FIRST CITIZENS BANCSHARES INC /DE/
Form 10-Q
November 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011
or

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

Commission File Number: 001-16715

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

Delaware (State or other jurisdiction of incorporation or organization)	56-1528994 (I.R.S. Employer Identification Number)
4300 Six Forks Road, Raleigh, North Carolina (Address of principle executive offices)	27609 (Zip code)

(919) 716-7000
(Registrant's telephone number, including area code)

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 x   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 x   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	x	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 x

Class A Common Stock—$1 Par Value—8,669,439 shares
Class B Common Stock—$1 Par Value—1,639,812 shares
(Number of shares outstanding, by class, as of September 30, 2011)

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Part 1

Item 1. Financial Statements (Unaudited)

First Citizens BancShares, Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30* 2011	December 31# 2010	September 30* 2010
	(thousands, except share data)		
Assets			
Cash and due from banks	$539,337	$460,178	$493,786
Overnight investments	410,002	398,390	1,049,158
Investment securities available for sale	3,994,825	4,510,076	3,786,841
Investment securities held to maturity	1,943	2,532	2,645
Loans held for sale	78,178	88,933	79,853
Loans and leases:			
Covered under loss share agreements	2,557,450	2,007,452	2,222,660
Not covered under loss share agreements	11,603,526	11,480,577	11,545,309
Less allowance for loan and lease losses	254,184	227,765	218,046
Net loans and leases	13,906,792	13,260,264	13,549,923
Premises and equipment	847,372	842,745	845,478
Other real estate owned:			
Covered under loss share agreements	160,443	112,748	99,843
Not covered under loss share agreements	48,616	52,842	47,523
Income earned not collected	43,886	83,644	83,204
Receivable from FDIC for loss share agreements	607,907	623,261	651,844
Goodwill	102,625	102,625	102,625
Other intangible assets	8,081	9,897	11,373
Other assets	265,337	258,524	245,195
Total assets	$21,015,344	$20,806,659	$21,049,291
Liabilities			
Deposits:			
Noninterest-bearing	$4,274,945	$3,976,366	$3,859,389
Interest-bearing	13,388,330	13,658,900	13,883,639
Total deposits	17,663,275	17,635,266	17,743,028
Short-term borrowings	600,384	546,597	652,716
Long-term obligations	744,839	809,949	819,145
Other liabilities	134,916	81,885	116,198
Total liabilities	19,143,414	19,073,697	19,331,087
Shareholders' Equity			
Common stock:			
Class A - $1 par value (8,669,439 shares issued and outstanding at September 30, 2011 8,756,778 shares issued and outstanding at December 31, 2010 and September 30, 2010)	8,669	8,757	8,757
Class B - $1 par value (1,639,812 shares issued and outstanding at September 30, 2011, 1,677,675 shares issued and outstanding at December 31, 2010 and September 30, 2010)	1,640	1,678	1,678
Surplus	143,766	143,766	143,766

Retained earnings	1,750,382	1,615,290	1,588,336
Accumulated other comprehensive loss	(32,527)	(36,529)	(24,333)
Total shareholders’ equity	1,871,930	1,732,962	1,718,204
Total liabilities and shareholders’ equity	$21,015,344	$20,806,659	$21,049,291

* Unaudited
# Derived from 2010 Annual Report on Form 10-K.
See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries
Consolidated Statements of Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(thousands, except share and per share data, unaudited)			
Interest income				
Loans and leases	$240,493	$264,819	$705,677	$654,434
Investment securities:				
U. S. Treasury	1,707	5,774	7,176	20,120
Government agency	5,162	3,632	15,072	8,887
Residential mortgage-backed securities	2,366	1,544	7,123	4,981
Corporate bonds	1,971	2,196	6,266	6,529
State, county and municipal	108	14	133	62
Other	21	77	480	159
Total investment securities interest and dividend income	11,335	13,237	36,250	40,738
Overnight investments	351	572	1,056	1,591
Total interest income	252,179	278,628	742,983	696,763
Interest expense				
Deposits	24,825	37,087	81,726	116,294
Short-term borrowings	1,470	742	4,649	2,138
Long-term obligations	8,697	10,859	28,059	32,493
Total interest expense	34,992	48,688	114,434	150,925
Net interest income	217,187	229,940	628,549	545,838
Provision for loan and lease losses	44,628	59,873	143,024	108,629
Net interest income after provision for loan and lease losses	172,559	170,067	485,525	437,209
Noninterest income				
Gain on acquisitions	87,788	—	151,262	136,000
Cardholder and merchant services	30,801	27,982	88,124	80,276
Service charges on deposit accounts	16,389	18,063	47,957	56,403
Wealth management services	14,011	12,826	41,418	38,782
Fees from processing services	7,883	7,485	22,724	21,934
Securities gains (losses)	254	940	(291)	1,885
Other service charges and fees	6,256	4,734	18,173	14,492
Mortgage income	3,994	3,013	8,839	6,347
Insurance commissions	2,196	1,980	7,010	6,580
ATM income	1,453	1,730	4,413	5,084
Adjustments for FDIC receivable for loss share agreements	(18,893)	(29,532)	(43,019)	(14,005)
Other	11,612	748	13,363	762
Total noninterest income	163,744	49,969	359,973	354,540
Noninterest expense				
Salaries and wages	77,877	74,727	229,805	221,362
Employee benefits	17,153	14,455	55,510	48,605
Occupancy expense	18,538	18,353	55,338	54,706
Equipment expense	17,478	17,251	52,384	49,670

FDIC insurance expense	2,768	5,842	13,494	17,338
Foreclosure-related expenses	14,558	(1,271)	23,793	6,804
Other	55,460	47,494	151,018	133,092
Total noninterest expense	203,832	176,851	581,342	531,577
Income before income taxes	132,471	43,185	264,156	260,172
Income taxes	50,536	15,439	99,161	97,213
Net income	$81,935	$27,746	$164,995	$162,959
Average shares outstanding	10,363,964	10,434,453	10,406,833	10,434,453
Net income per share	$7.91	$2.66	$15.85	$15.62

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
First Citizens BancShares, Inc. and Subsidiaries

	Class A Common Stock	Class B Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
	(thousands, except share data, unaudited)					
Balance at December 31, 2009	$8,757	$ 1,678	$143,766	$1,429,863	$ (24,949)	$1,559,115
Adjustment resulting from adoption of a change in accounting for QSPEs and controlling financial interests effective January 1, 2010	—	—	—	4,904	—	4,904
Comprehensive income:						
Net income	—	—	—	162,959	—	162,959
Change in unrealized securities gains arising during period, net of $1,988 deferred tax	—	—	—	—	5,567	5,567
Less reclassification adjustment for gains included in net income, net of $900 deferred tax benefit	—	—	—	—	(1,398)	(1,398)
Change in pension liability, net of $1,178 tax benefit	—	—	—	—	1,830	1,830
Change in unrecognized loss on cash flow hedges, net of $3,153 deferred tax benefit	—	—	—	—	(5,383)	(5,383)
Total comprehensive income						163,575
Cash dividends	—	—	—	(9,390)	—	(9,390)
Balance at September 30, 2010	$8,757	$ 1,678	$143,766	$1,588,336	$ (24,333)	$1,718,204
Balance at December 31, 2010	$8,757	$ 1,678	$143,766	$1,615,290	$ (36,529)	$1,732,962
Comprehensive income:						
Net income	—	—	—	164,995	—	164,995
Change in unrealized securities gains arising during period, net of $2,104 deferred tax	—	—	—	—	3,240	3,240
Reclassification adjustment for losses included in net income, net of $93 deferred tax	—	—	—	—	198	198
Change in pension liability, net of $1,936 deferred tax	—	—	—	—	3,008	3,008
Change in unrecognized loss on cash flow hedges, net of $1,595 deferred tax benefit	—	—	—	—	(2,444)	(2,444)
Total comprehensive income						168,997
Repurchase of 87,339 shares of Class A common stock	(88)			(12,975)		(13,063)
Repurchase of 37,863 shares of Class B common stock	—	(38)	—	(7,564)	—	(7,602)
Cash dividends	—	—	—	(9,364)	—	(9,364)

Balance at September 30, 2011	$8,669	$ 1,640	$143,766	$1,750,382	$ (32,527)	$1,871,930

See accompanying Notes to Consolidated Financial Statements.

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

	For the nine months ended September 30,	
	2011	2010
	(thousands, unaudited)	
OPERATING ACTIVITIES		
Net income	$164,995	$162,959
Adjustments to reconcile net income to cash provided by operating activities:		
Amortization of intangibles	3,337	4,727
Provision for loan and lease losses	143,024	108,629
Deferred tax (benefit) expense	(36,243)	(82,228)
Change in current taxes payable	52,970	2,260
Depreciation	48,883	46,565
Change in accrued interest payable	(14,851)	(4,348)
Change in income earned not collected	46,753	(14,860)
Gain on acquisitions	(151,262)	(136,000)
Securities losses (gains)	291	(1,885)
Origination of loans held for sale	(333,860)	(420,346)
Proceeds from sale of loans	350,855	413,958
Gain on sale of loans	(6,240)	(6,084)
Loss on sale of other real estate	4,410	1,005
Net amortization (accretion) of premiums and discounts	(129,652)	(25,868)
FDIC receivable for loss share agreements	313,375	62,789
Net change in other assets	123,791	67,944
Net change in other liabilities	696	41,399
Net cash provided by operating activities	581,272	220,616
INVESTING ACTIVITIES		
Net change in loans outstanding	311,591	526,380
Purchases of investment securities available for sale	(2,260,736)	(2,536,499)
Proceeds from maturities of investment securities held to maturity	588	956
Proceeds from maturities of investment securities available for sale	2,848,385	1,686,400
Proceeds from sales of investment securities available for sale	242,023	38,384
Net change in overnight investments	(11,612)	(325,898)
Proceeds from sale of other real estate	57,083	(54,961)
Additions to premises and equipment	(53,510)	75,738
Net cash received from acquisitions	1,148,907	106,489
Net cash provided (used) by investing activities	2,282,719	(483,011)
FINANCING ACTIVITIES		
Net change in time deposits	(1,517,600)	(323,859)
Net change in demand and other interest-bearing deposits	(665,750)	1,021,589
Net change in short-term borrowings	(298,278)	(481,098)
Repayment of long-term obligations	(273,175)	—
Origination of long-term obligations	—	68,697
Repurchase of common stock	(20,665)	—
Cash dividends paid	(9,364)	(9,390)
Net cash provided (used) by financing activities	(2,784,832)	275,939
Change in cash and due from banks	79,159	13,544
Cash and due from banks at beginning of period	460,178	480,242

