit scores available from third-parties.

Noncovered loans and leases to borrowers in medical, dental or related fields totaled \$3.19 billion as of March 31, 2012, which represents 27.8 percent of loans and leases not covered by loss share agreements, compared to \$3.07 billion or 26.5 percent of noncovered loans and leases at December 31, 2011 and \$3.04 billion or 26.6 percent of noncovered loans and leases at March 31, 2011. The risk on these loans is mitigated through our underwriting policies that emphasize reliance on adequate borrower cash flow rather than underlying collateral value and our preference for financing secured by owner-occupied real property. Except for this single concentration, no other industry represented more than 10 percent of total noncovered loans and leases outstanding at March 31, 2012.

Nonperforming assets include nonaccrual loans and leases and other real estate owned (OREO) that are both covered and not covered by FDIC loss share agreements. With the exception of certain residential mortgage loans, the accrual of interest on noncovered loans and leases is discontinued when we deem that collection of additional principal or interest is doubtful. Noncovered loans and leases are returned to accrual status when both principal and interest are current and the asset is determined to be performing in accordance with the terms of the loan instrument. The accrual of interest on certain residential mortgage loans is discontinued when a loan is more than three monthly payments past due, and the accrual of interest resumes when the loan is less than three monthly payments past due. OREO includes foreclosed property and branch facilities that we have closed but not sold. At March 31, 2012, BancShares' nonperforming assets amounted to \$549.1 million or 4.0 percent of total loans and leases plus OREO, compared to \$553.8 million or 3.9 percent at December 31, 2011 and \$490.5 million or 3.4 percent at March 31, 2011.

Of the \$549.1 million in nonperforming assets at March 31, 2012, \$434.6 million is covered by FDIC loss share agreements that provide significant loss protection. The \$4.7 million decrease from December 31, 2011 resulted from lower nonperforming assets covered by loss share agreements offset partly by an increase in nonperforming assets that are not covered by loss share agreements. The \$58.6 million increase from March 31, 2011 is attributable to nonperforming assets arising from the FDIC-assisted transactions. Nonperforming assets not covered by loss share agreements increased \$11.3 million from December 31, 2011 but are down \$15.0 million from March 31, 2011.

Nonperforming assets not covered by loss share agreements equaled \$114.5 million as of March 31, 2012, or 1.0 percent of noncovered loans and leases plus OREO compared to \$103.1 million or 0.9 percent at December 31, 2011 and \$129.4 million or 1.1 percent at March 31, 2011. The \$15.0 million decrease since March 31, 2011 was due to reduced levels of nonaccrual loans.

OREO not covered by loss share agreements totaled \$48.1 million at March 31, 2012, compared to \$50.4 million at

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December 31, 2011 and \$49.6 million at March 31, 2011. A significant portion of the OREO not covered by loss share agreements relates to real estate exposures in the Atlanta, Georgia and southwest Florida markets arising from earlier residential construction financing. Prior to the economic slowdown, both markets experienced significant over-development that resulted in extremely weak sales of new residential units and significant declines in property values. At March 31, 2012, construction and land development properties including vacant land for development represented 38.1 percent of noncovered OREO. Vacant land values have experienced an especially steep decline during the economic slowdown and values may decline further.

Once acquired, net book values of OREO are reviewed at least annually to evaluate if write-downs are required. When appraisals of real estate are received, they are reviewed by the appraisal review department to ensure the quality of the appraised value provided in the reports. The level of review is dependent on the value and type of the collateral with higher value, more complex properties receiving a more detailed review. In a market of declining property values, which we have experienced in recent years, in addition to appraisals, we utilize other resources to obtain the most current market value. Changes to the value of the assets between scheduled valuation dates are monitored through continued communication with brokers and monthly reviews by the asset manager assigned to each asset. The asset manager uses the information gathered from brokers and other market sources to identify any significant changes in the market or the subject property as they occur. Valuations are then adjusted or new appraisals are ordered to ensure the reported values reflect the most current information. Decisions regarding write-downs are based on factors that include appraisals, broker opinions, previous offers received on the property, market conditions and the number of days the property has been on the market.

At March 31, 2012, the allowance for loan and lease losses allocated to noncovered loans totaled \$186.4 million or 1.62 percent of loans and leases not covered by loss share agreements, compared to \$180.9 million or 1.56 percent at December 31, 2011 and \$178.0 million or 1.56 percent at March 31, 2011. The increase in the allowance for noncovered loan and lease losses from December 31, 2011 was due to deterioration in the commercial loan portfolios while the increase in the allowance from March 31, 2011 was caused by a modest decline in credit quality within noncovered residential mortgage loans, revolving mortgage loans, and residential construction loans offset by the chargeoff of amounts reserved for loans individually evaluated for impairment. The allowance for loans individually evaluated for impairment has increased by \$3.4 million since December 31, 2011 due to reduction in collateral values on individually impaired loans while the allowance for loans collectively evaluated for impairment has increased by \$1.4 million due to generally higher anticipated loss factors. Delinquency levels and charge-offs on revolving mortgage loans are projected to remain elevated due to weakened collateral positions particularly for loans secured by junior collateral positions.

An additional allowance of \$86.1 million relates to covered loans at March 31, 2012, established as a result of post-acquisition deterioration in credit quality for covered loans. The allowance for covered loans equaled \$89.3 million at December 31, 2011 and \$54.6 million at March 31, 2011. The allowance for covered loans has increased since March 31, 2011 due to allowances required for loans arising from the United Western and CCB transactions and additional allowances on loans from previous transactions.

Management considers the allowance adequate to absorb estimated probable losses that relate to loans and leases outstanding at March 31, 2012, although future additions may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan and lease losses. Such agencies may require adjustments to the allowance based on information available to them at the time of their examination.

