

FIRST CITIZENS BANCSHARES INC /DE/

Form 10-Q

May 09, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

Commission File Number: 001-16715

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First Citizens BancShares, Inc.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Class A Common Stock—\$1 Par Value—8,586,058 shares

Class B Common Stock—\$1 Par Value—1,032,883 shares

(Number of shares outstanding, by class, as of May 9, 2013)



Table of Contents

INDEX

	Page(s)
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
<b>Item 1. <u>Financial Statements (Unaudited)</u></b>	
<u>Consolidated Balance Sheets at March 31, 2013, December 31, 2012, and March 31, 2012</u>	<u>3</u>
<u>Consolidated Statements of Income for the three-month periods ended March 31, 2013, and March 31, 2012</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2013, and March 31, 2012</u>	<u>5</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for the three-month periods ended March 31, 2013, and March 31, 2012</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2013, and March 31, 2012</u>	<u>7</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>8</u>
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<u>36</u>
<b>Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u></b>	<u>63</u>
<b>Item 4. <u>Controls and Procedures</u></b>	<u>63</u>
<b>PART II. <u>OTHER INFORMATION</u></b>	
<b>Item 1A. <u>Risk Factors</u></b>	<u>64</u>
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<u>69</u>
<b>Item 6. <u>Exhibits</u></b>	<u>70</u>

Table of Contents

## Part 1

## Item 1. Financial Statements (Unaudited)

First Citizens BancShares, Inc. and Subsidiaries  
Consolidated Balance Sheets

	March 31* 2013 (thousands, except share data)	December 31# 2012	March 31* 2012
<b>Assets</b>			
Cash and due from banks	\$460,217	\$639,730	\$552,663
Overnight investments	954,232	443,180	752,334
Investment securities available for sale	5,279,678	5,226,228	4,457,739
Investment securities held to maturity	1,229	1,342	1,688
Loans held for sale	86,351	86,333	73,457
<b>Loans and leases:</b>			
Covered under loss share agreements	1,621,327	1,809,235	2,183,869
Not covered under loss share agreements	11,509,080	11,576,115	11,489,529
Less allowance for loan and lease losses	273,019	319,018	272,500
Net loans and leases	12,857,388	13,066,332	13,400,898
Premises and equipment	872,045	882,768	864,466
<b>Other real estate owned:</b>			
Covered under loss share agreements	101,901	102,577	142,418
Not covered under loss share agreements	44,828	43,513	48,092
Income earned not collected	47,255	47,666	52,406
Receivable from FDIC for loss share agreements	195,942	270,192	492,384
Goodwill	102,625	102,625	102,625
Other intangible assets	2,884	3,556	6,076
Other assets	344,437	367,610	278,415
<b>Total assets</b>	<b>\$21,351,012</b>	<b>\$21,283,652</b>	<b>\$21,225,661</b>
<b>Liabilities</b>			
<b>Deposits:</b>			
Noninterest-bearing	\$4,915,038	\$4,885,700	\$4,572,300
Interest-bearing	13,149,883	13,200,325	13,187,192
<b>Total deposits</b>	<b>18,064,921</b>	<b>18,086,025</b>	<b>17,759,492</b>
Short-term borrowings	573,102	568,505	677,993
Long-term obligations	444,252	444,921	649,818
Payable to FDIC for loss share agreements	98,870	101,641	82,033
Other liabilities	251,286	218,553	164,202
<b>Total liabilities</b>	<b>19,432,431</b>	<b>19,419,645</b>	<b>19,333,538</b>
<b>Shareholders' Equity</b>			
<b>Common stock:</b>			
Class A - \$1 par value (11,000,000 shares authorized; 8,586,058 shares issued and outstanding at March 31, 2013; 8,588,031 shares issued and outstanding at December 31, 2012; 8,644,307 shares issued and outstanding at March 31, 2012)	8,586	8,588	8,644
Class B - \$1 par value (2,000,000 shares authorized; 1,032,883 shares issued and outstanding at March 31, 2013; 1,032,883 shares	1,033	1,033	1,631

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issued and outstanding at December 31, 2012; 1,631,424 shares

issued and outstanding at March 31, 2012)