Cash and due from banks at end of period	$539,337	$493,786
CASH PAYMENTS FOR:		
Interest	$129,285	$155,273
Income taxes	45,825	126,964
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Unrealized securities gains	$5,635	$5,529
Unrealized gain (loss) on cash flow hedge	4,039	(8,896)
Prepaid pension benefit		—
Change in pension liability	4,944	3,008
Transfers of loans to other real estate	122,471	55,559
Acquisitions:		
Assets acquired	2,935,309	2,291,659
Liabilities assumed	2,784,047	2,155,861
Net assets acquired	151,262	135,798

See accompanying Notes to Consolidated Financial Statements.

First Citizens BancShares, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
Note A
Accounting Policies and Other Matters

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' 2010 Form 10-K. Certain amounts for prior periods have been reclassified to conform with statement presentations for 2011. 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.

FDIC-Assisted Transactions

US GAAP requires that the acquisition method of accounting be used for all business combinations, including those resulting from FDIC-assisted transactions and that an acquirer be identified for each business combination. Under US GAAP, the acquirer is the entity that obtains control of one or more businesses in the business combination, and the acquisition date is the date the acquirer achieves control. US GAAP requires that the acquirer recognize the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date. In addition, acquisition-related costs and restructuring costs are recognized as period expenses as incurred.

During 2011, 2010 and 2009, BancShares' wholly-owned subsidiary, First-Citizens Bank & Trust Company (FCB), acquired assets and assumed liabilities of six entities as noted below (collectively referred to as "the Acquisitions") with the assistance of the Federal Deposit Insurance Corporation (FDIC), which had been appointed Receiver of each entity by its respective state banking authority.

Name of entity	Headquarters location	Date of transaction
Colorado Capital Bank (CCB)	Castle Rock, Colorado	July 8, 2011
United Western Bank (United Western)	Denver, Colorado	January 21, 2011
Sun American Bank (SAB)	Boca Raton, Florida	March 5, 2010
First Regional Bank (First Regional)	Los Angeles, California	January 29, 2010
Venture Bank (VB)	Lacey, Washington	September 11, 2009
Temecula Valley Bank (TVB)	Temecula, California	July 17, 2009

The acquired assets and assumed liabilities were recorded at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for the Acquisitions. Management judgmentally assigned risk ratings to loans based on credit quality, appraisals and estimated collateral values, estimated expected cash flows, and applied appropriate liquidity and coupon discounts to measure fair values for loans. Other real estate acquired through foreclosure was valued based upon pending sales contracts and appraised values, adjusted for current market conditions. FCB also recorded identifiable intangible assets representing the estimated values of the assumed core deposits and other customer relationships. Management used quoted or current market prices to determine the fair value of investment securities. Fair values of deposits, short-term borrowings and long-term obligations are based on current market interest rates and are inclusive of any applicable prepayment penalties.

Loans and Leases

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Loans and leases that are held for investment purposes are carried at the principal amount outstanding. Interest on substantially all loans is accrued and credited to interest income on a constant yield basis based upon the daily principal amount outstanding.

Loans that are classified as held for sale represent mortgage loans originated or purchased and are carried at the lower of aggregate cost or fair value. Gains and losses on sales of mortgage loans are included in mortgage income.

Acquired loans are recorded at fair value at the date of acquisition. The fair values are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included as a reduction to the carrying amount of acquired loans. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation regarding the amount and timing of such cash flows.

Initial cash flow estimates are updated prospectively, and subsequent decreases to expected cash flows will generally result in recognition of an allowance by a charge to provision for loan and lease losses. Subsequent increases in expected cash flows result in either a reversal of the provision for loan and lease losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on the accretable yield.

BancShares did not initially estimate the timing of cash flows for loans acquired in the TVB or VB transactions at the dates of the acquisitions. Accordingly, the cost recovery method was being applied to these loans unless new information on cash flow estimates obtained in the later periods indicated subsequent improvement that would lead to the reclassification of nonaccretable difference to accretable yield. During the third quarter of 2011, estimates of the timing and amount of cash flows at TVB resulted in $50.9 million previously classified as nonaccretable difference being reclassified to accretable yield that is being accreted prospectively.

Cash flow analyses were performed on loans acquired from First Regional, SAB, and United Western on an individual loan basis in order to determine the cash flows expected to be collected. Loans from all transactions prior to CCB that were determined to be impaired at acquisition date are accruing interest under the accretion method and are thus, not reported as nonaccrual. Loans not determined to be impaired at acquisition date are monitored after acquisition and classified as nonaccrual if we are no longer able to reasonably estimate the timing and amount of cash flows expected to be collected. BancShares is accounting all acquired loans from TVB, VB, First Regional and SAB, and all non-mortgage loans acquired from United Western on a loan level.

Cash flow analyses were performed at the loan pool level for all loans acquired in the CCB transaction and mortgage loans acquired in the United Western transaction and thus, the determination of accretable yield and nonaccretable difference is made at the pool level. Each loan pool is made up of loans with similar characteristics at the date of acquisition including loan type, collateral type and performance status. Further, all loan pools that have accretable yield to be recognized in interest income are classified as accruing regardless of the status of individual loans within the pool. If it is determined that the expected cash flows from a pool of loans has decreased since acquisition, an allowance for loan losses is established.

Receivable from FDIC for Loss Share Agreements

The receivable from the FDIC for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable should the assets be sold. Fair value at acquisition was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment at the expiration of the loss share agreements, if applicable. These cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursements from the FDIC and any applicable true-up payment owed to the FDIC for transactions that include claw-back provisions.

The FDIC receivable has been reviewed and updated prospectively as loss estimates related to covered loans and other real estate owned change, and as reimbursements are received or expected to be received from the FDIC.

Post-acquisition adjustments to the FDIC receivable are charged or credited to noninterest income. Adjustments to the FDIC receivable resulting from changes in estimated cash flows are based on the reimbursement provision of the applicable loss share agreement with the FDIC. The loss share agreements establish reimbursement rates for losses incurred within certain ranges. In some loss share agreements, if aggregate loss estimates increase and extend into a different range of losses, the reimbursement rates for losses within the higher range will be at a higher rate. In other loss share agreements, higher loss estimates trigger a reduction in the reimbursement rates for losses incurred within the higher range. Changes in loss estimates may also affect the estimated payment to the FDIC for loss share agreements that include a clawback provision.

Other Real Estate Owned Covered by Loss Share Agreements

Other real estate owned (OREO) covered by loss share agreements with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Subsequent downward adjustments to the estimated recoverable value of covered OREO result in a reduction of covered OREO, a charge to other noninterest expense and an increase in the FDIC receivable for the estimated amount to be reimbursed, with a corresponding amount recorded as an adjustment to other noninterest income. OREO is presented at the estimated present value that management expects to receive when the property is sold, net of related costs of disposal. Management used appraisals of properties to determine fair values and applied additional discounts where appropriate for passage of time or, in certain cases, for subsequent events occurring after the appraisal date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is tested at least annually for impairment. BancShares performs its annual impairment test as of July 31 each year. For 2011, the results of the first step of the goodwill impairment test provided no indication of potential impairment of BancShares' goodwill. Goodwill will continue to be monitored for triggering events that may indicate impairment prior to the next scheduled annual impairment test.

Recently Adopted Accounting Policies and Other Regulatory Issues

In July 2010, the FASB issued Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Loss (ASU 2010-20). In an effort to provide financial statement users with greater transparency about the allowance for loan and lease losses, ASU 2010-20 requires enhanced disclosures regarding the nature of credit risk inherent in the portfolio, how risk is analyzed and assessed in determining the amount of the allowance, and descriptions of any changes in the allowance calculation. The end-of-period disclosures were effective for BancShares on December 31, 2010 with the exception of disclosures related to troubled debt restructurings which became effective for interim and annual periods beginning after June 15, 2011. The disclosures related to activity during a period are effective during 2011. The provisions of ASU 2010-20 have affected disclosures regarding the allowance for loan and lease losses, but have had no impact on financial condition, results of operations or liquidity.

In April, 2011, the FASB issued A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02), which amends Subtopic 310-40 to clarify existing guidance related to a creditor’s evaluation of whether a restructuring of debt is considered a TDR. The amendments add clarification in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. The updated guidance and related disclosure requirements are effective for financial statements issued for the first interim or annual period beginning on or after June 15, 2011, and should be applied retroactively to the beginning of the annual period of adoption. The provisions of ASU 2011-02 did not result in the identification of any additional troubled debt restructurings and have 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. 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 currently utilized by BancShares. The provisions of ASU 2011-05, which will be applied retrospectively for interim periods beginning after December 15, 2011, will affect BancShares' disclosure format, but will not have an 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 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 is allowed. Adoption of ASU 2011-08 will have no material impact on BancShares' financial condition, results of operations or liquidity.

