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

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 March 31, 2012
or

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

Commission File Number: 001-16715

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

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Part 1

Item 1. Financial Statements (Unaudited)

First Citizens BancShares, Inc. and Subsidiaries
Consolidated Balance Sheets

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

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

* Unaudited
# Derived from 2011 Annual Report on Form 10-K.
See accompanying Notes to Consolidated Financial Statements.

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31	
	2012	2011
	(thousands, unaudited)	
Net income	$35,495	$61,760
Other comprehensive income (loss)		
Unrealized gains on securities:		
Change in unrealized securities gains arising during period	(2,898)	(9,139)
Deferred tax benefit (expense)	1,123	3,447
Reclassification adjustment for losses (gains) included in income before income taxes	—	449
Deferred tax expense (benefit)	—	(177)
Total change in unrealized gains on securities, net of tax	(1,775)	(5,420)
Change in fair value of cash flow hedges:		
Change in unrecognized loss on cash flow hedges	1,138	3,175
Deferred tax benefit (expense)	(450)	(1,254)
Reclassification adjustment for gains (losses) included in income before income taxes	(749)	(1,458)
Deferred tax benefit (expense)	296	576
Total change in unrecognized loss on cash flow hedges, net of tax	235	1,039
Change in pension obligation:		
Change in pension obligation	2,790	1,648
Deferred tax benefit (expense)	(1,092)	(645)
Total change in pension obligation, net of tax	1,698	1,003
Other comprehensive income (loss)	158	(3,378)
Total comprehensive income	$35,653	$58,382

See accompanying Notes to Consolidated Financial Statements.

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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, 2010	$8,757	$ 1,678	$143,766	$1,615,290	$ (36,529)	$1,732,962
Comprehensive income:						
Net income	—	—	—	61,760	—	61,760
Other comprehensive loss, net of tax	—	—	—	—	(3,378)	(3,378)
Total comprehensive income						58,382
Cash dividends ($0.30 per share)	—	—	—	(3,130)	—	(3,130)
Balance at March 31, 2011	$8,757	$ 1,678	$143,766	$1,673,920	$ (39,907)	$1,788,214
Balance at December 31, 2011	$8,644	$ 1,640	$143,766	$1,773,652	$ (66,574)	$1,861,128
Comprehensive income:						
Net income	—	—	—	35,495	—	35,495
Other comprehensive income, net of tax	—	—	—	—	158	158
Total comprehensive income						35,653
Repurchase of 8,388 shares of Class B common stock	—	(9)	—	(1,564)	—	(1,573)
Cash dividends ($0.30 per share)	—	—	—	(3,085)	—	(3,085)
Balance at March 31, 2012	$8,644	$ 1,631	$143,766	$1,804,498	$ (66,416)	$1,892,123

See accompanying Notes to Consolidated Financial Statements.

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

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

Recently Adopted Accounting Policies and Other Regulatory Issues

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

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

In September, 2011, the FASB issued Intangibles - Goodwill and Other Intangible Assets: Testing Goodwill for Impairment (ASU 2011-08), which allows an entity the option to first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that 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

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

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

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

Investments in residential mortgage-backed securities primarily represent securities issued by the Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.
Investments in corporate bonds represent debt securities issued by various financial institutions under the

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Temporary Liquidity Guarantee Program. These debt obligations were issued with the full faith and credit of the United States of America. The guarantee for these securities is triggered when an issuer defaults on a scheduled payment.
The following table provides maturity information for investment securities as of the dates indicated. Callable securities are assumed to mature on their earliest call date.