The provision for noncovered loan and lease losses recorded during the first quarter of 2012 equaled \$21.1 million, compared to \$18.8 million during the fourth quarter of 2011 and \$11.9 million during the first quarter of 2011. The increase in provision for noncovered loans and leases was primarily the result of increased chargeoffs on revolving mortgage loans and construction loans. Provision expense related to covered loans totaled \$9.6 million and \$32.6 million during the first quarter of 2012 and 2011 respectively due to lower post-acquisition deterioration of loans, the reversal of previously recorded allowances due to improvements in expected cash flows and reduced chargeoffs. The provision for covered loan and lease losses triggered corresponding adjustments to the FDIC receivable which are offset by noninterest income at the applicable reimbursement rate.

Exclusive of losses related to covered loans, net charge-offs equaled \$15.6 million during the first quarter of 2012, compared to \$10.4 million during the first quarter of 2011. On an annualized basis, net charge-offs represented 0.54 percent of average noncovered loans and leases during the first quarter of 2012 compared to 0.37 percent during the first quarter of 2011. Chargeoffs in 2012 included the chargeoff of \$5.0 million for a commercial construction and land development loan for which a current appraisal indicated further losses while other chargeoffs remained relatively constant. Net charge-offs on covered loans equaled \$12.7 million in the first quarter of 2012 compared to \$29.2 million recorded in the first quarter of 2011. When actual losses are less than initial estimates, the difference is recognized as accretable yield and included in interest income prospectively over the remaining life of the loan. Any subsequent differences in initial estimates and actual results are also reflected with an adjustment to the FDIC receivable at the applicable indemnification rate.

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Table 9 provides details concerning the allowance for loan and lease losses during the past five quarters.

| ALLOWANCE FOR LOAN AND LEASE LOSS EXPERIENCE AND RISK ELEMENTS                      | Table 9                  |                           |                  |                   |                  |
|---|--------------------------|---------------------------|------------------|-------------------|------------------|
|   | 2012<br>First<br>Quarter | 2011<br>Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter |
| (dollars in thousands; unaudited)   |                          |                           |                  |                   |                  |
| Allowance for loan and lease losses at beginning of period                          | \$ 270,144               | \$ 254,184                | \$ 250,050       | \$ 232,597        | \$ 227,765       |
| Provision for loan and lease losses:  |                          |                           |                  |                   |                  |
| Covered by loss share agreements  | 9,603                    | 70,408                    | 30,317           | 41,196            | 32,557           |
| Not covered by loss share agreements  | 21,112                   | 18,845                    | 14,311           | 12,781            | 11,862           |
| Net charge-offs of loans and leases:  |                          |                           |                  |                   |                  |
| Charge-offs   | (30,379 )                | (74,698 )                 | (42,314 )        | (38,222 )         | (41,606 )        |
| Recoveries  | 2,020                    | 1,405                     | 1,820            | 1,698             | 2,019            |
| Net charge-offs of loans and leases   | (28,359 )                | (73,293 )                 | (40,494 )        | (36,524 )         | (39,587 )        |
| Allowance for loan and lease losses at end of period                                | \$ 272,500               | \$ 270,144                | \$ 254,184       | \$ 250,050        | \$ 232,597       |
| Allowance for loan and lease losses at end of period allocated to loans and leases: |                          |                           |                  |                   |                  |
| Covered by loss share agreements  | \$ 86,117                | \$ 89,261                 | \$ 75,050        | \$ 69,435         | \$ 54,629        |
| Not covered by loss share agreements  | 186,383                  | 180,883                   | 179,134          | 180,615           | 177,968          |
| Allowance for loan and lease losses at end of period                                | \$ 272,500               | \$ 270,144                | \$ 254,184       | \$ 250,050        | \$ 232,597       |
| Detail of net charge-offs of loans and leases:                                      |                          |                           |                  |                   |                  |
| Covered by loss share agreements  | \$ 12,747                | \$ 56,197                 | \$ 24,702        | \$ 26,390         | \$ 29,176        |
| Not covered by loss share agreements  | 15,612                   | 17,096                    | 15,792           | 10,134            | 10,411           |
| Total net charge-offs   | \$ 28,359                | \$ 73,293                 | \$ 40,494        | \$ 36,524         | \$ 39,587        |
| Reserve for unfunded commitments  | \$ 7,789                 | \$ 7,789                  | \$ 7,962         | \$ 7,854          | \$ 7,512         |
| Average loans and leases:   |                          |                           |                  |                   |                  |
| Covered by loss share agreements  | 2,254,636                | 2,443,665                 | 2,500,807        | 2,490,964         | 2,464,277        |
| Not covered by loss share agreements  | 11,567,590               | 11,649,368                | 11,672,417       | 11,537,145        | 11,439,777       |
| Loans and leases at period-end:   |                          |                           |                  |                   |                  |
| Covered by loss sharing agreements  | 2,183,869                | 2,362,152                 | 2,557,450        | 2,399,738         | 2,658,134        |
| Not covered by loss sharing agreements  | 11,489,529               | 11,581,637                | 11,603,526       | 11,528,854        | 11,392,351       |
| Risk Elements   |                          |                           |                  |                   |                  |
| Nonaccrual loans and leases:  |                          |                           |                  |                   |                  |
| Covered by loss share agreements  | \$ 292,229               | \$ 302,102                | \$ 291,890       | \$ 267,333        | \$ 223,617       |
| Not covered by loss share agreements  | 66,363                   | 52,741                    | 59,603           | 73,441            | 79,858           |
| Other real estate:  |                          |                           |                  |                   |                  |
| Covered by loss share agreements  | 142,418                  | 148,599                   | 160,443          | 150,636           | 137,479          |
| Not covered by loss share agreements  | 48,092                   | 50,399                    | 48,616           | 49,028            | 49,584           |
| Total nonperforming assets  | \$ 549,102               | \$ 553,841                | \$ 560,552       | \$ 540,438        | \$ 490,538       |
| Nonperforming assets covered by loss share agreements                               | \$ 434,647               | \$ 450,701                | \$ 452,333       | \$ 417,969        | \$ 361,096       |
| Nonperforming assets not covered by loss share agreements                           | 114,455                  | 103,140                   | 108,219          | 122,469           | 129,442          |
| Total nonperforming assets  | \$ 549,102               | \$ 553,841                | \$ 560,552       | \$ 540,438        | \$ 490,538       |
| Accruing loans and leases greater than 90 days past due:                            |                          |                           |                  |                   |                  |