Surplus	143,766	143,766	143,766
Retained earnings	1,845,101	1,792,726	1,804,498
Accumulated other comprehensive loss, net	(79,905	) (82,106	) (66,416
Total shareholders' equity	1,918,581	1,864,007	1,892,123
Total liabilities and shareholders' equity	\$21,351,012	\$21,283,652	\$21,225,661

\* Unaudited

# Derived from 2012 Annual Report on Form 10-K.

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended March 31		
	2013	2012	
	(thousands, except share and per share data, unaudited)		
Interest income			
Loans and leases	\$211,763	\$238,137	
Investment securities:			
U. S. Treasury	496	739	
Government agency	3,326	4,332	
Residential mortgage-backed securities	4,579	1,889	
Corporate bonds	—	1,199	
State, county and municipal	6	12	
Other	77	131	
Total investment securities interest and dividend income	8,484	8,302	
Overnight investments	357	313	
Total interest income	220,604	246,752	
Interest expense			
Deposits	10,313	16,472	
Short-term borrowings	704	1,391	
Long-term obligations	4,705	7,937	
Total interest expense	15,722	25,800	
Net interest income	204,882	220,952	
Provision for loan and lease losses	(18,606	) 30,715	
Net interest income after provision for loan and lease losses	223,488	190,237	
Noninterest income			
Cardholder and merchant services	23,557	22,450	
Service charges on deposit accounts	14,999	14,846	
Wealth management services	14,515	13,755	
Fees from processing services	5,619	8,562	
Securities gains (losses)	58	(45	)
Other service charges and fees	3,766	3,441	
Mortgage income	3,788	2,924	
Insurance commissions	2,980	2,756	
ATM income	1,168	1,455	
Adjustment for FDIC receivable for loss share agreements	(24,053	) (26,796	)
Other	11,116	3,595	
Total noninterest income	57,513	46,943	
Noninterest expense			
Salaries and wages	76,119	75,684	
Employee benefits	25,019	20,249	
Occupancy expense	18,809	18,607	
Equipment expense	18,946	18,166	
FDIC insurance expense	2,666	3,057	
Foreclosure-related expenses	4,305	4,590	
Other	48,491	42,978	
Total noninterest expense	194,355	183,331	

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Income before income taxes	86,646	53,849
Income taxes	31,061	18,354
Net income	\$55,585	\$35,495
Average shares outstanding	9,618,985	10,283,842
Net income per share	\$5.78	\$3.45

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended March 31	
	2013	2012
	(thousands, unaudited)	
Net income	\$55,585	\$35,495
Other comprehensive income		
Unrealized gains on securities:		
Change in unrealized securities gains arising during period	(1,418	) (2,898
Deferred tax benefit	542	1,123
Reclassification adjustment for gains included in income before income taxes	(58	) —
Deferred tax expense	23	—
Total change in unrealized gains on securities, net of tax	(911	) (1,775
Change in fair value of cash flow hedges:		
Change in unrecognized loss on cash flow hedges	2	(359
Deferred tax expense	(1	) 141
Reclassification adjustment for gains included in income before income taxes	813	749
Deferred tax benefit	(321	) (296
Total change in unrecognized loss on cash flow hedges, net of tax	493	235
Change in pension obligation:		
Reclassification adjustment for gains included in income before income taxes	4,304	2,790
Deferred tax expense	(1,685	) (1,092
Total change in pension obligation, net of tax	2,619	1,698
Other comprehensive income	2,201	158
Total comprehensive income	\$57,786	\$35,653

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

## First Citizens BancShares, Inc. and Subsidiaries

## Consolidated Statements of Changes in Shareholders' Equity

	Class A Common Stock	Class B Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
(thousands, except share data, unaudited)						
Balance at December 31, 2011	\$8,644	\$ 1,640	\$143,766	\$1,773,652	\$ (66,574 )	\$1,861,128
Net income	—	—	—	35,495	—	35,495
Other comprehensive income, net of tax	—	—	—	—	158	158
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
Balance at December 31, 2012	\$8,588	\$ 1,033	\$143,766	\$1,792,726	\$ (82,106 )	\$1,864,007
Net income	—	—	—	55,585	—	55,585
Other comprehensive income, net of tax	—	—	—	—	2,201	2,201
Repurchase of 1,973 shares of Class A common stock	(2 )	—	—	(319 )	—	(321 )
Cash dividends (\$0.30 per share)	—	—	—	(2,891 )	—	(2,891 )
Balance at March 31, 2013	\$8,586	\$ 1,033	\$143,766	\$1,845,101	\$ (79,905 )	\$1,918,581
See accompanying Notes to Consolidated Financial Statements.						

