FIRST CITIZENS BANCSHARES INC /DE/
Form 10-Q
August 09, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended June 30, 2011**

**or**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**Commission File Number: 001-16715**

# First Citizens BancShares, Inc.

**(Exact name of Registrant as specified in its charter)**

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

**(919) 716-7000**

**(Registrant s telephone number, including area code)**

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 8,756,778 shares

Class B Common Stock $1 Par Value 1,639,987 shares

(Number of shares outstanding, by class, as of August 8, 2011)

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**Part 1**

**Item 1. Financial Statements (Unaudited)**

**First Citizens BancShares, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

| | **June 30* 2011** | December 31# 2010 | June 30* 2010 |
|---|---|---|---|
| | (thousands, except share data) | | |
| **Assets** | | | |
| Cash and due from banks | **$ 537,717** | $ 460,178 | $ 625,857 |
| Overnight investments | **741,654** | 398,390 | 736,896 |
| Investment securities available for sale | **4,014,241** | 4,510,076 | 3,768,777 |
| Investment securities held to maturity | **2,098** | 2,532 | 3,084 |
| Loans held for sale | **56,004** | 88,933 | 91,076 |
| Loans and leases: | | | |
| Covered under loss share agreements | **2,399,738** | 2,007,452 | 2,367,090 |
| Not covered under loss share agreements | **11,528,854** | 11,480,577 | 11,622,494 |
| Less allowance for loan and lease losses | **250,050** | 227,765 | 188,169 |
| Net loans and leases | **13,678,542** | 13,260,264 | 13,801,415 |
| Premises and equipment | **842,911** | 842,745 | 846,702 |
| Other real estate owned: | | | |
| Covered under loss share agreements | **150,636** | 112,748 | 98,416 |
| Not covered under loss share agreements | **49,028** | 52,842 | 46,763 |
| Income earned not collected | **50,876** | 83,644 | 77,186 |
| Receivable from FDIC for loss share agreements | **522,507** | 623,261 | 692,242 |
| Goodwill | **102,625** | 102,625 | 102,625 |
| Other intangible assets | **8,234** | 9,897 | 12,936 |
| Other assets | **264,577** | 258,524 | 201,794 |
| **Total assets** | **$ 21,021,650** | $ 20,806,659 | $ 21,105,769 |
| **Liabilities** | | | |
| Deposits: | | | |
| Noninterest-bearing | **$ 4,166,886** | $ 3,976,366 | $ 3,730,321 |
| Interest-bearing | **13,496,080** | 13,658,900 | 14,056,920 |
| Total deposits | **17,662,966** | 17,635,266 | 17,787,241 |
| Short-term borrowings | **655,808** | 546,597 | 541,709 |
| Long-term obligations | **792,661** | 809,949 | 918,930 |
| Other liabilities | **100,026** | 81,885 | 162,525 |
| Total liabilities | **19,211,461** | 19,073,697 | 19,410,405 |
| **Shareholders Equity** | | | |
| Common stock: | | | |
| Class A - $1 par value (8,756,778 shares issued and outstanding for all periods) | **8,757** | 8,757 | 8,757 |
| Class B - $1 par value (1,639,987 issued and outstanding at June 30, 2011, 1,677,675 shares issued and outstanding at December 31, 2010 and June 30, 2010) | **1,640** | 1,678 | 1,678 |
| Surplus | **143,766** | 143,766 | 143,766 |

| | | | |
|---|---|---|---|
| Retained earnings | **1,685,477** | 1,615,290 | 1,563,720 |
| Accumulated other comprehensive loss | **(29,451)** | (36,529) | (22,557) |
| **Total shareholders equity** | **1,810,189** | 1,732,962 | 1,695,364 |
| **Total liabilities and shareholders equity** | **$ 21,021,650** | $ 20,806,659 | $ 21,105,769 |

* Unaudited

\# Derived from the 2010 Annual Report on Form 10-K.

See accompanying Notes to Consolidated Financial Statements.