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

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

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

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

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

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

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

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Note C

Loans and Leases

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

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

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

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

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

Description of segment and class risks

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

Commercial loans and leases

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

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

Commercial construction and land development

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

Commercial mortgage, commercial and industrial and lease financing

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

Other commercial real estate

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

Non-commercial loans

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

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

Revolving mortgage
Revolving mortgage loans are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render a second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lienholders that may further weaken the collateral position. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.
Consumer
The consumer loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles including boats and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.
Residential mortgage and non-commercial construction and land development
Residential mortgage and non-commercial construction and land development loans are made to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Such a decline in values has led to unprecedented levels of foreclosures and losses within the banking industry.
Non-commercial construction and land development projects can experience delays in completion and cost overruns that exceed the borrower’s financial ability to complete the project. Such cost overruns can routinely result in foreclosure of partially completed and unmarketable collateral.
Covered loans
The risks associated with covered loans are generally consistent with the risks identified for commercial and non-commercial loans and the classes of loans within those segments. An additional risk with respect to covered loans relates to the FDIC loss share agreements, specifically the ability to receive timely and full reimbursement from the FDIC for losses and related expenses that are believed to be covered by the loss share agreements. Further, these loans were underwritten by other institutions with weaker lending standards. Therefore, there is a significant risk that the loans are not adequately supported by the paying capacity of the borrower or the values of underlying collateral at the time of origination.
Credit quality indicators
Loans and leases are monitored for credit quality on a recurring basis. The credit quality indicators used are dependent on the portfolio segment to which the loan relates. Commercial loans and leases, non-commercial loans and leases, and covered loans have different credit quality indicators as a result of the methods used to monitor each of these loan segments.
The credit quality indicators for commercial loans and leases and all covered loans and leases are developed through review of individual borrowers on an ongoing basis. Each borrower is evaluated at least annually with more frequent evaluation of more severely criticized loans or leases. The indicators represent the rating for loans or leases as of the date presented based on the most recent assessment performed. These credit quality indicators are defined as follows:
Pass – A pass rated asset is not adversely classified because it does not display any of the characteristics for adverse classification.

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

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future date. Special mention assets are not adversely classified and do not warrant adverse classification.
Substandard – A substandard asset is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These assets are characterized by the distinct possibility of loss if the deficiencies are not corrected.
Doubtful – An asset classified doubtful has all the weaknesses inherent in an asset classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.
Loss – Assets classified loss are considered uncollectible and of such little value that their continuing to be carried as an asset is not warranted. This classification is not necessarily equivalent to no potential for recovery or salvage value, but rather that it is not appropriate to defer a full write-off even though partial recovery may be effected in the future.
Ungraded – Ungraded loans represent loans that are not included in the individual credit grading process due to their relatively small balances or borrower type. The majority of noncovered, ungraded loans at March 31, 2012 relate to business credit cards and tobacco buyout loans. Business credit card loans are subject to automatic charge off when they become 120 days past due in the same manner as unsecured consumer lines of credit. Tobacco buyout loans with an outstanding balance of $41,580 at March 31, 2012 are secured by assignments of receivables made pursuant to the Fair and Equitable Tobacco Reform Act of 2004. The credit risk associated with these loans is considered low as the payments that began in 2005 and continue through 2014 are to be made by the Commodity Credit Corporation which is part of the United States Department of Agriculture.
The credit quality indicators for noncovered, non-commercial loans are based on the delinquency status of the borrower. As the borrower becomes more delinquent, the likelihood of loss increases.

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

	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
March 31, 2012							
Pass	$303,018	$4,744,063	$136,776	$1,554,112	$309,681	$147,767	$7,195,417
Special mention	20,097	243,495	6,805	35,497	3,336	2,018	311,248
Substandard	21,297	130,815	6,068	27,057	2,453	—	187,690
Doubtful	1,821	6,588	365	1,676	—	—	10,450
Ungraded	324	2,987	302	121,382	234	7	125,236
Total	$346,557	$5,127,948	$150,316	$1,739,724	$315,704	$149,792	$7,830,041
December 31, 2011							
Pass	$332,742	$4,749,254	$130,586	$1,556,651	$306,225	$157,089	$7,232,547
Special mention	18,973	220,235	5,821	36,951	4,537	1,271	287,788
Substandard	28,793	129,391	7,794	28,240	2,107	—	196,325
Doubtful	17	1,164	377	643	—	—	2,201
Ungraded	638	4,949	193	141,922	—	9	147,711
Total	$381,163	$5,104,993	$144,771	$1,764,407	$312,869	$158,369	$7,866,572
March 31, 2011							
Pass	$316,395	$4,403,652	$133,931	$1,571,193	$285,699	$173,025	$6,883,895
Special mention	22,416	232,019	7,415	40,023	6,228	1,299	309,400
Substandard	32,864	119,229	5,271	30,992	3,796	12	192,164
Doubtful	2,094	6,004	401	1,182	271	—	9,952
Ungraded	—	2,489	132	148,652	—	34	151,307
Total	$373,769	$4,763,393	$147,150	$1,792,042	$295,994	$174,370	$7,546,718