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Note B
Federally Assisted Transactions
On January 21, 2011, FCB entered into an agreement with the FDIC, as Receiver, to purchase substantially all the assets and assume the majority of the liabilities of United Western at a discount of $213,000 with no deposit premium. United Western operated in Denver, Colorado, with eight branch locations in Boulder, Centennial, Cherry Creek, downtown Denver, Hampden at Interstate 25, Fort Collins, Longmont and Loveland. The Purchase and Assumption Agreement with the FDIC includes loss share agreements on the covered loans and other real estate purchased by FCB which provides protection against losses to FCB.
The loans and OREO purchased in the United Western transaction are covered by two loss share agreements between the FDIC and FCB (one for single family residential mortgage (SFR) loans and the other for all other loans and OREO excluding consumer loans). Under the loss share agreement for single family residential mortgage loans (SFRs), the FDIC will cover 80 percent of covered loan losses up to $32,489; 0 percent from $32,489 up to $57,653 and 80 percent of losses in excess of $57,653. The loss share agreement for all other non-consumer loans and OREO will cover 80 percent of covered loan and OREO losses up to $111,517; 30 percent of losses from $111,517 to $227,032; and 80 percent of losses in excess of $227,032. Consumer loans are not covered under the FDIC loss share agreements.
The SFR loss share agreement covers losses recorded during the ten years following the date of the transaction, while the term for the loss share agreement covering all other covered loans and OREO is five years. The SFR loss share agreement also covers recoveries received for ten years following the date of the transaction, while recoveries of all other covered loans and OREO will be shared with the FDIC for a five-year period. The losses reimbursable by the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements.
The loss share agreements include a true-up payment in the event FCB’s losses do not reach the Total Intrinsic Loss Estimate of $294,000. On March 17, 2021, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of the following calculation: A-(B+C+D), where (A) equals 20 percent of the Total Intrinsic Loss Estimate, or $58,800; (B) equals 20 percent of the Net Loss Amount; (C) equals 25 percent of the asset (discount) bid, or ($52,898); and (D) equals 3.5 percent of total Shared Loss Assets at Bank Closing, or $37,936. Current loss estimates suggest that a true-up payment of $11,827 will be paid to the FDIC during 2021.
The FDIC-assisted acquisition of United Western was accounted for under the acquisition method of accounting. The statement of net assets acquired, adjustments to the acquisition date fair values made in the second and third quarters and the resulting acquisition gain is presented in the following table. As indicated in the explanatory notes that accompany the following table, the purchased assets, assumed liabilities and identifiable intangible assets were recorded at their respective acquisition date estimated fair values. 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. During this one year period, the cause of any change in cash flow estimates is considered to determine whether the change results from circumstances that existed as of the acquisition date or if the change results from an event that occurred after the acquisition. Adjustments to the estimated fair values made in the second and third quarters reduced the gain by $2,034 and were based on additional information regarding the acquisition date fair values, which included updated appraisals on properties that either secure an acquired loan or are in OREO. The FDIC also repurchased 18 loans that were included in the original acquisition but which FCB had requested be excluded from the portfolio of acquired loans due to cross collateralization with other loans retained by the FDIC.
First quarter 2011 noninterest income includes an acquisition gain of $63,474 that resulted from the United Western FDIC-assisted acquisition. The gain resulted from the difference between the estimated fair value of acquired assets and assumed liabilities. During the second and third quarter of 2011, adjustments were made to the gain based on additional information regarding the acquisition date fair values. These second and third quarter adjustments were made retroactive to the first quarter of 2011, resulting in the adjusted gain of $63,474. FCB recorded a deferred tax liability for the gain of $24,856 resulting from differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. To the extent there are additional adjustments to the acquisition

date fair values for up to one year following the acquisition, there will be additional adjustments to the gain.

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	January 21, 2011					
	As recorded by United Western	Fair value adjustments at date of acquisition		Subsequent acquisition-date adjustments		As recorded by FCB
Assets						
Cash and due from banks	$420,902	$—		$—		$420,902
Investment securities available for sale	281,862	—		—		281,862
Loans covered by loss share agreements (1)	1,034,074	(278,913	) a	4,190	i	759,351
Other real estate owned covered by loss share agreements	37,812	(10,252	) b	(1,469	) i	26,091
Income earned not collected	5,275	—		—		5,275
Receivable from FDIC for loss share agreements	—	140,285	c	(2,832	) i	137,453
FHLB stock	22,783	—		—		22,783
Mortgage servicing rights	4,925	(1,489	) d	—		3,436
Core deposit intangible	—	537	e	—		537
Other assets	15,421	109	f	(991	) i	14,539
Total assets acquired	$1,823,054	$(149,723	)	$(1,102	)	$1,672,229
Liabilities						
Deposits:						
Noninterest-bearing	$101,875	$—		$—		$101,875
Interest-bearing	1,502,983	—		—		1,502,983
Total deposits	1,604,858	—		—		1,604,858
Short-term borrowings	336,853	—		—		336,853
Long-term obligations	206,838	789	g	—		207,627
Deferred tax liability	1,351	(565	) h	—		786
Other liabilities	11,772	—		—		11,772
Total liabilities assumed	2,161,672	224		—		2,161,896
Excess (shortfall) of assets acquired over liabilities assumed	$(338,618)					
Aggregate fair value adjustments		$(149,947	)	$(1,102	)	
Cash received from the FDIC (2)						$553,141
Gain on acquisition of United Western						$63,474

(1) Excludes $11,998 in loans repurchased by FDIC during the second quarter of 2011

(2) Cash received includes cash received from loans repurchased by the FDIC during the second quarter of 2011

Explanation of fair value adjustments

a - Adjustment reflects the fair value adjustments based on FCB's evaluation of the acquired loan portfolio.

b - Adjustment reflects the estimated OREO losses based on FCB's evaluation of the acquired OREO.

c - Adjustment reflects the estimated fair value of payments FCB will receive from the FDIC under the loss share agreements.

d - Adjustment reflects the fair value adjustment based on evaluation of mortgage servicing rights.

e - Adjustment reflects the estimated fair value of intangible assets, which includes core deposit intangibles.

f - Adjustment reflects amount needed to adjust the carrying value of other assets to estimated fair value.

g - Adjustment reflects the amount of the prepayment penalty assessed on early payoff of long-term obligations.

h - Adjustment reflects the fair value adjustment on FCB's evaluation of the deferred tax liability assumed in the transaction.

i - Adjustment to acquisition date fair value based on additional information received post-acquisition regarding acquisition date fair value and adjustments resulting from loans repurchased by the FDIC.

On July 8, 2011, FCB entered into an agreement with the FDIC to purchase substantially all the assets and assume the majority of the liabilities of CCB of Castle Rock, Colorado at a discount of $154,900, with no deposit premium.

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CCB operated in Castle Rock, Colorado, and in six branch locations in Boulder, Castle Pines, Cherry Creek, Colorado Springs, Edwards, and Parker. The Purchase and Assumption Agreement with the FDIC includes loss share agreements on the loans and OREO purchased by FCB which provide protection against losses to FCB.

The loans and OREO purchased in the CCB transaction are covered by two loss share agreements between the FDIC and FCB (one for SFR loans and the other for all other loans and OREO excluding consumer loans and CD secured loans), which afford FCB significant loss protection. Under the loss share agreements, the FDIC will cover 80 percent of combined covered losses up to $230,991; 0 percent from $230,991 up to $285,947; and 80 percent of losses in excess of $285,947.

The SFR loss share agreement covers losses recorded during the ten years following the date of the transaction, while the term for the loss share agreement covering all other covered loans and OREO is five years. The SFR loss share agreement also covers recoveries received for ten years following the date of the transaction, while recoveries of all other covered loans and OREO will be shared with the FDIC for a five-year period. The losses reimbursable by the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements.

The loss share agreements include a true-up payment in the event FCB’s losses do not reach the Total Intrinsic Loss Estimate of $285,708. On August 22, 2021, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of the following calculation: A-(B+C+D), where (A) equals 20 percent of the Total Intrinsic Loss Estimate, or $57,142; (B) equals 20 percent of the Net Loss Amount; (C) equals 25 percent of the asset (discount) bid, or ($38,725); and (D) equals 3.5 percent of total Shared Loss Assets at Bank Closing, or $19,295. Current loss estimates suggest that a true-up payment of $16,349 will be paid to the FDIC during 2021.

The FDIC-assisted acquisition of CCB was accounted for under the acquisition method of accounting. The statement of net assets acquired, fair value adjustments and the resulting acquisition gain is presented in the following table. As indicated in the explanatory notes that accompany the following table, the purchased assets, assumed liabilities and identifiable intangible assets were recorded at their respective acquisition date estimated fair values. 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. During this one year period, the cause of any change in cash flow estimates is considered to determine whether the change results from circumstances that existed as of the acquisition date or if the change results from an event that occurred after the acquisition.

Third quarter 2011 noninterest income includes an acquisition gain of $87,788 that resulted from the CCB FDIC-assisted acquisition. The gain resulted from the difference between the estimated fair value of acquired assets and assumed liabilities. FCB recorded a deferred tax liability for the gain of $34,377 resulting from differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. To the extent there are additional adjustments to the acquisition date fair values for up to one year following the acquisition, there will be adjustments to the gain.