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**First Citizens BancShares, Inc. and Subsidiaries**

**Consolidated Statements of Income**

| | Three Months Ended June 30 2011 | Three Months Ended June 30 2010 | Six Months Ended June 30 2011 | Six Months Ended June 30 2010 |
|---|---|---|---|---|
| | (thousands, except share and per share data, unaudited) | | | |
| **Interest income** | | | | |
| Loans and leases | $ 233,731 | $ 202,541 | $ 465,184 | $ 389,615 |
| Investment securities: | | | | |
| U. S. Treasury | 2,259 | 6,927 | 5,469 | 14,346 |
| Government agency | 4,863 | 3,323 | 9,910 | 5,255 |
| Residential mortgage backed securities | 2,104 | 1,873 | 4,757 | 3,437 |
| Corporate bonds | 2,119 | 2,198 | 4,295 | 4,333 |
| State, county and municipal | 12 | 15 | 25 | 48 |
| Other | 200 | 12 | 459 | 82 |
| Total investment securities interest and dividend income | 11,557 | 14,348 | 24,915 | 27,501 |
| Overnight investments | 316 | 546 | 705 | 1,019 |
| Total interest income | 245,604 | 217,435 | 490,804 | 418,135 |
| **Interest expense** | | | | |
| Deposits | 27,081 | 41,091 | 56,901 | 79,207 |
| Short-term borrowings | 1,482 | 640 | 3,179 | 1,396 |
| Long-term obligations | 9,666 | 10,842 | 19,362 | 21,634 |
| Total interest expense | 38,229 | 52,573 | 79,442 | 102,237 |
| Net interest income | 207,375 | 164,862 | 411,362 | 315,898 |
| Provision for loan and lease losses | 53,977 | 31,826 | 98,396 | 48,756 |
| Net interest income after provision for loan and lease losses | 153,398 | 133,036 | 312,966 | 267,142 |
| **Noninterest income** | | | | |
| Gain on acquisitions | 0 | 0 | 64,984 | 136,000 |
| Cardholder and merchant services | 30,543 | 28,505 | 57,323 | 52,294 |
| Service charges on deposit accounts | 15,778 | 19,513 | 31,568 | 38,340 |
| Wealth management services | 14,119 | 14,222 | 27,407 | 25,956 |
| Fees from processing services | 7,595 | 7,226 | 14,841 | 14,449 |
| Securities gains (losses) | (96) | (186) | (545) | 945 |
| Other service charges and fees | 5,960 | 5,110 | 11,917 | 9,758 |
| Mortgage income | 2,530 | 1,924 | 4,845 | 3,334 |
| Insurance commissions | 2,280 | 1,794 | 4,814 | 4,600 |
| ATM income | 1,370 | 1,699 | 2,960 | 3,354 |
| Adjustments for FDIC receivable for loss share agreements | (13,747) | 12,940 | (24,126) | 15,527 |
| Other | 317 | (125) | 1,751 | 14 |
| Total noninterest income | 66,649 | 92,622 | 197,739 | 304,571 |
| **Noninterest expense** | | | | |
| Salaries and wages | 76,124 | 74,475 | 151,928 | 146,635 |
| Employee benefits | 18,708 | 15,839 | 38,357 | 34,150 |
| Occupancy expense | 18,487 | 18,517 | 36,800 | 36,353 |
| Equipment expense | 17,515 | 16,604 | 34,906 | 32,419 |
| FDIC insurance expense | 2,501 | 6,609 | 10,726 | 11,496 |
| Foreclosure-related expenses | 3,747 | 4,014 | 9,235 | 8,075 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other | | 50,400 | | 45,718 | | 95,558 | | 85,598 |
| Total noninterest expense | | 187,482 | | 181,776 | | 377,510 | | 354,726 |
| Income before income taxes | | 32,565 | | 43,882 | | 133,195 | | 216,987 |
| Income taxes | | 11,265 | | 15,280 | | 49,216 | | 81,774 |
| **Net income** | $ | 21,300 | $ | 28,602 | $ | 83,979 | $ | 135,213 |
| Average shares outstanding | | 10,422,857 | | 10,434,453 | | 10,428,623 | | 10,434,453 |
| Net income per share | $ | 2.04 | $ | 2.74 | $ | 8.05 | $ | 12.96 |