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

	Three months ended March 31		
	2013	2012	
	(thousands, unaudited)		
OPERATING ACTIVITIES			
Net income	\$55,585	\$35,495	
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan and lease losses	(18,606	) 30,715	
Deferred tax (benefit) expense	7,733	(5,692	)
Change in current taxes payable	31,625	22,857	
Depreciation	17,994	16,620	
Change in accrued interest payable	(2,700	) (2,233	)
Change in income earned not collected	411	(10,190	)
Gain on sale of processing services, net	(4,085	) —	
Securities losses (gains)	(58	) 45	
Origination of loans held for sale	(117,981	) (135,897	)
Proceeds from sale of loans held for sale	121,523	158,391	
Gain on sale of loans	(3,560	) (3,412	)
Loss on sale of other real estate	1,350	1,495	
Net amortization of premiums and discounts	(47,236	) (35,480	)
FDIC receivable for loss share agreements	5,619	(18,274	)
Net change in other assets	(6,980	) 23,564	
Net change in other liabilities	32,662	6,487	
Net cash provided by operating activities	73,296	84,491	
INVESTING ACTIVITIES			
Net change in loans outstanding	269,428	277,719	
Purchases of investment securities available for sale	(736,923	) (1,681,584	)
Proceeds from maturities of investment securities held to maturity	113	134	
Proceeds from maturities of investment securities available for sale	674,606	1,275,014	
Proceeds from sales of investment securities available for sale	1,582	—	
Net change in overnight investments	(511,052	) (317,359	)
Cash received from the FDIC for loss share agreements	42,519	123,204	
Proceeds from sale of other real estate	36,019	23,853	
Additions to premises and equipment	(8,713	) (26,610	)
Net cash used by investing activities	(232,421	) (325,629	)
FINANCING ACTIVITIES			
Net change in time deposits	(195,381	) (306,338	)
Net change in demand and other interest-bearing deposits	174,277	488,556	
Net change in short-term borrowings	4,597	62,771	
Repayment of long-term obligations	(669	) (37,781	)
Repurchase of common stock	(321	) (1,573	)
Cash dividends paid	(2,891	) (3,085	)
Net cash provided (used) by financing activities	(20,388	) 202,550	
Change in cash and due from banks	(179,513	) (38,588	)
Cash and due from banks at beginning of period	639,730	590,801	
Cash and due from banks at end of period	\$460,217	\$552,213	
CASH PAYMENTS FOR:			

Interest	\$18,422	\$28,033
Income taxes	3,364	84
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized securities gains (losses)	\$(1,476	) \$(2,898 )
Change in fair value of cash flow hedge	815	389
Change in pension obligation	4,304	2,790
Transfers of loans to other real estate	38,008	26,840

See accompanying Notes to Consolidated Financial Statements.

## Table of Contents

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

First Citizens BancShares, Inc. (BancShares) is a financial holding company organized under the laws of Delaware and conducts operations through its banking subsidiary, First-Citizens Bank & Trust Company (FCB), which is headquartered in Raleigh, North Carolina.

## General

These consolidated financial statements and notes are presented in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all normal recurring adjustments necessary for a fair statement of the consolidated financial position and consolidated results of operations have been made. The information contained in the financial statements and footnotes included in BancShares Annual Report on Form 10-K for the year ended December 31, 2012, should be referred to in connection with these unaudited interim consolidated financial statements.

BancShares evaluates all subsequent events prior to filing this Form 10-Q.

## Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to the current financial statement presentation. Such reclassifications had no effect on previously reported cash flows, shareholders' equity or net income.

## Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and different assumptions in the application of these policies could result in material changes in BancShares' consolidated financial position and/or consolidated results of operations and related disclosures. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan and lease losses, determination of fair value for financial instruments, other real estate owned (OREO), cash flow estimates on acquired loans receivable and payable from/to FDIC for loss share agreements, purchase accounting related adjustments, and income tax assets, liabilities, and expense.

## Goodwill Impairment

Annual impairment tests are conducted as of July 31 each year. Based on the third quarter 2012 impairment test, management concluded there was no impairment of goodwill. In addition to the annual testing requirement, impairment tests are performed for various other events including significant adverse changes in the business climate, considering various qualitative and quantitative factors to determine whether impairment exists.

Recent Accounting and Regulatory Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU ) 2013-01, “Balance Sheet”

This ASU's objective is to clarify that the scope of ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities, would apply to derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or are subject to a master netting arrangement or similar agreement.

Table of Contents

BancShares is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The effective date is the same as the effective date of Update 2011-11. BancShares has adopted the methodologies prescribed by this ASU by the date required, and the ASU did not have a material effect on its financial position or results of operations.

FASB ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income."

This ASU requires BancShares to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts, BancShares is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. BancShares has adopted the methodologies prescribed by this ASU by the date required, and the ASU did not have a material effect on its financial position or results of operations. BancShares has included the required disclosures in Note L.

FASB ASU 2013-04, "Liabilities"

This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this Update is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP.

The guidance requires BancShares to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations.

The amendments in this update are effective for fiscal years beginning after December 31, 2013. Early adoption is permitted. BancShares will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

Table of Contents

## Note B

## Investments

The aggregate values of investment securities at March 31, 2013, December 31, 2012, and March 31, 2012, 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, 2013				
U. S. Treasury	\$749,284	\$474	\$1	\$749,757
Government agency	3,147,363	2,952	274	3,150,041
Residential mortgage-backed securities	1,348,765	10,849	1,512	1,358,102
Equity securities	543	19,860	—	20,403
State, county and municipal	546	1	—	547
Other	844	1	17	828
Total investment securities available for sale	\$5,247,345	\$34,137	\$1,804	\$5,279,678
December 31, 2012				
U. S. Treasury	\$823,241	\$403	\$12	\$823,632
Government agency	3,052,040	3,501	337	3,055,204
Residential mortgage-backed securities	1,315,211	14,787	341	1,329,657
Equity securities	543	15,822	—	16,365
State, county and municipal	546	4	—	550
Other	838	—	18	820
Total investment securities available for sale	\$5,192,419	\$34,517	\$708	\$5,226,228
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
Investment securities held to maturity				
March 31, 2013				
Residential mortgage-backed securities	\$1,229	\$120	\$27	\$1,322
December 31, 2012				
Residential mortgage-backed securities	\$1,342	\$133	\$27	\$1,448
March 31, 2012				
Residential mortgage-backed securities	\$1,688	\$183	\$27	\$1,844

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 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 the expected maturity distribution for residential mortgage-backed securities and the contractual maturity distribution of other investment securities as of the dates indicated. Callable securities are assumed to mature on their earliest call date.

Table of Contents

	March 31, 2013		December 31, 2012		March 31, 2012	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Investment securities available for sale						
Maturing in:						
One year or less	\$2,350,896	\$2,352,328	\$2,288,556	\$2,289,859	\$2,750,247	\$2,748,710
One through five years	2,233,407	2,237,530	2,323,222	2,329,207	1,469,876	1,469,236
Five through 10 years	181,370	182,281	194,398	196,371	67,229	67,683
Over 10 years	481,129	487,136	385,700	394,426	145,826	153,167
Equity securities	543	20,403	543	16,365	894	18,943
Total investment securities available for sale	\$5,247,345	\$5,279,678	\$5,192,419	\$5,226,228	\$4,434,072	\$4,457,739
Investment securities held to maturity						
Maturing in:						
One through five years	\$1,132	\$1,188	\$1,242	\$1,309	\$379	\$393
Five through 10 years	18	10	18	11	1,201	1,306
Over 10 years	79	124	82	128	108	145
Total investment securities held to maturity	\$1,229	\$1,322	\$1,342	\$1,448	\$1,688	\$1,844