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|  |         |         |         |         |         |   |
|--|---------|---------|---------|---------|---------|---|
| Covered by loss share agreements                                       | 268,403 | 292,194 | 289,833 | 210,334 | 313,587 |   |
| Not covered by loss share agreements                                   | 13,828  | 14,840  | 17,887  | 15,208  | 11,078  |   |
| Ratios   |         |         |         |         |         |   |
| Net charge-offs (annualized) to average loans and leases:              |         |         |         |         |         |   |
| Covered by loss share agreements                                       | 2.27    | % 9.12  | % 3.92  | % 4.25  | % 4.80  | % |
| Not covered by loss share agreements                                   | 0.54    | 0.58    | 0.54    | 0.35    | 0.37    |   |
| Allowance for loan and lease losses to total loans and leases:         |         |         |         |         |         |   |
| Covered by loss share agreements                                       | 3.94    | 3.78    | 2.93    | 2.89    | 2.06    |   |
| Not covered by loss share agreements                                   | 1.62    | 1.56    | 1.54    | 1.57    | 1.56    |   |
| Nonperforming assets to total loans and leases plus other real estate: |         |         |         |         |         |   |
| Covered by loss share agreements                                       | 18.68   | 17.95   | 16.64   | 16.39   | 12.92   |   |
| Not covered by loss share agreements                                   | 0.99    | 0.89    | 0.93    | 1.06    | 1.13    |   |
| Total  | 3.96    | 3.92    | 3.90    | 3.83    | 3.45    |   |

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Restructured loans (TDRs) not covered by loss share agreements that are performing under their modified terms equaled \$114.9 million at March 31, 2012, compared to \$123.8 million at December 31, 2011 and \$77.4 million at March 31, 2011. Total covered and noncovered restructured loans as of March 31, 2012 equaled \$318.3 million, \$236.7 million of which are performing under their modified terms. TDR's are selectively made to provide relief to customers experiencing liquidity challenges or other circumstances that could affect their ability to meet their debt obligations. These modifications are typically executed only when customers are current on their payment obligation and we believe the modification will result in avoidance of default. Typical modifications we have made included short-term deferral of interest or modification of payment terms, but do not include reduction of interest rates or forgiveness of principal. Nonperforming TDRs are not accruing interest and are included as risk elements within nonaccrual loans and leases in Table 9. Table 9 does not include performing TDRs, which are accruing interest based on the restructured terms. Table 10 provides details on performing and nonperforming TDRs as of March 31, 2012, December 31, 2011, and March 31, 2011.

| TROUBLED DEBT RESTRUCTURINGS         | March 31, 2012 | December 31, 2011 | Table 10<br>March 31, 2011 |
|--------------------------------------|----------------|-------------------|----------------------------|
| Performing TDRs:                     |                |                   |                            |
| Covered by loss share agreements     | \$121,778      | \$126,240         | \$44,603                   |
| Not covered by loss share agreements | 114,944        | 123,796           | 77,376                     |
| Total performing TDRs                | 236,722        | 250,036           | 121,979                    |
| Nonperforming TDRs:                  |                |                   |                            |
| Covered by loss share agreements     | 44,079         | 43,491            | 14,266                     |
| Not covered by loss share agreements | 37,522         | 29,534            | 43,367                     |
| Total nonperforming TDRs             | 81,601         | 73,025            | 57,633                     |
| All TDRs:                            |                |                   |                            |
| Covered by loss share agreements     | 165,857        | 169,731           | 58,869                     |
| Not covered by loss share agreements | 152,466        | 153,330           | 120,742                    |
| Total TDRs                           | \$318,323      | \$323,061         | \$179,611                  |

Interest rate risk management. Interest rate risk results principally from assets and liabilities maturing or repricing at different points in time, from assets and liabilities repricing at the same point in time but in different amounts and from short-term and long-term interest rates changing in different magnitudes. Market interest rates also have an impact on the interest rate and repricing characteristics of loans and leases that are originated as well as the rate characteristics of our interest-bearing liabilities.

We assess our interest rate risk by simulating future amounts of net interest income under various interest rate scenarios and comparing those results to forecasted net interest income assuming stable rates. Certain variable rate products, including revolving mortgage loans, have interest rate floors. Due to the existence of contractual floors on loans, competitive pressures that constrain our ability to reduce deposit interest rates, and the extremely low current level of interest rates, it is highly unlikely that the rates on most interest-earning assets and interest-bearing liabilities can decline from current levels. In our simulations, we do not calculate rate shocks, rate ramps or market value of equity for declining rate scenarios, and assume that the prime rate will not move below the March 31, 2012 rate of 3.25 percent. Our rate ramp simulations indicate that net interest income will increase by 3.7 percent to 7.3 percent depending upon the speed and magnitude that rates increase. Comparable rate shock results indicate increases in net interest income ranging from 10.5 percent to 21.3 percent. Our projections do not incorporate assumptions of likely customer migration of short-term deposit instruments to long-term, higher-rate instruments as rates rise. Such transfer would offset much of the calculated favorable changes. We also utilize the market value of equity as a tool in measuring and managing interest rate risk. As of March 31, 2012, the market value of equity calculated with a 200-basis point immediate increase in interest rates equals 10.67%, down marginally compared to the market value of equity calculated with stable rates.

We do not typically utilize interest rate swaps, floors, collars or other derivative financial instruments to attempt to hedge our rate sensitivity and interest rate risk. However, during 2006, we entered into an interest rate swap to



synthetically convert the variable rate on \$115.0 million of junior subordinated debentures to a fixed rate of 7.125 percent for a period of five years. This swap matured on June 30, 2011. During 2009, we, entered into a second interest rate swap covering the period from June 2011 to December 2011 at a fixed interest rate of 5.50 percent. Following the redemption of \$21.5 million of the junior subordinated debentures, the 2009 swap was terminated in December 2011 and we entered into a new swap to synthetically convert the variable rate on the remaining \$93.5 million of junior subordinated debentures to a fixed rate of 5.50 percent

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through June 2016. All of the interest rate swaps qualified as hedges under US GAAP during the periods in which they were in effect.

