

FIRST CITIZENS BANCSHARES INC /DE/

Form 10-Q

November 04, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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 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)	

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—11,005,220 shares

Class B Common Stock—\$1 Par Value—1,005,185 shares

(Number of shares outstanding, by class, as of November 3, 2015)

Table of Contents

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Income (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Changes in Shareholders' Equity (Unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>45</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>65</u>
Item 4. <u>Controls and Procedures</u>	<u>65</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>66</u>
Item 1A. <u>Risk Factors</u>	<u>66</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>67</u>
Item 6. <u>Exhibits</u>	<u>67</u>

Table of Contents

PART I

Item 1. Financial Statements

First Citizens BancShares, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, unaudited)

	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$546,444	\$604,182
Overnight investments	2,368,132	1,724,919
Investment securities available for sale	6,690,578	7,171,917
Investment securities held to maturity	301	518
Loans held for sale	71,874	63,696
Loans and leases	19,855,806	18,769,465
Less allowance for loan and lease losses	(205,463)	(204,466)
Net loans and leases	19,650,343	18,564,999
Premises and equipment	1,123,828	1,125,081
Other real estate owned:		
Covered under loss share agreements	8,152	22,982
Not covered under loss share agreements	61,707	70,454
Income earned not collected	67,368	57,254
FDIC loss share receivable	9,276	28,701
Goodwill	139,773	139,773
Other intangible assets	95,535	106,610
Other assets	616,513	394,027
Total assets	\$31,449,824	\$30,075,113
Liabilities		
Deposits:		
Noninterest-bearing	\$9,171,529	\$8,086,784
Interest-bearing	17,547,846	17,591,793
Total deposits	26,719,375	25,678,577
Short-term borrowings	759,757	987,184
Long-term obligations	705,418	351,320
FDIC loss share payable	124,038	116,535
Other liabilities	278,708	253,903
Total liabilities	28,587,296	27,387,519
Shareholders' equity		
Common stock:		
Class A - \$1 par value (16,000,000 shares authorized; 11,005,220 shares issued and outstanding at September 30, 2015 and December 31, 2014)		11,005
Class B - \$1 par value (2,000,000 shares authorized; 1,005,185 shares issued and outstanding at September 30, 2015 and December 31, 2014)	1,005	1,005
Surplus	658,918	658,918
Retained earnings	2,226,476	2,069,647
Accumulated other comprehensive loss	(34,876)	(52,981)
Total shareholders' equity	2,862,528	2,687,594
Total liabilities and shareholders' equity	\$31,449,824	\$30,075,113

See accompanying Notes to Consolidated Financial Statements.

3

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

	Three months ended September 30		Nine months ended September 30	
(Dollars in thousands, except per share data, unaudited)	2015	2014	2015	2014
Interest income				
Loans and leases	\$224,631	\$164,259	\$658,175	\$489,401
Investment securities and dividend income	24,020	12,707	65,136	36,902
Overnight investments	1,174	655	4,037	2,023
Total interest income	249,825	177,621	727,348	528,326
Interest expense				
Deposits	5,216	5,703	16,379	18,534
Short-term borrowings	590	2,694	4,182	4,830
Long-term obligations	4,648	3,002	12,601	12,111
Total interest expense	10,454	11,399	33,162	35,475
Net interest income	239,371	166,222	694,186	492,851
Provision (credit) for loan and lease losses	107	1,537	13,618	(7,665)
Net interest income after provision (credit) for loan and lease losses	239,264	164,685	680,568	500,516
Noninterest income				
Gain on acquisition	—	—	42,930	—
Cardholder services	19,588	13,248	57,203	38,337
Merchant services	22,005	15,556	62,955	44,112
Service charges on deposit accounts	23,153	15,489	67,572	45,194
Wealth management services	22,223	15,657	64,658	46,352
Fees from processing services	45	7,303	140	17,846
Securities gains	5,564	—	10,837	—
Other service charges and fees	6,163	4,001	17,303	12,195
Mortgage income	4,852	1,164	14,972	3,329
Insurance commissions	2,945	2,422	8,698	7,962
ATM income	1,800	1,199	5,289	3,661
Adjustments to FDIC loss share receivable	(4,130)	(4,386)	(9,730)	(32,030)
Other ⁽¹⁾	5,542	6,946	25,126	20,544
Total noninterest income	109,750	78,599	367,953	207,502
Noninterest expense				
Salaries and wages	108,992	81,825	324,358	243,017
Employee benefits	27,121	19,797	86,341	59,638
Occupancy expense	22,260	20,265	73,412	60,975
Equipment expense	22,447	18,767	69,284	57,121
FDIC insurance expense	4,933	2,915	13,755	8,191
Foreclosure-related expenses	1,087	4,838	4,663	13,787
Merger-related expenses	3,679	1,505	11,249	7,352
Other	69,653	51,898	199,967	141,779
Total noninterest expense	260,172	201,810	783,029	591,860
Income before income taxes	88,842	41,474	265,492	116,158
Income taxes ⁽¹⁾	32,884	14,973	97,854	40,492
Net income ⁽¹⁾	\$55,958	\$26,501	\$167,638	\$75,666