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

	Three months ended March 31	
	2013	2012
Gross gains on sales of investment securities available for sale	\$58	\$—
Gross losses on sales of investment securities available for sale	—	—
Other than temporary impairment loss on equity securities	—	(45 )
Total securities gains (losses)	\$58	\$(45 )

Table of Contents

The following table provides information regarding securities with unrealized losses as of March 31, 2013, December 31, 2012, and March 31, 2012:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013						
Investment securities available for sale:						
U. S. Treasury	\$25,060	\$1	\$—	\$—	\$25,060	\$1
Government agency	548,618	274	—	—	548,618	274
Residential mortgage-backed securities	349,746	1,379	10,089	133	359,835	1,512
Other	828	17	—	—	828	17
Total	\$924,252	\$1,671	\$10,089	\$133	\$934,341	\$1,804
Investment securities held to maturity:						
Residential mortgage-backed securities	\$—	\$—	\$16	\$27	\$16	\$27
December 31, 2012						
Investment securities available for sale:						
U. S. Treasury	\$120,045	\$12	\$—	\$—	\$120,045	\$12
Government agency	407,498	337	—	—	407,498	337
Residential mortgage-backed securities	135,880	214	9,433	127	145,313	341
Other	820	18	—	—	820	18
Total	\$664,243	\$581	\$9,433	\$127	\$673,676	\$708
Investment securities held to maturity:						
Residential mortgage-backed securities	\$—	\$—	\$17	\$27	\$17	\$27
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
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Investment securities with an aggregate fair value of \$10,105 have had continuous unrealized losses for more than 12 months as of March 31, 2013, with an aggregate unrealized loss of \$160. These 30 investments are residential mortgage-backed securities. None of the unrealized losses identified as of March 31, 2013, December 31, 2012, or March 31, 2012, 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.

Table of Contents

Investment securities having an aggregate carrying value of \$2,558,079 at March 31, 2013, \$2,351,072 at December 31, 2012, and \$2,540,463 at March 31, 2012, were pledged as collateral to secure public funds on deposit to secure certain short-term borrowings and for other purposes as required by law.

## Note C

## Loans and Leases

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

	March 31, 2013	December 31, 2012	March 31, 2012
Covered loans	\$1,621,327	\$1,809,235	\$2,183,869
Noncovered loans and leases:			
Commercial:			
Construction and land development	300,497	309,190	346,557
Commercial mortgage	5,352,594	5,341,839	5,127,948
Other commercial real estate	176,456	160,980	150,316
Commercial and industrial	1,662,124	1,726,126	1,739,724
Lease financing	336,329	330,679	315,704
Other	194,186	125,681	149,792
Total commercial loans	8,022,186	7,994,495	7,830,041
Noncommercial:			
Residential mortgage	834,879	822,889	793,612
Revolving mortgage	2,150,800	2,210,133	2,282,138
Construction and land development	115,628	131,992	132,677
Consumer	385,587	416,606	451,061
Total noncommercial loans	3,486,894	3,581,620	3,659,488
Total noncovered loans and leases	11,509,080	11,576,115	11,489,529
Total loans and leases	\$13,130,407	\$13,385,350	\$13,673,398

Table of Contents

	March 31, 2013			December 31, 2012			March 31, 2012		
	Impaired acquisition date	All other covered loans	Total	Impaired acquisition date	All other covered loans	Total	Impaired acquisition date	All other covered loans	Total
Covered loans:									
Commercial:									
Construction and land development	\$53,209	\$151,315	\$204,524	\$71,225	\$166,681	\$237,906	\$100,736	\$209,865	\$310,601
Commercial mortgage	101,397	847,055	948,452	107,281	947,192	1,054,473	122,876	1,072,665	1,195,541
Other commercial real estate	30,191	63,041	93,232	35,369	71,750	107,119	31,727	113,251	144,978
Commercial and industrial	6,149	39,544	45,693	3,932	45,531	49,463	17,397	75,864	93,261
Lease financing	—	—	—	—	—	—	—	45	45
Other	—	1,042	1,042	—	1,074	1,074	—	1,283	1,283
Total commercial loans	190,946	1,101,997	1,292,943	217,807	1,232,228	1,450,035	272,736	1,472,973	1,745,709
Noncommercial:									
Residential mortgage	43,924	235,073	278,997	48,077	249,849	297,926	46,905	251,633	298,538
Revolving mortgage	9,788	27,351	37,139	9,606	29,104	38,710	14,125	35,891	50,016
Construction and land development	10,609	415	11,024	15,136	5,657	20,793	56,722	28,833	85,555
Consumer	—	1,224	1,224	—	1,771	1,771	1,453	2,598	4,051
Total noncommercial loans	64,321	264,063	328,384	72,819	286,381	359,200	119,205	318,955	438,160
Total covered loans	\$255,267	\$1,366,060	\$1,621,327	\$290,626	\$1,518,609	\$1,809,235	\$391,941	\$1,791,928	\$2,183,869