Liquidity risk management. Liquidity risk results from the mismatching of asset and liability cash flows and the potential inability to secure adequate amounts of funding from traditional sources of liquidity at a reasonable cost. We manage this risk by structuring our balance sheet prudently and by maintaining various noncore funding sources to fund potential cash needs. Our primary source of funds has historically been our large retail and commercial customer base, which continues to provide a stable source of deposits. Core deposits are our largest and most cost-effective source of funding. We also maintain access to various types of noncore funding including advances from the FHLB system, federal funds arrangements with correspondent banks, brokered and CDARS deposits and a line of credit from a correspondent bank. Short-term borrowings resulting from commercial treasury customers are also a recurring source of liquidity, although the majority of those borrowings must be collateralized thereby potentially restricting the use of the resulting liquidity.

One of our principal sources of noncore funding is advances from the FHLB system. Our total outstanding advances equaled \$250.3 million as of March 31, 2012, and we had sufficient collateral pledged to secure \$946.4 million of additional borrowings. Additionally, we maintain federal funds lines of credit and other borrowing facilities. At March 31, 2012, BancShares had contingent access to \$450.0 million in unsecured borrowings through its various sources.

Once we have satisfied our loan demand and other funding needs, residual liquidity is held in cash or invested in overnight investments and investment securities available for sale. Net of amounts pledged for various purposes, the amount of such immediately available balance sheet liquidity approximated \$2.18 billion at March 31, 2012 compared to \$1.40 billion at December 31, 2011 and \$1.76 billion at March 31, 2011.

## LEGAL PROCEEDINGS

BancShares and various subsidiaries have been named as defendants in various legal actions arising from our normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to those other matters cannot be determined, in the opinion of management, any such liability will not have a material effect on BancShares' consolidated financial statements.

Additional information relating to legal proceedings is set forth in Note H of BancShares' Notes to Unaudited Consolidated Financial Statements.

## CURRENT ACCOUNTING AND REGULATORY ISSUES

In May 2011, the FASB issued Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 creates a uniform framework for applying fair value measurement principles for companies around the world. It eliminates differences between GAAP and International Financial Reporting Standards issued by the International Accounting Standards Board. New disclosures required by the guidance include: quantitative information about the significant unobservable inputs used for Level 3 measurements; a qualitative discussion about the sensitivity of recurring Level 3 measurements to changes in the unobservable inputs disclosed, including the interrelationship between inputs; and a description of the company's valuation processes. The updates in ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011, and all amendments are to be applied prospectively with any changes in measurements recognized in income in the period of adoption. The provisions of this update have affected BancShares' financial statement disclosures, but had no impact on BancShares' financial condition, results of operations or liquidity.

In June, 2011, the FASB issued Comprehensive Income: Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 allows financial statement issuers to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, in December, 2011, the FASB issued Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12) which deferred the portion of ASU 2011-05 that relates to the presentation of reclassification adjustments. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of

the statement of changes in shareholders' equity, which is the presentation method previously utilized by BancShares. The updates in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and have been applied retrospectively. The provisions of these updates have affected BancShares' financial statement format, but had no impact on BancShares' financial condition, results of operations or liquidity

In September, 2011, the FASB issued Intangibles - Goodwill and Other Intangible Assets: Testing Goodwill for Impairment (ASU 2011-08), which allows an entity the option to first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that is it more likely than not that the fair value of a reporting unit is less than its

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carrying amount. Under ASU 2011-08, if, after that assessment is made, an entity determines that it is more likely than not that the carrying value of goodwill is not impaired, then the two-step impairment test is not required. However, if the entity concludes otherwise, the two-step impairment test would be required. The provisions of ASU 2011-08 are effective for interim and annual periods beginning after December 15, 2011, although early adoption was allowed. Adoption of ASU 2011-08 has not had a material impact on BancShares' financial condition, results of operations or liquidity.

At the March 15, 2012 FASB Emerging Issues Task Force (EITF) meeting, the Task Force reached a consensus-for-exposure that when a reporting entity initially recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change occurs in the cash flows expected to be collected on the asset subject to indemnification, the reporting entity would be required to account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification, and any amortization of changes in value would be limited to the contractual terms of the indemnification agreement.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act will result in expansive changes in many areas affecting the financial services industry in general and BancShares in particular. The legislation provides broad economic oversight, consumer financial services protection, investor protection, rating agency reform and derivative regulatory reform. Various corporate governance requirements will result in expanded proxy disclosures and shareholder rights. Additional provisions address the mortgage industry in an effort to strengthen lending practices. Deposit insurance reform has resulted in permanent FDIC protection for up to \$250,000 of deposits and will require the FDIC's Deposit Insurance Fund to maintain 1.35 percent of insured deposits with the burden for closing the shortfall falling to banks with more than \$10.0 billion in assets.

In response to the legislation, the formula used to calculate the FDIC insurance assessment paid by each FDIC-insured institution was significantly altered. The new formula was effective April 1, 2011 and changes the assessment base from deposits to total assets less equity, thereby placing a larger assessment burden on banks with large levels of non-deposit funding. The new assessment formula also considers the level of subprime and leveraged loans, risk factors that will potentially result in incremental insurance costs. This new reporting requirement will require BancShares to implement process and system changes to accurately identify and report these assets.

The legislation also imposes new regulatory capital requirements for banks that will result in the disallowance of qualified trust preferred capital securities as tier 1 capital beginning in 2013. This legislation requires the reduction in tier 1 capital by the amount of qualified trust preferred capital securities in equal increments over a three year period beginning in 2013. BancShares has \$243.5 million in trust preferred capital securities that is currently outstanding and included as tier 1 capital. The elimination of \$81.2 million from tier 1 capital will be required in each year over the three year period beginning in 2013.