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	July 8, 2011			
	As recorded by CCB	Fair value adjustments at date of acquisition		As recorded by FCB
Assets				
Cash and due from banks	$74,736	$—		$74,736
Investment securities available for sale	40,187	—		40,187
Loans covered by loss share agreements	538,369	(216,207	)a	322,162
Other real estate owned covered by loss share agreements	14,853	(7,699	)b	7,154
Income earned not collected	1,720	—		1,720
Receivable from FDIC for loss share agreements	—	157,600	c	157,600
Core deposit intangible	—	984	d	984
Other assets	3,296	—		3,296
Total assets acquired	$673,161	$(65,322	)	$607,839
Liabilities				
Deposits:				
Noninterest-bearing	$35,862	$—		$35,862
Interest-bearing	571,251	(612	)e	570,639
Total deposits	607,113	(612	)	606,501
Short-term borrowings	15,008	204	f	15,212
Other liabilities	438	—		438
Total liabilities assumed	622,559	(408	)	622,151
Excess (shortfall) of assets acquired over liabilities assumed	$50,602			
Aggregate fair value adjustments		$(64,914	)	
Cash received from the FDIC				$102,100
Gain on acquisition of CCB				$87,788

Explanation of fair value adjustments

a - Adjustment reflects the fair value adjustments based on FCB’s evaluation of the acquired loan portfolio.
b - Adjustment reflects the estimated OREO losses based on FCB’s evaluation of the acquired OREO.
c - Adjustment reflects the estimated fair value of payments FCB will receive from the FDIC under the loss share agreements.
d - Adjustment reflects the estimated value of intangible assets, which includes core deposit intangibles.
e - Adjustment reflects the fair value of deposits assumed based on FCB's evaluation of the term deposits assumed.
f - Adjustment reflects the amount of the prepayment penalty assessed on early payoff of long-term obligations.

Results of operations for United Western and CCB prior to their respective acquisition dates are not included in the income statement.

Due to the significant amount of fair value adjustments, the resulting accretion of those fair value adjustments and the protection resulting from the FDIC loss share agreements, historical results of United Western and CCB are not relevant to BancShares’ results of operations. Therefore, no pro forma information is presented.

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Note C
Investments
The aggregate values of investment securities at September 30, 2011, December 31, 2010, and September 30, 2010 along with unrealized gains and losses determined on an individual security basis are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale				
September 30, 2011				
U. S. Treasury	$986,507	$1,427	$—	$987,934
Government agency	2,261,000	2,344	2,435	2,260,909
Corporate bonds	401,048	3,595	—	404,643
Residential mortgage-backed securities	315,474	8,916	198	324,192
Equity securities	939	15,165	—	16,104
State, county and municipal	1,027	16	—	1,043
Total investment securities available for sale	$3,965,995	$31,463	$2,633	$3,994,825
December 31, 2010				
U. S. Treasury	$1,935,666	$4,041	$307	$1,939,400
Government agency	1,930,469	361	10,844	1,919,986
Corporate bonds	479,160	7,498	—	486,658
Residential mortgage-backed securities	139,291	4,522	268	143,545
Equity securities	1,055	18,176	—	19,231
State, county and municipal	1,240	20	4	1,256
Total investment securities available for sale	$4,486,881	$34,618	$11,423	$4,510,076
September 30, 2010				
U. S. Treasury	$1,991,676	$7,259	$—	$1,998,935
Government agency	1,120,476	1,840	—	1,122,316
Corporate bonds	479,935	9,254	—	489,189
Residential mortgage-backed securities	151,355	4,891	110	156,136
Equity securities	1,132	17,865	—	18,997
State, county and municipal	1,241	27	—	1,268
Total investment securities available for sale	$3,745,815	$41,136	$110	$3,786,841
Investment securities held to maturity				
September 30, 2011				
Residential mortgage-backed securities	$1,943	$191	$26	$2,108
December 31, 2010				
Residential mortgage-backed securities	$2,532	$235	$26	$2,741
September 30, 2010				
Residential mortgage-backed securities	$2,645	$245	$26	$2,864

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 that were issued by various financial institutions under the Temporary Liquidity Guarantee Program. These debt obligations were issued with the full faith and credit of the

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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.

	September 30, 2011		December 31, 2010		September 30, 2010	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Investment securities available for sale						
Maturing in:						
One year or less	$3,398,267	$3,401,530	$3,441,185	$3,436,818	$2,559,784	$2,567,076
One through five years	289,046	291,064	916,101	921,536	1,044,757	1,056,170
Five through 10 years	106,329	106,901	1,683	1,710	1,815	1,841
Over 10 years	171,414	179,226	126,857	130,781	138,327	142,757
Equity securities	939	16,104	1,055	19,231	1,132	18,997
Total investment securities available for sale	$3,965,995	$3,994,825	$4,486,881	$4,510,076	$3,745,815	$3,786,841
Investment securities held to maturity						
Maturing in:						
One through five years	$13	$12	$—	$—	$—	$—
Five through 10 years	1,816	1,940	2,404	2,570	2,512	2,689
Over 10 years	114	156	128	171	133	175
Total investment securities held to maturity	$1,943	$2,108	$2,532	$2,741	$2,645	$2,864

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Gross gains on sales of investment securities available for sale	$375	$1,167	$531	$3,803
Gross losses on sales of investment securities available for sale	(95)	(1)	(796)	(1,506)
Other that temporary impairment loss on equity securities	(26)	(226)	(26)	(412)
Total securities gains (losses)	$254	$940	$(291)	$1,885

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The following table provides information regarding securities with unrealized losses as of September 30, 2011 and September 30, 2010:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011						
Investment securities available for sale:						
Government agency	$1,051,017	$2,435	$—	$—	$1,051,017	$2,435
Residential mortgage-backed securities	25,390	148	1,675	50	27,065	198
State, county and municipal	—	—	425	—	425	—
Total	$1,076,407	$2,583	$2,100	$50	$1,078,507	$2,633
Investment securities held to maturity:						
Residential mortgage-backed securities	$—	$—	$22	$26	$22	$26
September 30, 2010						
Investment securities available for sale:						
Residential mortgage-backed securities	10,364	88	535	22	10,899	110
Investment securities held to maturity:						
Residential mortgage-backed securities	$—	$—	$27	$26	$27	$26

Investment securities with an aggregate fair value of $2,122 have had continuous unrealized losses for more than twelve months as of September 30, 2011 with an aggregate unrealized loss of $76. These 19 investments include residential mortgage-backed and state, county and municipal securities. None of the unrealized losses identified as of September 30, 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 $2,563,412 at September 30, 2011, $2,096,850 at December 31, 2010 and $2,015,500 at September 30, 2010 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 D
Loans and Leases
Loans and leases outstanding include the following as of the dates indicated:

	September 30, 2011	December 31, 2010	September 30, 2010
Covered loans	$2,557,450	$2,007,452	$2,222,660
Noncovered loans and leases:			
Commercial:			
Construction and land development	416,719	338,929	433,954
Commercial mortgage	4,996,036	4,737,862	4,696,183
Other commercial real estate	144,538	149,710	155,509
Commercial and industrial	1,797,581	1,869,490	1,774,340
Lease financing	304,039	301,289	294,825
Other	158,782	182,015	185,232
Total commercial loans	7,817,695	7,579,295	7,540,043
Non-commercial:			
Residential mortgage	816,738	878,792	917,415
Revolving mortgage	2,302,482	2,233,853	2,209,149
Construction and land development	139,185	192,954	112,116
Consumer	527,426	595,683	766,586
Total non-commercial loans	3,785,831	3,901,282	4,005,266
Total noncovered loans and leases	11,603,526	11,480,577	11,545,309
Total loans and leases	$14,160,976	$13,488,029	$13,767,969

	September 30, 2011			December 31, 2010			September 30, 2010		
	Impaired at acquisition date	All other acquired loans	Total	Impaired at acquisition date	All other acquired loans	Total	Impaired at acquisition date	All other acquired loans	Total
Covered loans:									
Commercial:									
Construction and land development	$172,309	$233,349	$405,658	$102,988	$265,432	$368,420	$136,736	$312,063	$448,799
Commercial mortgage	125,379	1,184,704	1,310,083	120,240	968,824	1,089,064	132,049	999,134	1,131,183
Other commercial real estate	40,514	118,493	159,007	34,704	175,957	210,661	43,023	177,001	220,024
Commercial and industrial	30,611	106,642	137,253	9,087	123,390	132,477	14,400	168,505	182,905
Lease financing	—	162	162	—	—	—	—	—	—
Other	—	1,473	1,473	—	1,510	1,510	147	4,534	4,681
Total commercial loans	368,813	1,644,823	2,013,636	267,019	1,535,113	1,802,132	326,355	1,661,237	1,987,592
Non-commercial:									
Residential mortgage	45,384	335,021	380,405	11,026	63,469	74,495	36,933	45,836	82,769
	9,939	29,770	39,709	8,400	9,466	17,866	114	23,025	23,139

Revolving mortgage									
Construction and land development	74,414	40,712	115,126	44,260	61,545	105,805	37,228	84,964	122,192
Consumer	1,155	7,419	8,574	—	7,154	7,154	116	6,852	6,968
Total non-commercial loans	130,892	412,922	543,814	63,686	141,634	205,320	74,391	160,677	235,068
Total covered loans	$499,705	$2,057,745	$2,557,450	$330,705	$1,676,747	$2,007,452	$400,746	$1,821,914	$2,222,660

At September 30, 2011, $2,346,113 in noncovered loans were pledged to secure debt obligations, compared to $3,744,067 at December 31, 2010 and $3,697,003 at September 30, 2010.