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, 2009 | $ 8,757 | $ 1,678 | $ 143,766 | $ 1,429,863 | $ (24,949) | $ 1,559,115 |
| Adjustment resulting from adoption of a change in accounting for QSPEs and controlling financial interests effective January 1, 2010 | 0 | 0 | 0 | 4,904 | 0 | 4,904 |
| Comprehensive income: | | | | | | |
| Net income | 0 | 0 | 0 | 135,213 | 0 | 135,213 |
| Change in unrealized securities gains arising during period, net of $2,608 deferred tax | 0 | 0 | 0 | 0 | 6,563 | 6,563 |
| Less reclassification adjustment for gains included in net income, net of $370 deferred tax benefit | 0 | 0 | 0 | 0 | (575) | (575) |
| Change in unrecognized loss on cash flow hedges, net of $2,346 deferred tax benefit | 0 | 0 | 0 | 0 | (3,596) | (3,596) |
| Total comprehensive income | | | | | | 137,605 |
| Cash dividends | 0 | 0 | 0 | (6,260) | 0 | (6,260) |
| Balance at June 30, 2010 | $ 8,757 | $ 1,678 | $ 143,766 | $ 1,563,720 | $ (22,557) | $ 1,695,364 |
| Balance at December 31, 2010 | $ 8,757 | $ 1,678 | $ 143,766 | $ 1,615,290 | $ (36,529) | $ 1,732,962 |
| Comprehensive income: | | | | | | |
| Net income | 0 | 0 | 0 | 83,979 | 0 | 83,979 |
| Change in unrealized securities gains arising during period, net of $3,168 deferred tax | 0 | 0 | 0 | 0 | 4,929 | 4,929 |
| Reclassification adjustment for losses included in net income, net of $215 deferred tax | 0 | 0 | 0 | 0 | 330 | 330 |
| Change in unrecognized loss on cash flow hedges, net of $122 deferred tax benefit | 0 | 0 | 0 | 0 | (186) | (186) |
| Change in pension obligation, net of $1,291 deferred tax | 0 | 0 | 0 | 0 | 2,005 | 2,005 |
| Total comprehensive income | | | | | | 91,057 |
| Repurchase of 37,688 shares of Class B common stock | | (38) | | (7,537) | | (7,575) |
| Cash dividends | | | | (6,255) | | (6,255) |
| Balance at June 30, 2011 | $ 8,757 | $ 1,640 | $ 143,766 | $ 1,685,477 | $ (29,451) | $ 1,810,189 |

See accompanying Notes to Consolidated Financial Statements.

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**First Citizens BancShares, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