On June 29, 2011 the Board of Governors of the Federal Reserve System issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. The issuance of this rule was required by the Dodd-Frank Act. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction will be the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The Federal Reserve also approved an interim final rule that allows for an upward adjustment of no more than 1 cent to an issuer's debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud-prevention standards set out in the interim final rule. The provisions of this rule were effective on October 1, 2011 and it is expected to continue to have a negative impact on BancShares noninterest income throughout 2012.

Due to the breadth of the impact of the new legislation and the pending issuance of regulations implementing the legislation, we are unable to estimate the impact of complying with the various provisions.

In September 2010, the Basel Committee on Banking Supervision announced Basel III regulatory capital requirements aimed at strengthening existing capital requirements significantly, through a combination of higher minimum capital requirements, new capital conservation buffers, and more conservative definitions of capital and exposure. Basel III would impose a new common equity requirement of 7.00 percent, comprised of a minimum of 4.50 percent plus a capital conservation buffer of 2.50 percent. The transition period for banks to meet the revised common equity

requirement will begin in 2013, with full implementation in 2019. The committee has also stated that it may require a counter-cyclical capital buffer in addition to Basel III standards. The new rule also proposes the deduction of certain assets in measuring tier 1 capital. The Federal Reserve has adopted the Basel III guidelines for bank holding companies with assets over \$50 billion, and it is expected that other United States banking regulators will also adopt new regulatory capital requirements similar to those proposed in Basel III for all other banks and bank holding companies. We will monitor proposed capital requirement amendments and manage our capital to meet what we believe the new measures will require. BancShares' tier 1 common equity ratio is 13.92 percent at March 31, 2012 compared to the fully phased-in Basel III requirement of 7.00 percent.

Although it is likely that further regulatory actions will arise as the Federal government attempts to address the economic situation, management is not aware of any further recommendations by regulatory authorities that, if implemented, would have or

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would be reasonably likely to have a material effect on liquidity, capital ratios or results of operations.

**FORWARD-LOOKING STATEMENTS**

Statements in this Report and exhibits relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments, expectations or beliefs about future events or results, and other statements that are not descriptions of historical facts, may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in our Annual Report on Form 10-K and in other documents filed by us from time to time with the Securities and Exchange Commission.

Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecasts,” “projects,” “potential” or “continue,” or similar terms or the nega

these terms, or other statements concerning opinions or judgments of BancShares’ management about future events. Factors that could influence the accuracy of those forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, customer acceptance of our services, products and fee structure, the competitive nature of the financial services industry, our ability to compete effectively against other financial institutions in our banking markets, actions of government regulators, the level of market interest rates and our ability to manage our interest rate risk, changes in general economic conditions that affect our loan and lease portfolio, the abilities of our borrowers to repay their loans and leases, the values of real estate and other collateral, the impact of the FDIC-assisted transactions, and other developments or changes in our business that we do not expect. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential economic loss resulting from changes in market prices and interest rates. This risk can either result in diminished current fair values of financial instruments or reduced net interest income in future periods. As of March 31, 2012, BancShares' market risk profile has not changed significantly from December 31, 2011. Changes in fair value that result from movement in market rates cannot be predicted with any degree of certainty. Therefore, the impact that future changes in market rates will have on the fair values of financial instruments is uncertain.

Item 4. Controls and Procedures

BancShares' management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of BancShares' disclosure controls and procedures as of the end of the period covered by this Quarterly Report, in accordance with Rule 13a-15 of the Securities Exchange Act of 1934 (Exchange Act). Based upon that evaluation, as of the end of the period covered by this report, the Chief Executive Officer and the Chief Financial Officer concluded that BancShares' disclosure controls and procedures were not effective to provide reasonable assurance that it is able to record, process, summarize and report in a timely manner the information required to be disclosed in the reports it files under the Exchange Act due to the previously identified material weakness in internal control over financial reporting discussed below.

As disclosed in BancShares' Annual Report on Form 10-K for the year ended December 31, 2011, BancShares' management conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2011. Based on that evaluation, management determined that, as of December 31, 2011, BancShares' internal control over financial reporting was not effective due to a material weakness in its internal control related to the accounting and financial reporting for acquired loans and the FDIC receivable in FDIC-assisted transactions. Specifically, in determining the post-acquisition accounting for certain acquired loans under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, and the impact of changes in cash flows expected to be collected on covered loans pursuant to the FDIC loss share agreements, management discovered errors that were not detected during its normal review processes.

BancShares' management has commenced steps to remediate the material weakness. During the first quarter of 2012 management reached agreement with an external firm to provide consultation and assistance with the conversion of the acquired loans that have not yet been converted to the automated acquired loan accounting system currently in use by BancShares for loans acquired from two of the FDIC-assisted transactions. Acquired loans resulting from four of the six FDIC-assisted transactions have not yet been converted to the acquired loan accounting system. The engagement will begin during the second quarter of 2012 and is anticipated to require up to twelve months. In addition, management implemented certain specific internal control improvements related to financial reporting for the first quarter of 2012, including enhanced review controls related to the FDIC receivable, the use of a checklist for periodic acquired loan accounting for those acquired loans that have not yet been converted to the automated acquired loan accounting system, and the preparation of enhanced quarterly yield analyses. Additional controls and procedures will be implemented during the second and third quarters of 2012.

Other than the ongoing implementation of internal control improvements related to the material weakness as described above, no changes in BancShares' internal control over financial reporting were identified as having occurred in the first quarter of 2012 that have materially affected, or are reasonably likely to materially affect, BancShares' internal control over financial reporting.





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PART II

Item 1A. Risk Factors

The risks and uncertainties that management believes are material are described below. Before making an investment decision, these risks and uncertainties should be carefully considered together with all of the other information included or incorporated herein by reference. The risks listed are not the only risks that BancShares faces. Additional risks and uncertainties that are not currently known or that management does not currently deem to be material could also have a material, adverse impact on our financial condition, the results of our operations, or our business. If this were to occur, the market price of our common stock could decline significantly.