At March 31, 2013, \$2,522,055 in noncovered loans were pledged to secure debt obligations, compared to \$2,570,773 at December 31, 2012, and \$2,398,476 at March 31, 2012.

## 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, noncommercial 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 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 borrower 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.

Table of Contents

**Doubtful** – An asset classified as 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 as loss are considered uncollectible and of such little value that it is inappropriate to be carried as an asset. 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, 2013, relate to business credit cards and tobacco buyout loans classified as commercial and industrial loans. Business credit card loans with an outstanding balance of \$78,041 at March 31, 2013, 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 \$21,304 at March 31, 2013, 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 made by the Commodity Credit Corporation, which is part of the United States Department of Agriculture.

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

The composition of the loans and leases outstanding at March 31, 2013, December 31, 2012, and March 31, 2012, by credit quality indicator is provided below:

Grade:	Commercial noncovered loans and leases						Total commercial noncovered loans and leases
	Construction and land development	Commercial mortgage	Other commercial estate	Commercial real estate industrial	Lease financing	Other	
March 31, 2013							
Pass	\$274,917	\$5,050,073	\$ 168,885	\$1,519,890	\$ 332,790	\$192,489	\$7,539,044
Special mention	13,878	149,904	1,771	15,121	1,084	1,391	183,149
Substandard	11,501	139,262	5,158	24,176	1,689	17	181,803
Doubtful	73	9,600	98	1,252	728	—	11,751
Ungraded	128	3,755	544	101,685	38	289	106,439
Total	\$300,497	\$5,352,594	\$ 176,456	\$1,662,124	\$ 336,329	\$194,186	\$8,022,186
December 31, 2012							
Pass	\$274,480	\$5,018,677	\$ 151,549	\$1,564,862	\$ 325,626	\$124,083	\$7,459,277
Special mention	14,666	161,789	2,812	18,368	1,601	837	200,073
Substandard	18,761	145,980	5,038	24,059	1,663	756	196,257
Doubtful	952	12,822	98	1,693	771	—	16,336
Ungraded	331	2,571	1,483	117,144	1,018	5	122,552
Total	\$309,190	\$5,341,839	\$ 160,980	\$1,726,126	\$ 330,679	\$125,681	\$7,994,495