	Non-commercial noncovered loans and leases				
	Residential Mortgage	Revolving Mortgage	Construction and Land Development	Consumer	Total Non-commercial Noncovered Loans
March 31, 2012					
Current	$763,411	$2,274,091	$130,561	$446,421	$3,614,484
31-60 days past due	14,001	2,349	808	1,885	19,043
61-90 days past due	2,812	1,212	446	1,028	5,498
Over 90 days past due	13,388	4,486	862	1,727	20,463
Total	$793,612	$2,282,138	$132,677	$451,061	$3,659,488
December 31, 2011					
Current	$757,113	$2,286,511	$135,774	491,142	$3,670,540
31-60 days past due	11,790	3,437	798	3,514	19,539
61-90 days past due	2,686	2,042	127	1,271	6,126
Over 90 days past due	12,529	4,316	572	1,443	18,860
Total	$784,118	$2,296,306	$137,271	$497,370	$3,715,065
March 31, 2011					
Current	$777,982	$2,287,726	$142,423	$580,544	$3,788,675

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

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

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

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

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

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

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

Acquired Loans

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

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

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

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

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

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

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Note D

Allowance for Loan and Lease Losses

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

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

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

loan and
lease losses

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

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

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

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

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

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

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

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

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

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Troubled Debt Restructurings

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

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

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

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

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

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

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

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Note E
Receivable from FDIC for Loss Share Agreements
The following table provides changes in the receivable from the FDIC for the three month period ended March 31, 2012 and 2011:

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

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

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

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

Because no market exists for many financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. For financial instruments with a fixed interest rate, an analysis of the related cash flows is the basis for estimating fair values. The expected cash flows are discounted to the valuation date using an appropriate discount rate. The discount rates used represent the rates under which similar transactions would be currently negotiated. For financial instruments with fixed and variable rates, fair value estimates also consider the impact of liquidity discounts appropriate as of the measurement date.
Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements BancShares considers the principal or most advantageous market in which the specific assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. As required under US GAAP, individual fair value estimates are ranked based on the relative reliability of the inputs used in the valuation. Fair values determined using level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based on level 3 inputs, which are considered to be nonobservable. BancShares recognizes transfers between levels of the fair value hierarchy at the end of the respective reporting period.

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

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

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

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

Receivable from the FDIC for loss share agreements. Fair value is estimated based on discounted future cash flows using current discount rates. The inputs used in the fair value measurements for the receivable from the FDIC are considered Level 3 inputs.

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

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

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

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

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

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

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

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

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

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

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

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

Description	Fair value	Fair value measurements using: Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
March 31, 2012				
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$1,065,036	$1,065,036	$ —	$—
Government agency	2,855,385	2,855,385	—	—
Corporate bonds	226,428	226,428	—	—
Residential mortgage-backed securities	290,908	—	290,908	—
Equity securities	18,943	18,943	—	—
State, county, municipal	1,039	—	1,039	—
Total	$4,457,739	$4,165,792	$ 291,947	$—
Liabilities measured at fair value				
Interest rate swaps accounted for as cash flow hedges	$10,325	$—	$ 10,325	$—
December 31, 2011				
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$887,819	$887,819	$ —	$—
Government agency	2,592,209	2,592,209	—	—
Corporate bonds	252,820	252,820	—	—
Residential mortgage-backed securities	307,221	—	307,221	—
Equity securities	15,313	15,313	—	—
State, county, municipal				