Unfavorable economic conditions could continue to adversely affect our business

Our business is highly affected by national, regional and local economic conditions. These conditions cannot be predicted or controlled, and may have a material impact on our operations and financial condition. Unfavorable economic developments over the course of the last three years have resulted in negative effects on the business, risk profile, financial condition and results of operations of financial institutions in the United States including BancShares and FCB. Continued unfavorable economic conditions could weaken the national economy further as well as the economies of specific communities that we serve. Further deterioration in our market areas could depress our earnings and have an adverse impact on our financial condition and capital adequacy.

Weakness in real estate markets and exposure to junior liens have adversely impacted our business and our results of operations and may continue to do so

Real property collateral values have declined due to continuing weaknesses in real estate sales activity. That risk, coupled with higher delinquencies and losses on various loan products caused by high rates of unemployment and underemployment, has resulted in losses on loans that, while adequately collateralized at the time of origination, are no longer fully secured. Our continuing exposure is most severe in our non-commercial revolving mortgage loan portfolio. The revolving mortgage portfolio is comprised principally of loans secured by junior liens, and lower real estate values for collateral underlying these loans has, in many cases, resulted in the junior lien loan being collateralized by significantly reduced equity. In some cases, the outstanding balance of the senior lien is in excess of the value of the collateral resulting in a junior lien loan that is in effect unsecured.

Further declines in collateral values, unfavorable economic conditions, and sustained high rates of unemployment could result in greater delinquency, write-downs or charge-offs in future periods, which could have a material adverse impact on our results of operations and capital adequacy.

Accretion of fair value discounts may result in volatile interest income and net interest income

Fair value discounts that are recorded at the time an asset is acquired are accreted into interest income based on accounting principles generally accepted in the United States of America. The rate at which those discounts are accreted is unpredictable, the result of various factors including unscheduled prepayments and credit quality improvements that result in a reclassification from nonaccretable difference to accretable yield with prospective accretion into interest income. The discount accretion may result in significant volatility in interest income and net interest income.

To the extent that the changes in interest income and net interest income are attributable to improvements in credit quality of acquired loans, there will generally be a proportionate adjustment to the FDIC receivable that will be offset by an entry to noninterest income.

Reimbursements under loss share agreements are subject to FDIC oversight and interpretation and contractual term limitations

The FDIC-assisted transactions completed during 2011, 2010 and 2009 include significant protection to FCB from the exposures to prospective losses on certain assets that are covered under loss share agreements with the FDIC. Loans and leases covered under loss share agreements represent 16.0 percent of total loans and leases as of March 31, 2012. These loss share agreements impose certain obligations on us including obligations to manage assets in the prescribed manner and report results and requests for reimbursement periodically. In the event of noncompliance, delay or disallowance of some or all of our rights under those agreements could occur including the denial of reimbursement for losses and related collection costs. Requests for reimbursement are subject to FDIC review and may be delayed or disallowed for noncompliance.

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The loss share agreements are subject to interpretation by both the FDIC and FCB, and disagreements may arise regarding coverage of losses, expenses and contingencies. Additionally, losses that are currently projected to occur during the loss share term may not occur until after the expiration of the applicable agreement and those losses could have a material impact on results of operations in future periods. Our current estimates of losses include only those losses that we project to occur during the loss share period and for which we believe we will receive reimbursement from the FDIC at the applicable reimbursement rate.

During March 2012, FCB received communications from the U.S. Small Business Administration (SBA) asserting that the SBA is entitled to receive proportionate shares of certain amounts paid or to be paid by the FDIC to FCB pursuant to the Loss Share Agreement between FCB and the FDIC applicable to Temecula Valley Bank. The SBA makes reference to the treatment of guarantee, insurance and surety proceeds under the SBA 750 Loan Guaranty Agreement and the 7(a) Loan Program Requirements. FCB disagrees with the SBA's position, and intends to vigorously protect its interests in this matter.

We are subject to extensive oversight and regulation that continues to change

We and FCB are subject to extensive federal and state banking laws and regulations. These laws and regulations primarily focus on the protection of depositors, federal deposit insurance funds, and the banking system as a whole rather than the protection of security holders. Federal and state banking regulators possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums, increased expenses, reductions in fee income and limitations on activities that could have a material adverse effect on our results of operations.

The Dodd-Frank Act instituted significant changes to the overall regulatory framework for financial institutions including the creation of the CFPB that will impact BancShares and FCB. During the fourth quarter of 2011, limitations on debit card interchange fees became effective. Beginning January 1, 2013, a portion of our long-term borrowings that currently qualify as tier 1 capital will cease to be included in tier 1 capital.

In September 2010, the Basel Committee on Banking Supervision announced new global regulatory capital guidelines (Basel III) aimed at strengthening existing capital requirements for bank holding companies, through a combination of higher minimum capital requirements, new capital conservation buffers, and more conservative definitions of capital and exposure. If adopted by US regulators, the more strenuous capital requirements under Basel III could potentially limit our ability to fund future acquisitions or expand our business.

We encounter significant competition

We compete with other banks and specialized financial service providers in our market areas. Our primary competitors include local, regional and national banks and savings associations, credit unions, commercial finance companies, various wealth management providers, independent and captive insurance agencies, mortgage companies and non-bank providers of financial services. Some of our larger competitors, including banks that have a significant presence in our market areas, have the capacity to offer products and services we do not offer. Some of our competitors operate in a regulatory environment that is significantly less stringent than the one in which we operate, or are not subject to federal and state income taxes. The fierce competitive pressure that we face tends to reduce pricing for many of our products and services to levels that are marginally profitable.

Our financial condition could be adversely affected by the soundness of other financial institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to numerous financial service providers, including banks, brokers and dealers in securities and other institutional clients. Transactions with other financial institutions expose us to credit risk in the event of default of the counterparty.