| | For the six months ended June 30, 2011 | 2010 |
|---|---|---|
| | (thousands, unaudited) | |
| OPERATING ACTIVITIES | | |
| Net income | $ 83,979 | $ 135,213 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Amortization of intangibles | 2,200 | 3,164 |
| Provision for loan and lease losses | 98,396 | 48,756 |
| Deferred tax (benefit) expense | (17,133) | (34,105) |
| Change in current taxes payable | 19,774 | 13,899 |
| Depreciation | 32,408 | 30,296 |
| Change in accrued interest payable | (5,755) | 2,771 |
| Change in income earned not collected | 38,043 | (8,842) |
| Gain on acquisitions | (64,984) | (136,000) |
| Securities losses (gains) | 545 | (945) |
| Origination of loans held for sale | (182,184) | (255,495) |
| Proceeds from sale of loans | 218,533 | 235,171 |
| Gain on sale of loans | (3,420) | (3,371) |
| Loss on sale of other real estate | 1,349 | 720 |
| Net amortization of premiums and discounts | (85,752) | 21,550 |
| FDIC receivable for loss share agreements | 237,468 | 78,451 |
| Net change in other assets | 96,562 | 35,462 |
| Net change in other liabilities | (7,836) | 43,115 |
| Net cash provided by operating activities | 462,193 | 209,810 |
| INVESTING ACTIVITIES | | |
| Net change in loans outstanding | 260,861 | 311,122 |
| Purchases of investment securities available for sale | (632,041) | (1,603,861) |
| Proceeds from maturities of investment securities held to maturity | 433 | 518 |
| Proceeds from maturities of investment securities available for sale | 1,214,988 | 797,949 |
| Proceeds from sales of investment securities available for sale | 191,697 | 24,137 |
| Net change in overnight investments | (343,264) | (13,636) |
| Proceeds from sale of other real estate | 24,748 | 40,943 |
| Additions to premises and equipment | (32,574) | (39,916) |
| Net cash received from acquisitions | 974,043 | 106,489 |
| Net cash provided (used) by investing activities | 1,658,891 | (376,255) |
| FINANCING ACTIVITIES | | |
| Net change in time deposits | (617,419) | 86,680 |
| Net change in demand and other interest-bearing deposits | (959,739) | 655,263 |
| Net change in short-term borrowings | (227,642) | (505,105) |
| Net change in long-term obligations | (224,915) | 81,482 |
| Repurchase of common stock | (7,575) | 0 |
| Cash dividends paid | (6,255) | (6,260) |
| Net cash provided (used) by financing activities | (2,043,545) | 312,060 |

| | | |
|---|---|---|
| Change in cash and due from banks | 77,539 | 145,615 |
| Cash and due from banks at beginning of period | 460,178 | 480,242 |
| Cash and due from banks at end of period | $ 537,717 | $ 625,857 |
| **CASH PAYMENTS FOR:** | | |
| Interest | $ 85,197 | $ 99,466 |
| Income taxes | 17,349 | 46,041 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:** | | |
| Unrealized securities gains | $ 8,642 | $ 8,226 |
| Unrealized (loss) on cash flow hedge | (308) | (5,942) |
| Prepaid pension benefit | 3,296 | 0 |
| Transfers of loans to other real estate | 77,780 | 55,559 |
| Acquisitions: | | |
| Assets acquired | 2,226,880 | 2,291,659 |
| Liabilities assumed | 2,161,896 | 2,155,861 |
| Net assets acquired | 64,984 | 135,798 |

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 Other Matters**

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

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

Management has evaluated subsequent events through the filing date of the Quarterly Report on Form 10-Q.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in BancShares 2010 Form 10-K. Certain amounts for prior periods have been reclassified to conform with statement presentations for 2011. The reclassifications have no effect on shareholders equity or net income as previously reported. Fair values are subject to refinement for up to one year after the closing date of the transaction as additional information regarding closing date fair values becomes available. We have increased previously reported amounts of net income and retained earnings for the six months ended June 30, 2010 by $2,005 as a result of adjustments made to the fair value of assets acquired in the first quarter of 2010.

**FDIC-Assisted Transactions**

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

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

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

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

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**Loans and Leases**

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

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

Acquired loans are recorded at fair value at the date of acquisition. The fair values are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included as a reduction to the carrying amount of acquired loans. Subsequent decreases to expected cash flows will generally result in recognition of an allowance by a charge to provision for loan and lease losses. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation regarding the amount and timing of such cash flows. Subsequent increases in expected cash flows result in either a reversal of the provision for loan and lease losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on the accretable yield.

BancShares did not initially estimate the amount and timing of cash flows for loans acquired from TVB and VB at the dates of the acquisitions and, therefore, the cost recovery method is being applied to these loans. Cash flow analyses were performed on loans acquired from First Regional, SAB, and United Western in order to determine the cash flows expected to be collected. Loans from these transactions that were determined to be impaired at acquisition date are accruing interest under the accretion method and are, thus not reported as nonaccrual. BancShares is accounting for substantially all acquired loans on a loan level basis since the majority of the portfolios acquired consist of large non-homogeneous commercial loans.