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

15

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Table of Contents

		Noncommercial noncovered loans and leases								Total noncommercial noncovered loans
		Residential mortgage	Revolving mortgage	Construction and land development	Consumer					
March 31, 2013										
Current		\$802,439	\$2,130,189	\$114,077	\$381,769	\$ 3,428,474				
30-59 days past due		19,663	14,022	217	1,815	35,717				
60-89 days past due		789	2,998	63	968	4,818				
90 days or greater past due		11,988	3,591	1,271	1,035	17,885				
Total		\$834,879	\$2,150,800	\$115,628	\$385,587	\$ 3,486,894				
December 31, 2012										
Current		\$786,626	\$2,190,186	\$128,764	409,218	\$ 3,514,794				
30-59 days past due		15,711	12,868	1,941	4,405	34,925				
60-89 days past due		7,559	3,200	490	1,705	12,954				
90 days or greater past due		12,993	3,879	797	1,278	18,947				
Total		\$822,889	\$2,210,133	\$131,992	\$416,606	\$ 3,581,620				
March 31, 2012										
Current		\$763,411	\$2,274,091	\$130,561	\$446,421	\$ 3,614,484				
30-59 days past due		14,001	2,349	808	1,885	19,043				
60-89 days past due		2,812	1,212	446	1,028	5,498				
90 days or greater past due		13,388	4,486	862	1,727	20,463				
Total		\$793,612	\$2,282,138	\$132,677	\$451,061	\$ 3,659,488				
Grade:	Covered loans		Other commercial real estate	Commercial and industrial	Lease financing	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	Total covered loans
	Construction and land development commercial	Commercial mortgage								
March 31, 2013										
Pass	\$11,396	\$343,535	\$31,031	\$17,131	\$—	\$163,937	\$27,657	\$262	\$1,492	\$596,441
Special mention	25,886	233,026	12,832	10,822	—	14,687	1,926	—	30	299,209
Substandard	94,938	298,647	37,862	12,060	—	75,082	7,556	9,326	240	535,711
Doubtful	69,782	72,572	11,507	5,366	—	3,255	—	1,436	—	163,918
Ungraded	2,522	672	—	314	—	22,036	—	—	504	26,048
Total	\$204,524	\$948,452	\$93,232	\$45,693	\$—	\$278,997	\$37,139	\$11,024	\$2,266	\$1,621,327
December 31, 2012										
Pass	\$17,010	\$376,974	\$33,570	\$19,451	\$—	\$172,165	\$29,540	\$334	\$1,617	\$650,661
Special mention	25,734	259,264	17,518	12,465	—	14,863	1,736	—	34	331,614
Substandard	105,061	344,542	44,335	14,698	—	83,193	7,434	17,190	239	616,692
Doubtful	87,445	73,016	11,696	2,757	—	4,268	—	3,269	117	182,568
Ungraded	2,656	677	—	92	—	23,437	—	—	838	27,700
Total	\$237,906	\$1,054,473	\$107,119	\$49,463	\$—	\$297,926	\$38,710	\$20,793	\$2,845	\$1,809,235
March 31, 2012										

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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

Table of Contents

The aging of the outstanding loans and leases, by class, at March 31, 2013, December 31, 2012, and March 31, 2012, (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 has not been paid. Loans and leases 30 days or less past due are considered current due to various 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.

	30-59 days past due	60-89 days past due	90 days or greater	Total past due	Current	Total loans and leases
March 31, 2013						
Noncovered loans and leases:						
Construction and land development - commercial	\$782	\$7,943	\$1,082	\$9,807	\$290,690	\$300,497
Commercial mortgage	19,321	5,873	17,300	42,494	5,310,100	5,352,594
Other commercial real estate	346	503	1,282	2,131	174,325	176,456
Commercial and industrial	7,895	1,878	2,406	12,179	1,649,945	1,662,124
Lease financing	635	230	621	1,486	334,843	336,329
Other	42	—	—	42	194,144	194,186
Residential mortgage	19,663	789	11,988	32,440	802,439	834,879
Revolving mortgage	14,022	2,998	3,591	20,611	2,130,189	2,150,800
Construction and land development - noncommercial	217	63	1,271	1,551	114,077	115,628
Consumer	1,815	968	1,035	3,818	381,769	385,587
Total noncovered loans and leases	\$64,738	\$21,245	\$40,576	\$126,559	\$11,382,521	\$11,509,080
December 31, 2012						
Noncovered loans and leases:						
Construction and land development - commercial	\$927	\$—	\$7,878	\$8,805	\$300,385	\$309,190
Commercial mortgage	21,075	3,987	20,318	45,380	5,296,459	5,341,839
Other commercial real estate	387	1,240	1,034	2,661	158,319	160,980
Commercial and industrial	6,205	1,288	1,614	9,107	1,717,019	1,726,126
Lease financing	991	138	621	1,750	328,929	330,679
Other	18	13	—	31	125,650	125,681
Residential mortgage	15,711	7,559	12,993	36,263	786,626	822,889
Revolving mortgage	12,868	3,200	3,879	19,947	2,190,186	2,210,133
Construction and land development - noncommercial	1,941	490	797	3,228	128,764	131,992
Consumer	4,405	1,705	1,278	7,388	409,218	416,606
Total noncovered loans and leases	\$64,528	\$19,620	\$50,412	\$134,560	\$11,441,555	\$11,576,115
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