Natural disasters and other catastrophes could affect our ability to operate

The occurrence of catastrophic events including weather-related events such as hurricanes, tropical storms, floods, or windstorms, as well as earthquakes, pandemic disease, fires and other catastrophes could adversely affect our financial condition and results of operations. In addition to natural catastrophic events, man-made events, such as acts of terror and governmental response to acts of terror, could adversely affect general economic conditions, which could have a material impact on our results of operations.

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Unpredictable natural and other disasters could have an adverse effect if those events materially disrupt our operations or affect customers' access to the financial services we offer. Although we carry insurance to mitigate our exposure to certain catastrophic events, catastrophic events could nevertheless adversely affect our results of operations.

We are subject to interest rate risk

Our results of operations and cash flows are highly dependent upon our net interest income. Interest rates are sensitive to economic and market conditions that are beyond our control, including the actions of the Federal Reserve Board's Federal Open Market Committee. Changes in monetary policy could influence our interest income and interest expense as well as the fair value of our financial assets and liabilities. If the changes in interest rates on our interest-earning assets are not roughly equal to the changes in interest rates paid on our interest-bearing liabilities, our net interest income and therefore our net income could be adversely impacted.

Even though we maintain what we believe to be an adequate interest rate risk monitoring system, the forecasts of future net interest income in the system are estimates and may be inaccurate. The shape of the yield curve may change differently than we forecasted, and we cannot accurately predict changes in interest rates or actions by the Federal Open Market Committee that may have a direct impact on market interest rates.

Our current level of balance sheet liquidity may come under pressure

Our deposit base represents our primary source of core funding and thus balance sheet liquidity. We normally have the ability to stimulate core deposit growth through reasonable and effective pricing strategies. However, in circumstances where our ability to generate needed liquidity is impaired, we would need access to noncore funding such as advances from the Federal Home Loan Bank, fed funds purchased, and brokered deposits. While we maintain access to noncore funding sources, we are dependent on the availability of collateral, the counterparty's willingness to lend to us, and their liquidity capacity.

We face significant operational risks in our businesses

Our ability to adequately conduct and grow our business is dependent on our ability to create and maintain an appropriate operational and organizational control infrastructure. Operational risk can arise in numerous ways including employee fraud, customer fraud, and control lapses in bank operations and information technology. Our dependence on our employees and automated systems, including the automated systems used by acquired entities and third parties, to record and process transactions may further increase the risk that technical failures or tampering of those systems will result in losses that are difficult to detect. We are also subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control. Failure to maintain an appropriate operational infrastructure can lead to loss of service to customers, legal actions, and noncompliance with various laws and regulations.

Our business could suffer if we fail to attract and retain skilled people

FCB's success depends primarily on its ability to attract and retain key people. Competition is intense for people who we believe will be successful in developing and attracting new business and/or managing critical support functions for FCB. Our historical lack of providing compensation to key people through annual cash incentives, incentive stock awards or long-term incentive awards creates unique challenges to our attraction and retention of key people. We may not be able to hire the best people or retain them for an adequate period of time after their hire date.

We continue to encounter technological change

The financial services industry continues to experience an increase in technological complexity required to provide a competitive array of products and services to customers. Our future success depends in part on our ability to satisfactorily invest in and address our technology infrastructure to ensure that we can continue to provide products and services that meet the needs of our customers. Several of our principal competitors are much larger than we are, and thus have substantially greater resources to invest in their technological capabilities and infrastructure. We may not be able to satisfactorily address our technology needs in a timely and cost-effective manner, which could lead to a material adverse impact on our business, financial condition, and financial results of operations.

We are subject to information security risks

We maintain and transmit large amounts of sensitive information electronically including personal and financial information of our customers. While we maintain strict information security standards, unauthorized access and use of this data could lead to a material adverse impact on our business, financial condition, and financial results of operations.

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### We rely on external vendors

Third party vendors provide key components of our business infrastructure including certain data processing and information services. Failures of these third parties to provide services for any reason could adversely affect our ability to deliver products and services to our customers. We maintain a robust control environment designed to monitor vendor risks including the financial stability of critical vendors. While we believe that our control environment is adequate, the failure of a critical external vendor could disrupt our business and cause us to incur significant expense.

### We are subject to litigation risks that may be uninsured

We face litigation risks as principal and fiduciary from customers, employees, vendors, federal and state regulatory agencies, and other parties who may seek to assert single or class action liabilities against us. The frequency of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against us may have material adverse financial effects or cause significant reputational harm. Although we carry insurance to mitigate our exposure to certain litigation risks, litigation could nevertheless adversely affect our results of operations.

### We use accounting estimates in the preparation of our financial statements

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. Significant estimates include the allowance for loan and lease losses, the fair values of acquired loans, and OREO both at acquisition date and in subsequent periods, and the related receivable from the FDIC for loss share agreements. Due to the uncertainty of the circumstances relating to these estimates, we may experience more adverse outcomes than originally estimated. The allowance for loan and lease losses may need to be significantly increased. The actual losses or expenses on loans or the losses or expenses not covered under the FDIC agreements may differ from the recorded amounts resulting in charges that could materially affect our results of operations.

### Accounting standards may change

The Financial Accounting Standards Board and the Securities and Exchange Commission periodically modify the standards that govern the preparation of our financial statements. The nature of these changes is not predictable, and could impact how we record transactions in our financial statements, which could lead to material changes in assets, liabilities, shareholders' equity, revenues, expenses and net income. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results or a cumulative adjustment to retained earnings. The application of new accounting rules or standards could require us to implement costly technology changes.

### Integration of our FDIC-assisted acquisitions may be disruptive

Complications in the conversion of operating systems, data processing systems and products may result in the loss of customers, damage to our reputation, operational problems, one-time costs currently not anticipated, or reduced cost savings resulting from a merger or acquisition. The integration could result in higher than expected deposit attrition, loss of key employees, disruption of our businesses or the businesses of the acquired company or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition.