**Receivable from FDIC for Loss Share Agreements**

The receivable from the FDIC for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable should the assets be sold. Fair value at acquisition was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment at the expiration of the loss share agreements, if applicable. These cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursements from the FDIC and any applicable true-up payment owed to the FDIC for transactions that include claw-back provisions. The FDIC receivable has been reviewed and updated prospectively as loss estimates related to covered loans and other real estate owned change, and as reimbursements are received or expected to be received from the FDIC. Post-acquisition adjustments to the FDIC receivable are charged or credited to noninterest income.

**Other Real Estate Owned Covered by Loss Share Agreements**

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

**Recently Adopted Accounting Policies and Other Regulatory Issues**

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

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**Note B**

**Federally Assisted Transactions**

On January 21, 2011, FCB entered into an agreement with the FDIC, as Receiver, to purchase substantially all the assets and assume the majority of the liabilities of United Western Bank (United Western) of Denver, Colorado at a discount of $213,000 with no deposit premium. United Western operated in Denver, Colorado, with eight branch locations in Boulder, Centennial, Cherry Creek, downtown Denver, Hampden at Interstate 25, Fort Collins, Longmont and Loveland. The Purchase and Assumption Agreement with the FDIC includes loss share agreements on the covered loans and other real estate purchased by FCB which provides protection against losses to FCB.

Loss share agreements between the FDIC and FCB (one for single family residential mortgage loans and the other for all other loans and OREO excluding Consumer loans) provide significant loss protection to FCB for all non-consumer loans and OREO. Under the loss share agreement for single family residential mortgage loans (SFRs), the FDIC will cover 80 percent of covered loan losses up to $32,489; 0 percent from $32,489 up to $57,653 and 80 percent of losses in excess of $57,653. The loss share agreement for all other non-consumer loans and OREO will cover 80 percent of covered loan and OREO losses up to $111,517; 30 percent of losses from $111,517 to $227,032; and 80 percent of losses in excess of $227,032. Consumer loans are not covered under the FDIC loss share agreements.

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

The loss share agreements include a true-up payment in the event FCB s losses do not reach the Total Intrinsic Loss Estimate of $294,000. On March 17, 2021, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of the following calculation: A-(B+C+D), where (A) equals 20 percent of the Total Intrinsic Loss Estimate, or $58,800; (B) equals 20 percent of the Net Loss Amount; (C) equals 25 percent of the asset (discount) bid, or ($52,898); and (D) equals 3.5 percent of total Shared Loss Assets at Bank Closing, or $37,936. Current loss estimates suggest that a true-up payment of $11,423 will be paid to the FDIC during 2021.

The FDIC-assisted acquisition of United Western was accounted for under the acquisition method of accounting. The statement of net assets acquired, adjustments to the acquisition date fair values made in the second quarter and the resulting acquisition gain is presented in the following table. As indicated in the explanatory notes that accompany the following table, the purchased assets, assumed liabilities and identifiable intangible assets were recorded at their respective acquisition date estimated fair values. Fair values are subject to refinement for up to one year after the closing date of the transaction as additional information regarding closing date fair values becomes available. During this one year period, the cause of any change in cash flow estimates is considered to determine whether the change results from circumstances that existed as of the acquisition date or if the change results from an event that occurred after the acquisition. Adjustments to the estimated fair values made in the second quarter were based on additional information regarding the acquisition date fair values, which included updated appraisals on properties that either secure an acquired loan or are in OREO. The FDIC also repurchased 18 loans that were included in the original acquisition but which FCB had requested be excluded from the portfolio of acquired loans due to cross collateralization with other loans retained by the FDIC.

First quarter 2011 noninterest income includes a bargain purchase gain of $64,984 that resulted from the United Western FDIC-assisted acquisition. The gain resulted from the difference between the estimated fair value of acquired assets and assumed liabilities. During the second quarter of 2011, adjustments were made to the gain based on additional information regarding the acquisition date fair values. These second quarter adjustments were made retroactive to the first quarter of 2011, resulting in an adjusted gain of $64,984. FCB recorded a deferred tax liability for the gain of $25,448 resulting from differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. To the extent there are additional adjustments to the acquisition date fair values for up to one year following the acquisition; there will be additional adjustments to the gain.