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 in 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 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

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attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some 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 September 30, 2011 relate to business credit cards and tobacco buyout loans. Tobacco buyout loans with an outstanding balance of $62,373 at September 30, 2011 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 September 30, 2011 and December 31, 2010 by credit quality indicator is provided below:

	Commercial noncovered loans and leases						
Grade:	Construction and Land Development	Commercial Mortgage	Other Commercial Real Estate	Commercial and Industrial	Lease Financing	Other	Total Commercial Loans Not Covered by Loss Share
September 30, 2011							
Pass	$371,906	$4,632,698	$ 130,591	$ 1,585,106	$ 296,420	$157,742	$ 7,174,463
Special mention	18,431	232,537	8,672	38,844	4,765	1,020	304,269
Substandard	26,249	123,968	4,629	27,700	2,854	—	185,400
Doubtful	133	4,307	401	270	—	—	5,111
Ungraded	—	2,526	245	145,661	—	20	148,452
Total	$416,719	$4,996,036	$ 144,538	$ 1,797,581	$ 304,039	$158,782	$ 7,817,695
December 31, 2010							
Pass	$285,988	$4,390,634	$ 137,570	$ 1,633,775	$ 291,476	$181,044	$ 6,920,487
Special mention	20,957	229,581	6,531	42,639	6,888	846	307,442
Substandard	29,714	108,239	5,103	24,686	2,496	90	170,328
Doubtful	2,270	7,928	401	748	414	—	11,761
Ungraded	—	1,480	105	167,642	15	35	169,277
Total	$338,929	$4,737,862	$ 149,710	$ 1,869,490	$ 301,289	$182,015	$ 7,579,295

	Non-commercial noncovered loans and leases				
	Residential Mortgage	Revolving Mortgage	Construction and Land Development	Consumer	Total Non-commercial Noncovered Loans
September 30, 2011					
Current	$795,578	$2,291,490	$134,467	$522,155	$3,743,690
31-60 days past due	2,303	3,987	4,204	2,369	12,863
61-90 days past due	3,022	924	—	1,361	5,307
Over 90 days past due	15,835	6,081	514	1,541	23,971
Total	$816,738	$2,302,482	$139,185	$527,426	$3,785,831
December 31, 2010					
Current	$840,328	$2,226,427	$187,918	579,227	$3,833,900
31-60 days past due	13,051	3,682	1,445	12,798	30,976
61-90 days past due	4,762	1,424	548	2,611	9,345
Over 90 days past due	20,651	2,320	3,043	1,047	27,061
Total	$878,792	$2,233,853	$192,954	$595,683	$3,901,282

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Grade:	Covered loans Construction and Land Development - Commercial	Commercial Mortgage	Other Commercial Real Estate	Commercial and Industrial	Lease Financing	Residential Mortgage	Revolving Mortgage	Construction and Land Development Non-commercial	Consumer and Other	Total Covered Loans
September 30, 2011										
Pass	$43,851	$486,673	$48,460	$46,898	$162	$226,160	$15,547	$7,791	$4,147	$879,689
Special mention	97,960	342,876	24,951	34,894	—	25,686	316	23,955	577	551,215
Substandard	134,126	395,806	55,083	31,213	—	68,289	6,930	60,957	797	753,201
Doubtful	125,766	81,984	30,513	24,248	—	11,129	1,690	22,422	1,122	298,874
Ungraded	3,955	2,744	—	—	—	49,141	15,226	1	3,404	74,471
Total	$405,658	$1,310,083	$159,007	$137,253	$162	$380,405	$39,709	$115,126	$10,047	$2,557,450
December 31, 2010										
Pass	$98,449	$430,526	$77,162	$46,450	$—	$39,492	$5,051	$—	$6,296	$703,426
Special mention	90,203	261,273	40,756	36,566	—	17,041	3,630	3,549	1,231	454,249
Substandard	79,631	326,036	65,896	41,936	—	11,609	3,462	67,594	691	596,855
Doubtful	100,137	71,175	26,847	7,525	—	6,353	1,837	34,662	438	248,974
Ungraded	—	54	—	—	—	—	3,886	—	8	3,948
Total	$368,420	$1,089,064	$210,661	$132,477	$—	$74,495	$17,866	$105,805	$8,664	$2,007,452

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The aging of the outstanding loans and leases, by class, at September 30, 2011 and December 31, 2010 (excluding loans impaired at acquisition date) 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 Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans and Leases
September 30, 2011						
Noncovered loans and leases:						
Construction and land development - commercial	$1,506	$131	$2,089	$3,726	$412,993	$416,719
Commercial mortgage	13,381	3,765	16,838	33,984	4,962,052	4,996,036
Other commercial real estate	93	—	965	1,058	143,480	144,538
Commercial and industrial	1,417	1,092	1,548	4,057	1,793,524	1,797,581
Lease financing	879	180	96	1,155	302,884	304,039
Other	18	—	—	18	158,764	158,782
Residential mortgage	2,303	3,022	15,835	21,160	795,578	816,738
Revolving mortgage	3,987	924	6,081	10,992	2,291,490	2,302,482
Construction and land development - non-commercial	4,204	—	514	4,718	134,467	139,185
Consumer	2,369	1,361	1,541	5,271	522,155	527,426
Total noncovered loans and leases	30,157	10,475	45,507	86,139	11,517,387	11,603,526
Covered loans:						
Construction and land development - commercial	9,248	7,246	33,566	50,060	183,289	233,349
Commercial mortgage	23,027	20,511	81,292	124,830	1,059,874	1,184,704
Other commercial real estate	4,891	—	6,360	11,251	107,242	118,493
Commercial and industrial	3,145	1,687	5,138	9,970	96,672	106,642
Lease financing	—	—	—	—	162	162
Residential mortgage	3,598	1,937	26,301	31,836	303,185	335,021
Revolving mortgage	404	—	—	404	29,366	29,770
Construction and land development - non-commercial	—	814	13,781	14,595	26,117	40,712
Consumer and other	245	154	1,139	1,538	7,354	8,892
Total covered loans	44,558	32,349	167,577	244,484	1,813,261	2,057,745
Total loans and leases	$74,715	$42,824	$213,084	$330,623	$13,330,648	$13,661,271
December 31, 2010						
Noncovered loans and leases:						
Construction and land development - commercial	$3,047	$6,092	$4,208	$13,347	$325,582	$338,929
Commercial mortgage	22,913	7,521	20,425	50,859	4,687,003	4,737,862
Other commercial real estate	35	290	621	946	148,764	149,710
Commercial and industrial	4,434	1,473	3,744	9,651	1,859,839	1,869,490
Lease financing	2,266	141	630	3,037	298,252	301,289
Other	40	75	—	115	181,900	182,015
Residential mortgage	13,051	4,762	20,651	38,464	840,328	878,792

Revolving mortgage	3,682	1,424	2,320	7,426	2,226,427	2,233,853
Construction and land development - non-commercial	1,445	548	3,043	5,036	187,918	192,954
Consumer	12,798	2,611	1,047	16,456	579,227	595,683
Total noncovered loans and leases	63,711	24,937	56,689	145,337	11,335,240	11,480,577
Covered loans:						
Construction and land development - commercial	64,372	8,985	73,997	147,354	118,078	265,432
Commercial mortgage	43,570	20,308	88,525	152,403	816,421	968,824
Other commercial real estate	15,008	2,477	20,453	37,938	138,019	175,957
Commercial and industrial	9,267	5,899	28,780	43,946	79,444	123,390
Lease financing	—	—	—	—	—	—
Residential mortgage	4,459	1,352	3,979	9,790	53,679	63,469
Revolving mortgage	382	—	337	719	8,747	9,466
Construction and land development - non-commercial	7,701	—	36,412	44,113	17,432	61,545
Consumer and other	430	1,649	978	3,057	5,607	8,664
Total covered loans	145,189	40,670	253,461	439,320	1,237,427	1,676,747
Total loans and leases	$208,900	$65,607	$310,150	$584,657	$12,572,667	$13,157,324

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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 September 30, 2011 and December 31, 2010 (excluding loans and leases impaired as acquisition date) is as follows:

	September 30, 2011		December 31, 2010	
	Nonaccrual loans and leases	Loans and leases > 90 days and accruing	Nonaccrual loans and leases	Loans and leases > 90 days and accruing
Noncovered loans and leases:				
Construction and land development - commercial	$18,569	$418	$26,796	$68
Commercial mortgage	25,993	2,390	32,723	4,347
Commercial and industrial	1,792	380	3,320	1,850
Lease financing	83	17	806	298
Other commercial real estate	1,217	—	777	80
Construction and land development - non-commercial	—	514	1,330	1,122
Residential mortgage	11,949	6,604	13,062	6,640
Revolving mortgage	—	6,066	—	2,301
Consumer	—	1,498	—	1,795
Total noncovered loans and leases	$59,603	$17,887	$78,814	$18,501
Covered loans and leases:				
Construction and land development - commercial	$54,101	$15,163	$20,609	$55,503
Commercial mortgage	158,345	13,379	75,633	37,819
Other commercial real estate	27,468	5,522	7,299	15,068
Commercial and industrial	8,467	212	8,488	22,829
Residential mortgage	29,308	5,604	3,594	2,010
Revolving mortgage	—	—	403	190
Construction and land development - non-commercial	13,239	542	43,836	7,460
Consumer and other	961	860	162	824
Total covered loans and leases	$291,889	$41,282	$160,024	$141,703
Total loans and leases	$351,492	$59,169	$238,838	$160,204

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 nine months ended September 30, 2011 and 2010:

	2011		2010	
	Impaired at acquisition date	All other acquired loans	Impaired as acquisition date	All other acquired loans
Balance, January 1	$330,705	$1,676,747	$75,368	$1,097,652
Fair value of acquired loans covered by loss share agreements	303,713	777,800	412,627	1,138,513
Reductions for repayments, foreclosures and decreases in fair value	(134,713)	(396,802)	(87,249)	(414,251)
Balance, September 30	$499,705	$2,057,745	$400,746	$1,821,914
Outstanding principal balance at September 30	$1,943,770	$2,705,324	$742,010	$2,535,003

The timing and amounts of cash flow analyses were prepared at the acquisition dates for all acquired loans

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deemed impaired at acquisition except loans acquired in the VB and TVB transactions where the timing of cash flows was not estimated 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. BancShares did not initially estimate the timing of cash flows for loans acquired in the TVB or VB transactions at the dates of the acquisitions and, therefore, the cost recovery method was being applied to these loans unless cash flow estimates in the later periods indicated subsequent improvement that would lead to the recognition of accretable yield. The following table documents changes to the amount of accretable yield for the first nine months of 2011 and 2010. For acquired loans, improved cash flow estimates and receipt of unscheduled loan payments result in the reclassification of nonaccretable yield to accretable yield.