### The acquisition gains that we have recorded in our financial statements are subject to adjustment

The acquisition gains recorded in the third quarter of 2011 are preliminary and subject to revision for a period of one year following the respective acquisition dates. Adjustments to the gains may be recorded based on additional information received after the acquisition date that affected the acquisition date fair values of assets acquired and liabilities assumed. Further downward adjustments in values of assets acquired or increases in values of liabilities assumed on the date of acquisition would lower the acquisition gains.

Our ability to generate future acquisition gains is uncertain

During 2011, 2010, and 2009, a significant portion of our earnings have been derived from acquisition gains resulting from FDIC-assisted transactions that may not occur in future periods. Our ability to participate in future FDIC-assisted transactions is dependent on several factors including regulatory approval, access to sufficient liquidity to fund the transactions, capital adequacy, and availability of profitable opportunities that meet our strategic objectives. Inability to execute profitable transactions could have a negative impact on our ability to generate additional capital through current earnings.



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Our access to capital is limited which could impact our future growth

Based on existing capital levels, BancShares and FCB maintain well-capitalized ratios under current leverage and risk-based capital standards including the impact of the acquisitions in 2011, 2010 and 2009. Historically, our primary capital sources have been retained earnings and debt issued through both private and public markets including trust preferred securities and subordinated debt. The Dodd-Frank Act contains provisions that will eliminate our inclusion of \$243.5 million of trust preferred securities in tier 1 risk-based capital beginning January 1, 2013 with total elimination on January 1, 2015. The inability to include the trust preferred securities in tier 1 risk-based capital may lead us to redeem a portion or all of the securities prior to their scheduled maturity dates. Since we have not historically raised capital through new issues of our common stock, we seek to replace the tier 1 capital provided by the trust preferred securities in part through acquisition gains arising from FDIC-assisted transactions. A lack of ready access to adequate amounts of tier 1 capital could limit our ability to consummate additional acquisitions, make new loans, meet our existing lending commitments, and could potentially affect our liquidity and capital adequacy.

The major rating agencies regularly evaluate our creditworthiness and assign credit ratings to our debt and the debt of our bank subsidiary. The ratings of the agencies are based on a number of factors, some of which are outside of our control. In addition to factors specific to our financial strength and performance, the rating agencies also consider conditions generally affecting the financial services industry. In light of the difficulties currently confronting the financial services industry, there can be no assurance that we will maintain our current credit ratings. Rating reductions could adversely affect our access to funding sources and the cost of obtaining funding.

The market price of our stock may be volatile

Although publicly traded, our common stock has substantially less liquidity and public float than other large publicly traded financial services companies as well as average companies listed on the NASDAQ National Market System. A relatively small percentage of our common stock is actively traded with average daily volume during 2011 of approximately 11,000 shares. This low liquidity increases the price volatility of our stock which may make it difficult for our shareholders to sell or buy our common stock when they deem a transaction is warranted at a price that they believe is attractive.

Excluding the impact of liquidity, the market price of our common stock can fluctuate widely in response to other factors including expectations of operating results, actual operating results, actions of institutional shareholders, speculation in the press or the investment community, market perception of acquisitions, rating agency upgrades or downgrades, stock prices of other companies that are similar to us, general market expectations related to the financial services industry and the potential impact of government actions affecting the financial services industry.

BancShares relies on dividends from FCB

As a financial holding company, BancShares is a separate legal entity from FCB and receives substantially all of its revenue and cash flow from dividends paid by FCB. The cash flow from these dividends is the primary source which allows BancShares to pay dividends on its common stock and interest and principal on its debt obligations. North Carolina state law limits the amount of dividends that FCB may pay to BancShares. In the event that FCB is unable to pay dividends to BancShares for an extended period of time, BancShares may not be able to service its debt obligations or pay dividends on its common stock.

The value of our goodwill may decline

As of March 31, 2012, we had \$102.6 million of goodwill recorded as an asset on our balance sheet. We test goodwill for impairment at least annually, and the impairment test compares the estimated fair value of a reporting unit with its net book value. A significant decline in our expected future cash flows, a significant adverse change in the business climate, or a sustained decline in the price of our common stock may result in a write-off of impaired goodwill. Such write-off could have a significant impact on our results of operations, but would not impact our capital ratios as such ratios are calculated using tangible capital amounts.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## PURCHASES OF COMMON STOCK

On July 8, 2011 the Board of Directors (BOD) approved a stock trading plan (“the Plan”). The Plan provides for the repurchase of up to 100,000 shares of BancShares’ Class A common stock, and up to 25,000 shares of its Class B common stock from time to time through June 30, 2012. Additionally, on October 8, 2011, the BOD authorized the purchase of an additional 100,000 shares of BancShares’ Class A common stock under the Plan.

The following table provides the shares of Class A common stock repurchased by BancShares during the three months ended March 31, 2012 as well as shares that may be purchased under publicly announced plans.

| Period  | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---|----------------------------------|------------------------------|--|--|
| Repurchases from January 1, 2011 through January 31, 2012   | —                                | \$ —                         | —  | —  |
| Repurchases from February 1, 2012 through February 29, 2012 | —                                | —                            | —  | —  |
| Repurchases from March 1, 2012 through March 31, 2012       | —                                | —                            | —  | —  |
| Total   | —                                | \$ —                         | —  | 87,529   |

The following table provides the shares of Class B common stock repurchased by BancShares during the three months ended March 31, 2012 as well as shares that may be purchased under publicly announced plans.

| Period  | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---|----------------------------------|------------------------------|--|--|
| Repurchases from January 1, 2011 through January 31, 2012   | —                                | \$ —                         | —  | —  |
| Repurchases from February 1, 2012 through February 29, 2012 | —                                | —                            | —  | —  |
| Repurchases from March 1, 2012 through March 31, 2012       | 8,388                            | 187.50                       | 8,388  | —  |
| Total   | 8,388                            | \$ 187.50                    | 8,388  | 16,437   |

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Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer
- 32.2 Certification of Chief Financial Officer
  
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 10, 2012

FIRST CITIZENS BANCSHARES, INC.  
(Registrant)

By: /s/ KENNETH A. BLACK  
Kenneth A. Black  
Vice President, Treasurer  
and Chief Financial Officer