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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 - noncommercial	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

Table of Contents

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, 2013, December 31, 2012, and March 31, 2012, (excluding loans and leases acquired with deteriorated credit quality) are as follows:

	March 31, 2013		December 31, 2012		March 31, 2012	
	Loans and	Nonaccrual leases >	Loans and	Nonaccrual leases >	Loans and	Nonaccrual leases >
	loans and	90	loans and	90	loans and	90
	leases	days and	leases	days and	leases	days and
		accruing		accruing		accruing
Noncovered loans and leases:						
Construction and land development - commercial	\$8,506	\$158	\$14,930	\$541	\$11,995	\$182
Commercial mortgage	46,722	3,565	48,869	1,671	31,222	1,180
Commercial and industrial	10,419	1,154	8,635	466	8,148	599
Lease financing	1,182	3	1,075	—	146	1,268
Other commercial real estate	2,361	—	2,319	—	783	—
Construction and land development - noncommercial	848	423	668	111	—	862
Residential mortgage	12,509	2,380	12,603	3,337	14,069	3,542
Revolving mortgage	—	3,589	—	3,877	—	4,467
Consumer	36	1,029	746	1,269	—	1,728
Total noncovered loans and leases	\$82,583	\$12,301	\$89,845	\$11,272	\$66,363	\$13,828

## Acquired Loans

The following table provides changes in the carrying value of acquired loans impaired at acquisition date and all other acquired loans during the three months ended March 31, 2013, and 2012:

	2013		2012	
	Impaired at acquisition date	All other acquired loans	Impaired as acquisition date	All other acquired loans
Balance, January 1	\$290,626	\$1,518,609	\$458,305	\$1,903,847
Reductions for repayments, foreclosures and changes in carrying value, net of accretion	(35,359)	(152,549)	(66,364)	(111,919)
Balance, March 31	\$255,267	\$1,366,060	\$391,941	\$1,791,928
Outstanding principal balance at March 31	\$858,645	\$1,838,709	\$1,222,862	\$2,395,860

The carrying value of loans on the cost recovery method was \$43,882 at March 31, 2013, \$74,479 at December 31, 2012, and \$171,951 at March 31, 2012. Prior to the third quarter of 2012, the cost recovery method was being applied to nonperforming loans acquired from four of the six FDIC-assisted transactions. During the third and fourth quarters of 2012, those loans were installed on an automated acquired loan accounting system that estimated cash flows for all loans. Based on these improved cash flow estimates, loans that were previously accounted for under the cost recovery method began to accrete yield. The cost recovery method continues to be applied to loans when 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.

For acquired loans, improved cash flow estimates and receipt of unscheduled loan payments result in the reclassification of nonaccretable difference to accretable yield. During the third and fourth quarters of 2012, the improved ability to estimate cash flows due to expanded use of an acquired loan accounting system also contributed to

significant increases in accretable yield. Accretable yield resulting from the improved ability to estimate future cash flows generally does not represent amounts previously identified as nonaccretable difference.

The following table documents changes to the amount of accretable yield for the first three months of 2013 and 2012. Other, net includes reclassifications from nonaccretable difference to accretable yield and changes to accretable yield attributable to revised cash flow estimates.

18

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Table of Contents

	2013	2012
Balance, January 1	\$539,564	\$276,690
Accretion	(79,886	) (64,896
Disposals	(485	) —
Other, net	26,742	73,150
Balance, March 31	\$485,935	\$284,944

## 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, 2013												
Balance at January 1	\$6,031	\$70,927	\$2,059	\$23,352	\$3,521	\$1,175	\$3,836	\$25,185	\$1,721	\$25,389	\$15,850	\$179,046
Charge-offs	(254	) (654	) (54	) (1,258	) —	—	(818	) (2,188	) (245	) (2,596	) —	(8,067
Recoveries	368	8	10	369	—	—	39	71	56	630	—	1,551
Provision	(1,834	) 2,536										