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| | January 21, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | As recorded by United Western | Fair value adjustments at date of acquisition | | Subsequent acquisition-date adjustments | | As recorded by FCB |
| **Assets** | | | | | | |
| Cash and due from banks | $ 420,902 | $ | | $ | | $ 420,902 |
| Investment securities available for sale | 281,862 | | | | | 281,862 |
| Loans covered by loss share agreements (1) | 1,034,074 | (278,913) | a | 4,190 | i | 759,351 |
| Other real estate owned covered by loss share agreements | 37,812 | (10,252) | b | 1,203 | i | 28,763 |
| Income earned not collected | 5,275 | | | | | 5,275 |
| Receivable from FDIC for loss share agreements | | 140,285 | c | (4,985) | i | 135,300 |
| FHLB stock | 22,783 | | | | | 22,783 |
| Mortgage servicing rights | 4,925 | (1,489) | d | | | 3,436 |
| Core deposit intangible | | 537 | e | | | 537 |
| Other assets | 15,421 | 109 | f | | | 15,530 |
| **Total assets acquired** | $ 1,823,054 | $ (149,723) | | $ 408 | | $ 1,673,739 |
| **Liabilities** | | | | | | |
| Deposits: | | | | | | |
| Noninterest-bearing | $ 101,875 | $ | | $ | | $ 101,875 |
| Interest-bearing | 1,502,983 | | | | | 1,502,983 |
| Total deposits | 1,604,858 | | | | | 1,604,858 |
| Short-term borrowings | 336,853 | | | | | 336,853 |
| Long-term obligations | 206,838 | 789 | g | | | 207,627 |
| Deferred tax liability | 1,351 | (565) | h | | | 786 |
| Other liabilities | 11,772 | | | | | 11,772 |
| **Total liabilities assumed** | 2,161,672 | 224 | | | | 2,161,896 |
| Excess (shortfall) of assets acquired over liabilities assumed | $ (338,618) | | | | | |
| Aggregate fair value adjustments | | $ (149,947) | | $ 408 | | |
| Cash received from the FDIC (2) | | | | | | $ 553,141 |
| Gain on acquisition of United Western | | | | | | $ 64,984 |

(1) Excludes $11,998 in loans repurchased by FDIC during the second quarter of 2011
(2) Cash received includes cash received from loans repurchased by the FDIC during the second quarter of 2011

Explanation of fair value adjustments

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

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

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

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

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

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

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

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

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

Results of operations for United Western prior to its acquisition date are not included in the income statement.

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

On July 8, 2011, FCB entered into an agreement with the FDIC to purchase substantially all the assets and assume the majority of the liabilities of Colorado Capital Bank (CCB) of Castle Rock, Colorado at a discount of $154,900, with no deposit premium. The FDIC serves as Receiver of CCB. The Purchase and Assumption Agreement with the FDIC includes loss share agreements on the loans and OREO purchased by FCB which provides protection against losses to FCB.

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

CCB operated in Castle Rock, Colorado, and in six branch locations in Boulder, Castle Pines, Cherry Creek, Colorado Springs, Edwards, and Parker.

The acquisition of CCB is being accounted for under the acquisition method of accounting. The reported balances of significant assets acquired and liabilities assumed as of the acquisition date are presented in the following table. These amounts are based on the FDIC settlement and do not include adjustments to reflect the assets and liabilities at their fair value at the date of acquisition. The calculations to determine fair values were incomplete at the time of filing of this Form 10-Q. In addition to the assets and liabilities listed below BancShares received $103,478 in cash from the FDIC at settlement.