	2011	2010
Balance, January 1	$164,586	$—
Additions	79,526	63,908
Accretion	(192,556)	(100,299)
Reclassifications from nonaccretable difference	128,535	157,097
Disposals	—	(1,070)
Balance, September 30	$180,091	$119,636

For loans acquired in the United Western and CCB transactions, the contractually required payments including principal and interest, expected cash flows to be collected and fair values as of the acquisition date were as follows:

	Impaired at Acquisition Date	All Other Acquired Loans
Contractually required payments	$746,461	$ 944,898
Cash flows expected to be collected	384,098	805,811
Fair value at acquisition date	303,713	777,800

The recorded fair values of loans acquired in the United Western and CCB transactions as of their respective acquisition dates by loan class were as follows:

	United Western January 21, 2011	CCB July 8, 2011
Commercial:		
Construction and land development	$52,889	$113,519
Commercial mortgage	304,769	31,370
Other commercial real estate	8,434	4,931
Commercial and industrial	75,523	39,213
Lease financing	316	
Total commercial loans	441,931	189,033
Non-commercial:		
Residential mortgage	260,389	64,742
Revolving mortgage	12,073	29,332
Construction and land development	39,827	33,461
Consumer	5,131	5,594
Total non-commercial loans	317,420	133,129
Total covered loans acquired	$759,351	$322,162

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Note E
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 and Land Development - Commercial	Commercial Mortgage	Other Commercial Real Estate	Commercial and Industrial	Lease Financing	Other	Residential Mortgage	Revolving Mortgage	Construction and Land Development - Non-commercial	C
Noncovered Loans										
2011										
Allowance for loan and lease losses:										
Three months ended September 30, 2011										
Balance at July 1	$9,692	$67,123	$2,268	$24,918	$3,358	$1,351	$7,404	$22,020	$1,324	$1
Charge-offs	(6,213)	(1,184)	—	(1,010)	(77)	(6)	(1,624)	(3,686)	(358)	(2
Recoveries	74	211	6	236	52	1	44	184	12	44
Provision	1,613	1,807	(113)	(70)	(78)	(63)	3,186	7,099	448	71
Balance at September 30	$5,166	$67,957	$2,161	$24,074	$3,255	$1,283	$9,010	$25,617	$1,426	$1
Nine months ended September 30, 2011										
Balance at January 1	$10,512	$64,772	$2,200	$24,089	$3,384	$1,473	$7,009	$18,016	$1,751	$1
Charge-offs	(6,977)	(3,810)	—	(4,659)	(341)	(43)	(4,026)	(10,454)	(1,432)	(9
Recoveries	153	914	17	826	100	2	835	530	173	1,
Provision	1,478	6,081	(56)	3,818	112	(149)	5,192	17,525	934	4,
Balance at September 30	$5,166	$67,957	$2,161	$24,074	$3,255	$1,283	$9,010	$25,617	$1,426	$1
ALLL for loans and leases individually evaluated for impairment	$310	$4,641	$43	$433	$25	$—	$1,025	$—	$92	$4
ALLL for loans and leases collectively evaluated for impairment	4,856	63,316	2,118	23,641	3,230	1,283	7,985	25,617	1,334	25

Non-specific ALLL	—	—	—	—	—	—	—	—	—	—
Total allowance for loan and lease losses	$5,166	$67,957	$2,161	$24,074	$3,255	$1,283	$9,010	$25,617	$1,426	$2
Loans and leases:										
Loans and leases individually evaluated for impairment	$22,001	$66,588	$580	$14,222	$339	$—	$12,033	$—	$2,844	$9
Loans and leases collectively evaluated for impairment	394,718	4,929,448	143,958	1,783,359	303,700	158,782	804,705	2,302,482	136,341	52
Total loan and leases	$416,719	$4,996,036	$144,538	$1,797,581	$304,039	$158,782	$816,738	$2,302,482	$139,185	$1
December 31, 2010										
Allowance for loan and lease losses:										
ALLL for loans and leases individually evaluated for impairment	$5,883	$4,601	$67	$598	$58	$7	$384	$—	$13	$9
ALLL for loans and leases collectively evaluated for impairment	4,629	60,171	2,133	23,491	3,326	1,466	6,625	18,016	1,738	29
Non-specific ALLL	—	—	—	—	—	—	—	—	—	—
Total allowance for loan and lease losses	$10,512	$64,772	$2,200	$24,089	$3,384	$1,473	$7,009	$18,016	$1,751	$2
Loans and leases:										
Loans and leases individually evaluated for impairment	$28,327	$57,952	$964	$12,989	$693	$76	$6,162	$—	$514	$
	310,602	4,679,910	148,746	1,856,501	300,596	181,939	872,630	2,233,853	192,440	59

Loans and leases collectively evaluated for impairment										
Total loan and leases	$338,929	$4,737,862	$149,710	$1,869,490	$301,289	$182,015	$878,792	$2,233,853	$192,954	$

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	Construction and Land Development - Commercial	Commercial Mortgage	Other Commercial Real Estate	Commercial and Industrial	Lease Financing	Residential Mortgage	Revolving Mortgage	Construction and Land Development - Non-commercial	Consumer and Other	Total
Covered Loans										
2011										
Allowance for loan and lease losses:										
Three months ended September 30, 2011										
Balance at July 1	$24,234	$22,093	$12,841	$1,872	$—	$3,653	$10	$4,720	$12	$69,435
Charge-offs	(10,759)	(8,728)	(2,686)	(624)	—	(1,409)	—	(1,034)	(15)	(25,255)
Recoveries	57	60	386	—	—	50	—	—		553
Provision	3,500	16,607	1,879	5,687	1	1,878	122	584	59	30,317
Balance at September 30	$17,032	$30,032	$12,420	$6,935	$1	$4,172	$132	$4,270	$56	$75,050
Nine months ended September 30, 2011										
Balance at January 1	$20,654	$13,199	$4,148	$6,828	$—	$113	$676	$5,607	$23	$51,248
Charge-offs	(20,711)	(32,735)	(14,160)	(3,067)	—	(4,143)	—	(6,078)	(89)	(80,983)
Recoveries	57	75	477	12	—	94	—	—	—	715
Provision	17,032	49,493	21,955	3,162	1	8,108	(544)	4,741	122	104,070
Balance at September 30	$17,032	$30,032	$12,420	$6,935	$1	$4,172	$132	$4,270	$56	$75,050
ALLL for loans and leases individually evaluated for impairment	$4,146	$11,989	$748	$2,247	$—	$1,438	$—	$597	$—	$21,165
ALLL for loans and leases collectively evaluated for impairment	2,148	7,245	1,313	804	1	1,641	132	230	56	13,570
ALLL for loans and leases acquired with deteriorated credit quality	10,738	10,798	10,359	3,884	—	1,093	—	3,443	—	40,315

Total allowance for loan and lease losses	$17,032	$30,032	$12,420	$6,935	$1	$4,172	$132	$4,270	$56	$75,050
Loans and leases:										
Loans and leases individually evaluated for impairment	$81,558	$174,709	$28,535	$5,360	$—	$17,921	$—	$11,606	$—	$319,689
Loans and leases collectively evaluated for impairment	151,791	1,009,995	89,958	101,282	162	317,100	29,770	29,106	8,892	1,738,056
Loans and leases acquired with deteriorated credit quality	172,309	125,379	40,514	30,611	—	45,384	9,939	74,414	1,155	499,705
Total loan and leases	$405,658	$1,310,083	$159,007	$137,253	$162	$380,405	$39,709	$115,126	$10,047	$2,557,450
December 31, 2010										
Allowance for loan and lease losses:										
ALLL for loans and leases individually evaluated for impairment	$5,085	$7,331	$151	$170	$—	$6	$—	$221	$—	$12,964
ALLL for loans and leases collectively evaluated for impairment	701	2,613	549	363	—	107	31	154	23	4,541
ALLL for loans and leases acquired with deteriorated credit quality	14,868	3,255	3,448	6,295	—	—	645	5,232	—	33,743
Total allowance for loan and lease losses	$20,654	$13,199	$4,148	$6,828	$—	$113	$676	$5,607	$23	$51,248

Loans and leases:										
Loans and leases individually evaluated for impairment	$59,763	$84,841	$9,330	$8,330	$—	$4,743	$—	$42,957	$—	$209,964
Loans and leases collectively evaluated for impairment	205,669	883,983	166,627	115,060	—	58,726	9,466	18,588	8,664	1,466,783
Loans and leases acquired with deteriorated credit quality	102,988	120,240	34,704	9,087	—	11,026	8,400	44,260	—	330,705
Total loan and leases	$368,420	$1,089,064	$210,661	$132,477	$—	$74,495	$17,866	$105,805	$8,664	$2,007,452

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.