Edgar Filing: FIRST CITIZENS BANCSHARES INC /DE/ - Form 10-Q

Average shares outstanding	12,010,405	9,618,941	12,010,405	9,618,941
Net income per share ⁽¹⁾	\$4.66	\$2.76	\$13.96	\$7.87

⁽¹⁾ Amounts for the 2014 period have been updated to reflect the fourth quarter 2014 adoption of Accounting Standard Update (ASU) 2014-01 related to investments in qualified affordable housing projects.

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended September 30		Nine months ended September 30	
(Dollars in thousands, unaudited)	2015	2014	2015	2014
Net income ⁽¹⁾	\$55,958	\$26,501	\$167,638	\$75,666
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Change in unrealized securities gains (losses) arising during period	28,231	(11,444)	29,420	32,006
Tax effect	(10,737)	4,444	(11,198)	(12,425)
Reclassification adjustment for net gains realized and included in income before income taxes	(5,564)	—	(10,837)	—
Tax effect	2,094	—	4,145	—
Total change in unrealized gains (losses) on securities, net of tax	14,024	(7,000)	11,530	19,581
Change in fair value of cash flow hedges:				
Change in unrecognized loss on cash flow hedges	721	949	2,006	2,236
Tax effect	(300)	(367)	(796)	(863)
Total change in unrecognized loss on cash flow hedges, net of tax	421	582	1,210	1,373
Change in pension obligation:				
Amortization of actuarial losses and prior service cost	2,916	822	8,689	4,019
Tax effect	(1,078)	(319)	(3,324)	(1,563)
Total change in pension obligation, net of tax	1,838	503	5,365	2,456
Other comprehensive income (loss)	16,283	(5,915)	18,105	23,410
Total comprehensive income ⁽¹⁾	\$72,241	\$20,586	\$185,743	\$99,076

⁽¹⁾ Amounts for 2014 period have been updated to reflect the fourth quarter 2014 adoption of ASU 2014-01 related to investments in qualified affordable housing projects.

See accompanying Notes to Consolidated Financial Statements.

Table of ContentsFirst Citizens BancShares, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, unaudited)	Class A Common Stock	Class B Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance at December 31, 2013	\$ 8,586	\$ 1,033	\$ 143,766	\$ 1,943,345	\$ (25,268)	\$ 2,071,462
Net income ⁽¹⁾	—	—	—	75,666	—	75,666
Other comprehensive income, net of tax	—	—	—	—	23,410	23,410
Cash dividends (\$0.90 per share)	—	—	—	(8,657)	—	(8,657)
Balance at September 30, 2014	\$ 8,586	\$ 1,033	\$ 143,766	\$ 2,010,354	\$ (1,858)	\$ 2,161,881
Balance at December 31, 2014	\$ 11,005	\$ 1,005	\$ 658,918	\$ 2,069,647	\$ (52,981)	\$ 2,687,594
Net income	—	—	—	167,638	—	167,638
Other comprehensive income, net of tax	—	—	—	—	18,105	18,105
Cash dividends (\$0.90 per share)	—	—	—	(10,809)	—	(10,809)
Balance at September 30, 2015	\$ 11,005	\$ 1,005	\$ 658,918	\$ 2,226,476	\$ (34,876)	\$ 2,862,528

⁽¹⁾ Amount for the 2014 period has been updated to reflect the fourth quarter 2014 adoption of ASU 2014-01 related to investments in qualified affordable housing projects.

See accompanying Notes to Consolidated Financial Statements.