**Colorado Capital Bank**

Schedule of Significant Assets Acquired and Liabilities Assumed (Unaudited)

| | July 8,2011 |
|---|---|
| Cash and due from banks | $ 74,736 |
| Investment securities | 40,187 |
| Loans and leases | 540,342 |
| Deposits | 607,111 |
| Long-term obligations | 15,008 |

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**Note C**

**Investments**

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

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Investment securities available for sale** | | | | |
| June 30, 2011 | | | | |
| U. S. Treasury | $ 1,286,978 | $ 2,309 | $ 5 | $ 1,289,282 |
| Government agency | 1,904,135 | 1,846 | 1,140 | 1,904,843 |
| Corporate bonds | 461,756 | 5,258 | 43 | 466,971 |
| Residential mortgage-backed securities | 327,531 | 6,403 | 451 | 333,483 |
| Equity securities | 965 | 17,644 | | 18,609 |
| State, county and municipal | 1,037 | 19 | 3 | 1,053 |
| Total investment securities available for sale | $ 3,982,402 | $ 33,481 | $ 1,642 | $ 4,014,241 |
| December 31, 2010 | | | | |
| U. S. Treasury | $ 1,935,666 | $ 4,041 | $ 307 | $ 1,939,400 |
| Government agency | 1,930,469 | 361 | 10,844 | 1,919,986 |
| Corporate bonds | 479,160 | 7,498 | | 486,658 |
| Residential mortgage-backed securities | 139,291 | 4,522 | 268 | 143,545 |
| Equity securities | 1,055 | 18,176 | | 19,231 |
| State, county and municipal | 1,240 | 20 | 4 | 1,256 |
| Total investment securities available for sale | $ 4,486,881 | $ 34,618 | $ 11,423 | $ 4,510,076 |
| June 30, 2010 | | | | |
| U. S. Treasury | $ 2,173,759 | $ 9,219 | $ | $ 2,182,978 |
| Government agency | 899,375 | 2,387 | 23 | 901,739 |
| Corporate bonds | 480,738 | 8,845 | | 489,583 |
| Residential mortgage-backed securities | 168,307 | 6,313 | 104 | 174,516 |
| Equity securities | 1,358 | 17,333 | | 18,691 |
| State, county and municipal | 1,242 | 30 | 2 | 1,270 |
| Total investment securities available for sale | $ 3,724,779 | $ 44,127 | $ 129 | $ 3,768,777 |
| **Investment securities held to maturity** | | | | |
| June 30, 2011 | | | | |
| Residential mortgage-backed securities | $ 2,098 | $ 206 | $ 26 | $ 2,278 |
| December 31, 2010 | | | | |
| Residential mortgage-backed securities | $ 2,532 | $ 235 | $ 26 | $ 2,741 |
| June 30, 2010 | | | | |
| Residential mortgage-backed securities | $ 2,933 | $ 276 | $ 26 | $ 3,183 |
| State, county and municipal | 151 | | | 151 |
| Total investment securities held to maturity | $ 3,084 | $ 276 | $ 26 | $ 3,334 |

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

Investments in corporate bonds represent debt securities that were issued by various financial institutions under the Temporary Liquidity Guarantee Program. These debt obligations were issued with the full faith and credit of the 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.

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| | June 30, 2011 | | December 31, 2010 | | June 30, 2010 | |
|---|---|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| **Investment securities available for sale** | | | | | | |
| Maturing in: | | | | | | |
| One year or less | $ 3,133,236 | $ 3,140,002 | $ 3,441,185 | $ 3,436,818 | $ 2,342,011 | $ 2,351,171 |
| One through five years | 549,912 | 551,647 | 916,101 | 921,536 | 1,220,914 | 1,232,535 |
| Five through 10 years | 99,834 | 100,387 | 1,683 | 1,710 | 1,912 | 1,946 |
| Over 10 years | 198,456 | 203,596 | 126,857 | 130,781 | 158,584 | 164,434 |
| Equity securities | 965 | 18,609 | 1,055 | 19,231 | 1,358 | 18,691 |
| Total investment securities available for sale | $ 3,982,402 | $ 4,014,241 | $ 4,486,881 | $ 4,510,076 | $ 3,724,779 | $ 3,768,777 |
| **Investment securities held to maturity** | | | | | | |
| Maturing in: | | | | | | |
| One through five years | $ 8 | $ 6 | $ | $ | $ 151 | $ 151 |
| Five through 10 years | 1,973 | 2,110 | 2,404 | 2,570 | 2,797 | 3,005 |
| Over 10 years | 117 | 162 | 128 | 171 | 136 | 178 |
| Total investment securities held to maturity | $ 2,098 | $ 2,278 | $ 2,532 | $ 2,741 | $ 3,084 | $ 3,334 |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Gross gains on sales of investment securities available for sale | $ | $ | $ 156 | $ 2,860 |
| Gross losses on sales of investment securities available for sale | (96) | | (701) | (1,729) |
| Other that temporary impairment loss on equity securities | | (186) | | (186) |
| Total securities gains (losses) | $ (96) | $ (186) | $ (545) | $ 945 |