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	With a recorded allowance	With no recorded allowance	Total	Related allowance recorded
September 30, 2011				
Impaired noncovered loans and leases				
Construction and land development - commercial	$4,897	$17,104	$22,001	$310
Commercial mortgage	59,491	7,097	66,588	4,641
Other commercial real estate	580	—	580	43
Commercial and industrial	7,099	7,123	14,222	433
Lease financing	339	—	339	25
Other	—	—	—	—
Residential mortgage	12,033	—	12,033	1,025
Construction and land development - non-commercial	2,844	—	2,844	92
Consumer	992	—	992	45
Total impaired noncovered loans and leases	$88,275	$31,324	$119,599	$6,614
December 31, 2010				
Impaired noncovered loans and leases				
Construction and land development - commercial	$28,327	$—	$28,327	$5,883
Commercial mortgage	52,658	5,294	57,952	4,601
Other commercial real estate	964	—	964	67
Commercial and industrial	11,624	1,365	12,989	598
Lease financing	693	—	693	58
Other	76	—	76	7
Residential mortgage	6,162	—	6,162	384
Construction and land development - non-commercial	514	—	514	13
Consumer	102	—	102	9
Total impaired noncovered loans and leases	$101,120	$6,659	$107,779	$11,620
September 30, 2010				
Total impaired noncovered loans and leases	$50,620	$7,348	$57,968	$9,648

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	Average Balance	Unpaid Principal Balance	Interest Income Recognized
Three months ended September 30, 2011			
Noncovered impaired loans and leases:			
Construction and land development - commercial	$24,311	$27,162	$5
Commercial mortgage	68,436	66,906	297
Other commercial real estate	1,175	580	—
Commercial and industrial	14,142	14,222	149
Lease financing	478	339	3
Other	—	—	—
Residential mortgage	11,567	12,033	100
Construction and land development - non-commercial	2,703	2,844	38
Consumer	993	992	2
Total noncovered impaired loans and leases	$123,805	$125,078	$594
Nine months ended September 30, 2011			
Noncovered impaired loans and leases:			
Construction and land development - commercial	$27,151	$27,162	$109
Commercial mortgage	66,110	66,906	1,375
Other commercial real estate	1,065	580	25
Commercial and industrial	12,741	14,222	372
Lease financing	653	339	15
Other	38	—	—
Residential mortgage	9,121	12,033	276
Construction and land development - non-commercial	1,608	2,844	83
Consumer	547	992	12
Total noncovered impaired loans and leases	$119,034	$125,078	$2,267
Year ended December 31, 2010			
Noncovered impaired loans and leases:			
Construction and land development - commercial	$19,235	$28,610	$736
Commercial mortgage	25,451	59,760	2,548
Other commercial real estate	353	964	42
Commercial and industrial	3,420	11,624	663
Lease financing	281	693	37
Other	31	76	5
Residential mortgage	2,314	6,162	212
Construction and land development - non-commercial	182	514	56
Consumer	39	102	9
Total noncovered impaired loans and leases	$51,306	$108,505	$4,308

Troubled Debt Restructurings

The following table provides the types of troubled debt restructurings made for the three and nine month periods ended September 30, 2011 as well as the loans restructured during those periods that have experienced payment default subsequent to restructuring.

	Three months ended September 30, 2011				Nine months ended September 30, 2011			
	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	1	$268	—	$—	4	$1,160	1	$662
Commercial mortgage	7	3,428	—	—	32	15,005	3	1,111
Commercial and industrial	2	742	—	—	5	1,507	—	—
Lease financing	—	—	—	—	1	69	—	—
Residential mortgage	1	1,256	—	—	6	3,068	—	—
Construction and land development - non-commercial	1	331	—	—	1	331	—	—
Consumer	—	—	—	—	1	900	—	—
Total interest only	12	6,025	—	—	50	22,040	4	1,773
Loan term extension								
Construction and land development - commercial	—	—	—	—	4	1,428	—	—
Commercial mortgage	24	7,810	2	375	47	19,071	4	778
Other commercial real estate	1	54			2	200	—	—
Commercial and industrial	9	745	2	63	22	9,509	2	63
Lease financing	1	7	—	—	6	270	—	—
Residential mortgage	2	215	—	—	4	775	1	523
Construction and land development - non-commercial	—	—	—	—	1	395	—	—
Consumer	—	—	—	—	1	92	—	—
Total loan term extension	37	8,831	4	438	87	31,740	7	1,364
Below market interest rate								
Construction and land development - commercial	1	234	—	—	5	1,490	—	—
Commercial mortgage	7	3,929	—	—	18	7,566	3	555
Other commercial real estate	—	—	—	—	1	380	1	380
Commercial and industrial	1	66	—	—	4	508	1	29
Residential mortgage	3	556	—	—	11	2,528	—	—
Construction and land development - non-commercial	—	—	—	—	1	2,001	—	—
Total below market interest rate	12	4,785	—	—	40	14,473	5	964

Other concession								
Commercial mortgage	—	—	—	—	2	788	1	191
Commercial and industrial	—	—	—	—	2	38	1	14
Total other concession	—	—	—	—	4	826	2	205
Total noncovered restructurings	61	$19,641	4	$438	181	$69,079	18	$4,306

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	Three months ended September 30, 2011				Nine months ended September 30, 2011			
	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	—	$—	—	$—	3	$6,055	1	$5,390
Commercial mortgage	1	132	—	—	4	8,307	—	—
Residential mortgage	1	4,247	—	—	2	5,335	—	—
Total interest only	2	4,379	—	—	9	19,697	1	5,390
Loan term extension								
Construction and land development - commercial	4	2,615	1	347	7	3,276	1	347
Commercial mortgage	3	1,039	—	—	6	3,774	—	—
Other commercial real estate	—	—	—	—	4	7,853	—	—
Commercial and industrial	3	329	—	—	3	329	—	—
Residential mortgage	—	—	—	—	4	1,152	—	—
Construction and land development - non-commercial	—	—	—	—	1	2,719	1	2,719
Total loan term extension	10	3,983	1	347	25	19,103	2	3,066
Below market interest rate								
Construction and land development - commercial	7	8,613	—	—	16	23,628	1	1,148
Commercial mortgage	5	6,170	—	—	14	43,182	—	—
Other commercial real estate	1	702	—	—	1	702	—	—
Commercial and industrial	6	2,744	1	815	8	3,268	1	815
Residential mortgage	4	1,088	—	—	15	3,300	3	928
Construction and land development - non-commercial	2	8,856	—	—	2	8,856	—	—
Total below market interest rate	25	28,173	1	815	56	82,936	5	2,891
Other concession								
Residential mortgage	—	—	—	—	1	240	—	—
Total other concession	—	—	—	—	1	240	—	—
Total covered restructurings	37	$36,535	2	$1,162	91	$121,976	8	$11,347

For the three and nine month periods ended September 30, 2011, the recorded investment in troubled debt restructurings prior to modification was not materially impacted by the modification. While we utilize many modification tools, forgiveness of principal is not a restructuring option frequently used by BancShares.

Total troubled debt restructurings at September 30, 2011 equaled $277,699, of which, $159,429 were covered and $118,270 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 F

Receivable from FDIC for Loss Share Agreements

The following table provides changes in the receivable from the FDIC for the three and nine month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Balance at beginning of period	$522,507	$692,242	$623,261	$249,842
Additional receivable from acquisitions	159,753	(10,866)	295,053	468,429
Accretion of discounts and premiums, net	1,554	1,252	2,968	3,638
Receipt of payments from FDIC	(27,872)	—	(239,800)	(52,422)
Post-acquisition and other adjustments, net	(48,035)	(30,784)	(73,575)	(17,643)
Balance at September 30	$607,907	$651,844	$607,907	$651,844

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.

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Note G

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.

Estimated fair values for certain financial assets and financial liabilities are provided in the following table:

	September 30, 2011		December 31, 2010		September 30, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	$539,337	$539,337	$460,178	$460,178	$493,786	$493,786
Overnight investments	410,002	410,002	398,390	398,390	1,049,158	1,049,158
Investment securities available for sale	3,994,825	3,994,825	4,510,076	4,510,076	3,786,841	3,786,841
Investment securities held to maturity	1,943	2,108	2,532	2,741	2,645	2,864
Loans held for sale	78,178	78,178	88,933	88,933	79,853	79,853
Loans covered by loss share agreements, net of allowance for loan and lease losses	2,482,400	2,469,613	1,956,205	1,946,423	2,178,821	2,150,909
Loans and leases not covered by loss share agreements, net of allowance for loan and lease losses	11,424,392	11,329,623	11,304,059	10,995,653	11,371,102	10,995,807
Receivable from FDIC for loss share agreements	607,907	610,907	623,261	624,785	651,844	654,210
Income earned not collected	43,886	43,886	83,644	83,644	83,204	83,204
Stock issued by:						
Federal Home Loan Bank of	43,302	43,302	47,123	47,123	48,291	48,291

Atlanta						
Federal Home Loan Bank of San Francisco	13,605	13,605	15,490	15,490	16,135	16,135
Federal Home Loan Bank of Seattle	4,490	4,490	4,490	4,490	4,490	4,490
Deposits	17,663,275	17,712,240	17,635,266	17,695,357	17,743,028	17,808,921
Short-term borrowings	600,384	600,384	546,597	546,597	652,716	652,716
Long-term obligations	744,839	774,799	809,949	826,501	819,145	851,107
Accrued interest payable	22,153	22,153	37,004	37,004	33,533	33,533

At September 30, 2011 and 2010, other assets include $61,397 and $68,916 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. 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.

Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly

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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.