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

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| June 30, 2011 | | | | | | |
| Investment securities available for sale: | | | | | | |
| U. S. Treasury | $ 50,307 | $ 5 | $ | $ | $ 50,307 | $ 5 |
| Government agency | 507,210 | 1,140 | | | 507,210 | 1,140 |
| Corporate bonds | 9,957 | 43 | | | 9,957 | 43 |
| Residential mortgage-backed securities | 80,866 | 401 | 2,016 | 50 | 82,882 | 451 |
| State, county and municipal | 529 | 3 | 10 | | 539 | 3 |
| Total | $ 648,869 | $ 1,592 | $ 2,026 | $ 50 | $ 650,895 | $ 1,642 |
| Investment securities held to maturity: | | | | | | |
| Residential mortgage-backed securities | $ | $ | $ 24 | $ 26 | $ 24 | $ 26 |
| June 30, 2010 | | | | | | |
| Investment securities available for sale: | | | | | | |
| Government agency | $ 4,005 | $ 23 | $ | $ | $ 4,005 | $ 23 |
| Residential mortgage-backed securities | 5,151 | 81 | 1,152 | 23 | 6,303 | 104 |
| State, county and municipal | | | 439 | 2 | 439 | 2 |
| Total | $ 9,156 | $ 104 | $ 1,591 | $ 25 | $ 10,747 | $ 129 |
| Investment securities held to maturity: | | | | | | |
| Residential mortgage-backed securities | $ | $ | $ 29 | $ 26 | $ 29 | $ 26 |

Investment securities with an aggregate fair value of $2,050 have had continuous unrealized losses for more than twelve months as of June 30, 2011 with an aggregate unrealized loss of $76. These 18 investments include residential mortgage-backed and state, county and municipal securities. None of the unrealized losses identified as of June 30, 2011 relate to the marketability of the securities or the issuer s ability to honor redemption obligations. For all periods presented, BancShares had the ability and intent to retain these securities for a period of time sufficient to recover all unrealized losses. Therefore, none of the securities were deemed to be other than temporarily impaired.

Investment securities having an aggregate carrying value of $2,684,107 at June 30, 2011, $2,096,850 at December 31, 2010 and $1,694,084 at June 30, 2010 were pledged as collateral to secure public funds on deposit, to secure certain short-term borrowings and for other purposes as required by law.

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**Note D**

**Loans and Leases**

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

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|---|---|---|---|
| Covered loans | $ 2,399,738 | $ 2,007,452 | $ 2,367,090 |
| Noncovered loans and leases: | | | |
| Commercial: | | | |
| Construction and land development | 407,134 | 338,929 | 492,805 |
| Commercial mortgage | 4,861,457 | 4,737,862 | 4,625,351 |
| Other commercial real estate | 148,977 | 149,710 | 157,333 |
| Commercial and industrial | 1,805,812 | 1,869,490 | 1,801,465 |
| Lease financing | 303,104 | 301,289 | 300,047 |
| Other | 170,758 | 182,015 | 186,067 |
| Total commercial loans | 7,697,242 | 7,579,295 | 7,563,068 |
| Non-commercial: | | | |
| Residential mortgage | 825,610 | 878,792 | 921,346 |
| Revolving mortgage | 2,303,687 | 2,233,853 | 2,187,978 |
| Construction and land development | 145,445 | 192,954 | 135,094 |