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, 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 September 30, 2011, December 31, 2010 and September 30, 2010:

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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)
September 30, 2011				
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$987,934	$987,934	$—	$—
Government agency	2,260,909	2,260,909	—	—
Corporate bonds	404,643	404,643	—	—
Residential mortgage-backed securities	324,192	—	324,192	—
Equity securities	16,104	16,104	—	—
State, county, municipal	1,043	—	1,043	—
Total	$3,994,825	$3,669,590	$ 325,235	$—
Liabilities measured at fair value				
Interest rate swaps accounted for as cash flow hedges	$13,531	$—	$ 13,531	$—
December 31, 2010				
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$1,939,400	$1,939,400	$—	$—
Government agency	1,919,986	1,919,986	—	—
Corporate bonds	486,658	486,658	—	—
Residential mortgage-backed securities	143,545	—	143,545	—
Equity securities	19,231	19,231	—	—
State, county, municipal	1,256	—	1,256	—
Total	$4,510,076	$4,365,275	$ 144,801	$—
Liabilities measured at fair value				
Interest rate swaps accounted for as cash flow hedges	$9,492	$—	$ 9,492	$—
September 30, 2010				
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$3,121,251	$3,121,251	$—	$—
Government agency	—	—	—	—
Corporate bonds	489,189	489,189	—	—
Residential mortgage-backed securities	156,136	—	156,136	—
Equity securities	18,997	18,997	—	—
State, county, municipal	1,268	—	1,268	—
Total	$3,786,841	$3,629,437	$ 157,404	$—
Liabilities measured at fair value				
Interest rate swaps accounted for as cash flow hedges	$14,263	$—	$ 14,263	$—

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 based on level 3 inputs at September 30, 2011, December 31, 2010 or September 30, 2010, and there were no transfers

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between Level 1 and Level 2 inputs during the nine month periods ended September 30, 2011 and 2010.
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.
For those investment securities available for sale with fair values that are determined by reliance on significant nonobservable inputs, the following table identifies the factors causing the change in fair value during the first nine months of 2010:

Description	Investment securities available for sale with fair values based on significant nonobservable inputs 2010
Beginning balance, January 1,	$ 1,287
Total gains (losses), realized or unrealized:	
Included in earnings	—
Included in other comprehensive income	—
Purchases, sales, issuances and settlements, net	—
Transfers in/out of Level 3	(1,287)
Ending balance, September 30	$ —

There were no investment securities with fair values determined by reliance on significant nonobservable inputs during 2011.
No gains or losses were reported for the nine month periods ended September 30, 2011 and 2010 that relate to fair values estimated based on significant nonobservable inputs. The investment securities valued using level 3 inputs that were transferred out during the first quarter of 2010 result from changes in US GAAP adopted January 1, 2010 related to investments in the retained interest of a residual interest strip that resulted from an asset securitization.

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 September 30, 2011, December 31, 2010 and September 30, 2010:

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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)
September 30, 2011				
Loans held for sale	$78,178	$—	$ 78,178	$—
Impaired loans:				
Covered by loss share agreements	247,361	—	—	247,361
Not covered by loss share agreements	81,661	—	—	81,661
December 31, 2010				
Loans held for sale	88,933	—	88,933	—
Impaired loans:				
Covered by loss share agreements	192,406	—	—	192,406
Not covered by loss share agreements	89,500	—	—	89,500
September 30, 2010				
Loans held for sale	79,853	—	79,853	—
Impaired loans:				
Covered by loss share agreements	142,116	—	—	142,116
Not covered by loss share agreements	48,320	—	—	48,320

The values of loans held for sale are based on prices observed for similar pools of loans. The values of impaired loans are determined by either the collateral value or the discounted present value of the expected cash flows. No financial liabilities were carried at fair value on a nonrecurring basis as of September 30, 2011, December 31, 2010 or September 30, 2010.

OREO is measured and reported at fair value using Level 3 inputs for valuations based on nonobservable criteria. During the nine month period ended September 30, 2011, foreclosures of other real estate not covered by loss share agreements totaled $30,226, all of which were valued using Level 3 inputs. Based on updates to Level 3 inputs, noncovered OREO with a fair value of $12,380 as of September 30, 2011 incurred write-downs that totaled $2,910 during the nine month period ended September 30, 2011. Foreclosures of other real estate covered by loss share agreements totaled $92,245, all of which were valued using Level 3 inputs.

During the nine month period ended September 30, 2010, foreclosures of other real estate not covered by loss share agreements totaled $16,217, all of which were valued using Level 3 inputs. Based on updates to Level 3 inputs, noncovered OREO with a fair value of $8,025 as of September 30, 2010 incurred write-downs that totaled $2,344 during the nine month period ended September 30, 2010. Foreclosures of other real estate covered by loss share agreements totaled $39,342, all of which were valued using Level 3 inputs.

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Note H

Employee Benefit Plans

Pension expense is a component of employee benefits expense. For the three- and nine-month periods ended September 30, 2011 and 2010, respectively, the components of pension expense are as follows:

	Three Months Ended September 30		Nine months ended September 30,	
	2011	2010	2011	2010
Service cost	$3,316	$2,760	$9,949	$9,431
Interest cost	5,953	5,192	17,858	17,738
Expected return on assets	(7,178)	(6,533)	(21,530)	(22,551)
Amortization of prior service cost	53	42	158	157
Amortization of net actuarial loss	1,596	771	4,786	2,851
Total pension expense	$3,740	$2,232	$11,221	$7,626

The assumed discount rate for 2011 is 5.50 percent, the expected long-term rate of return on plan assets is 7.75 percent and the assumed rate of salary increases is 4.50 percent. For 2010 the assumed discount rate was 6.00 percent, expected long-term rate of return was 8.00 percent and the assumed rate of salary increases was 4.50 percent.

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Note I

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 September 30, 2011 BancShares had unused commitments totaling $5,890,227 compared to $5,364,451 at December 31, 2010 and $5,232,955 at September 30, 2010.

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 September 30, 2011, December 31, 2010, and September 30, 2010, BancShares had standby letters of credit amounting to $57,933, $70,755 and $77,929, 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 September 30, 2011, December 31, 2010 and September 30, 2010, BancShares has loans sold with recourse outstanding of approximately $216,950, $253,347 and $256,669 respectively on these mortgage loans. 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.

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Note J
Derivatives

At September 30, 2011, BancShares had one interest rate swap that qualifies as a cash flow hedge under US GAAP. An additional interest rate swap that qualified as a cash flow hedge matured on June 30, 2011. The fair value of the derivative is included in other liabilities in the consolidated balance sheets and the net change in fair value for both derivatives 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 interest rate swaps each have a notional amount of $115,000, representing the amount of variable-rate trust preferred capital securities issued during 2006. 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 interest rate swap hedges interest payments from July 2011 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. As of September 30, 2011, collateral with a fair value of $14,665 was pledged to secure the existing obligation under the interest rate swaps. For both swaps, settlement occurs quarterly.

		Estimated fair value of liability		
	Notional amount for all periods	September 30, 2011	December 31, 2010	September 30, 2010
2006 interest rate swap hedging variable rate exposure on trust preferred capital securities 2006-2011	$115,000	$—	$2,873	$4,304
2009 interest rate swap hedging variable rate exposure on trust preferred capital securities 2011-2016	115,000	13,531	6,619	9,959
		$13,531	$9,492	$14,263

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 nine month periods ended September 30, 2011 and 2010, BancShares recognized interest expense of $3,961 and $4,374, 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 nine month periods ended September 30, 2011 and 2010.

	2011	2010
Accumulated other comprehensive loss resulting from interest rate swaps as of January 1	$(9,492)	$(5,367)
Other comprensive income (loss) recognized during nine month period ended September 30	(4,039)	(8,896)
Accumulated other comprehensive loss resulting from interest rate swaps as of September 30	$(13,531)	$(14,263)

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

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Note K
Segment Disclosures

BancShares is a financial holding company headquartered in Raleigh, North Carolina that offers full-service banking through a single wholly-owned banking subsidiary, First-Citizens Bank & Trust Company (FCB), a North Carolina-chartered bank.

Prior to January 7, 2011, BancShares also offered full service banking services through another wholly-owned subsidiary, IronStone Bank (ISB), a federally-chartered thrift institution. On January 7, 2011 ISB was legally merged into FCB resulting in a single banking subsidiary of BancShares. Goodwill was evaluated for impairment at the merger date and no evidence of impairment was identified.

Prior to the merger, FCB and ISB were considered to be distinct operating segments. As a result of the merger and various organizational changes resulting from the merger, there is no longer a focus on the discrete financial measures of each entity. Therefore, BancShares now operates as one reportable segment.

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Note L
Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss) included the following as of September 30, 2011, December 31, 2010 and September 30, 2010:

	September 30, 2011			December 31, 2010			September 30, 2010		
	Accumulated other comprehensive income (loss)	Deferred tax expense (benefit)	Accumulated other comprehensive income (loss), net of tax	Accumulated other comprehensive income (loss)	Deferred tax expense (benefit)	Accumulated other comprehensive income (loss), net of tax	Accumulated other comprehensive income (loss)	Deferred tax expense (benefit)	Accumulated other comprehensive income (loss), net of tax
Unrealized gains on investment securities available for sale	$28,830	$11,340	$ 17,490	$23,195	$9,143	$ 14,052	$41,026	$15,427	$ 25,599
Funded status of defined benefit plan	(68,752)	(26,923)	(41,829)	(73,696)	(28,859)	(44,837)	(67,884)	(26,583)	(41,301)
Unrealized loss on cash flow hedge	(13,531)	(5,343)	(8,188)	(9,492)	(3,748)	(5,744)	(14,263)	(5,632)	(8,631)
Total	$(53,453)	$(20,926)	$ (32,527)	$(59,993)	$(23,464)	$ (36,529)	$(41,121)	$(16,788)	$ (24,333)

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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 2011, 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.

FDIC-ASSISTED TRANSACTIONS

Participation in FDIC-assisted transactions has 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 have resulted in significant acquisition gains. All of the FDIC-assisted transactions completed as of September 30, 2011 include loss share agreements which protect us from a substantial portion of the credit and asset quality risk that we would otherwise incur.

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. Consequential adjustments to the carrying value of the FDIC receivable that reflect the change in the estimated loss of the covered assets are recorded with an offset to noninterest income. 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 debit 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 credit 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 credit 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 to reflect the indemnified portion of the post-acquisition exposure with a corresponding debit to noninterest income;

- 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 a credit to interest income.

- Adjustments to the FDIC receivable resulting from changes in estimated 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 asset carrying value, but the rate of the change to the FDIC receivable relative to the change in the asset 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

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agreements, higher loss estimates trigger a reduction in the reimbursement rates. In addition, some of the loss share agreements include clawback provisions that would 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.

Balance sheet impact. The July 2011 transaction involving Colorado Capital Bank was the sixth transaction involving BancShares since July 17, 2009. Table 1 provides information regarding the six entities from which we have acquired assets and assumed liabilities in FDIC-assisted transactions 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.

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