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

	Nine months ended September 30	
	2015	2014
(Dollars in thousands, unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income ⁽¹⁾	\$ 167,638	\$ 75,666
Adjustments to reconcile net income to cash provided by operating activities:		
Provision (credit) for loan and lease losses	13,618	(7,665)
Deferred tax benefit ⁽¹⁾	(3,941)	(24,374)
Net change in current taxes	(26,195)	(24,716)
Depreciation	65,559	53,249
Net change in accrued interest payable	(2,244)	(1,434)
Net increase in income earned not collected	(10,114)	(121)
Gain on acquisition	(42,930)	—
Securities gains	(10,837)	—
Origination of loans held for sale	(542,836)	(198,134)
Proceeds from sale of loans	540,737	206,310
Gain on sale of loans	(6,079)	(3,334)
Net writedowns/losses on other real estate	4,355	9,770
Net amortization of premiums and discounts ⁽¹⁾	(70,150)	(33,917)
Amortization of intangible assets	11,765	1,737
Reduction in FDIC receivable for loss share agreements	35,395	16,708
Increase in FDIC payable for loss share agreements	7,503	7,546
Net change in other assets ⁽¹⁾	29,225	(37,077)
Net change in other liabilities	37,077	27,327
Net cash provided by operating activities	197,546	67,541
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans outstanding	(928,132)	(329,925)
Purchases of investment securities available for sale	(1,887,604)	(1,999,666)
Proceeds from maturities/calls of investment securities held to maturity	217	300
Proceeds from maturities/calls of investment securities available for sale	1,139,053	1,993,051
Proceeds from sales of investment securities available for sale	1,036,254	—
Net change in overnight investments	(643,213)	151,972
Proceeds from sales of loans	45,862	—
Cash paid to the FDIC for loss share agreements	(24,805)	(5,479)
Proceeds from sales of other real estate	63,446	55,478
Additions to premises and equipment	(55,575)	(65,763)
Business acquisition, net cash acquired	123,137	18,194
Net cash used by investing activities	(1,131,360)	(181,838)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in time deposits	(405,160)	(301,849)
Net increase in demand and other interest-bearing deposits	1,179,606	202,853
Net change in short-term borrowings	(232,928)	91,345
Repayment of long-term obligations	(4,633)	(2,001)
Origination of long-term obligations	350,000	—
Cash dividends paid	(10,809)	(8,657)
Net cash provided (used) by financing activities	876,076	(18,309)

Change in cash and due from banks	(57,738	) (132,606)
Cash and due from banks at beginning of period	604,182	533,599	
Cash and due from banks at end of period	\$546,444	\$400,993	

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Transfers of loans to other real estate	\$44,065	\$42,136
Dividends declared but not paid	3,603	2,886
Unsettled sales of investment securities	236,617	—

⁽¹⁾ Amounts for the 2014 period have been updated to reflect the fourth quarter 2014 adoption of ASU 2014-01 related to investments in qualified affordable housing projects.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

First Citizens BancShares, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

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 thereto are presented in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X 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 presentation of the consolidated financial position and consolidated results of operations have been made. The unaudited interim consolidated financial statements included in this Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes included in BancShares' Annual Report on Form 10-K for the year ended December 31, 2014.

Reclassifications

Prior period financial statements reflect the retrospective application of Accounting Standards Update (ASU) 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments Qualified Affordable Housing Projects which was adopted effective in the fourth quarter of 2014 and did not have a material impact on our consolidated financial condition or results of operations.

In certain instances other than the retrospective adoption of ASU 2014-01, 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 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, the consolidated results of its operations or related disclosures. Material estimates that are particularly susceptible to significant change include:

- Allowance for loan and lease losses
- Fair value of financial instruments, including acquired assets and assumed liabilities
- Pension plan assumptions
- Cash flow estimates on purchased credit-impaired loans
- Receivable from and payable to the FDIC for loss share agreements
- Income tax assets, liabilities and expense

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-10, Technical Corrections and Improvements

The amendments in this ASU represent changes to clarify the Codification, correct unintended application of guidance and make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, some of the amendments

will make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification.

The transition guidance varies based on the amendments in this ASU. The amendments in this ASU that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December

Table of Contents

15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments were effective upon issuance. We adopted the amendments effective second quarter of 2015. The adoption did not have an impact on our consolidated financial position or consolidated results of operations.

FASB ASU 2015-08, Business Combinations (Topic 805): Pushdown Accounting - Amendments to Securities and Exchange Commission (SEC) Paragraphs Pursuant to Staff Accounting Bulletin No. 115

The amendments in this ASU remove references to SEC Staff Accounting Bulletin (SAB) Topic 5.J as the SEC staff previously rescinded its guidance with the issuance of SAB No. 115 when the FASB issued its own pushdown accounting guidance in ASU 2014-17, an amendment we adopted effective fourth quarter of 2014. We adopted the amendments in ASU 2015-08 effective second quarter of 2015. The adoption did not have an impact on our consolidated financial position or consolidated results of operations.

FASB ASU 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

This ASU requires a reporting entity to derecognize a mortgage loan and recognize a separate other receivable upon foreclosure if the following conditions are met: the loan has a government guarantee that is not separable from the loan before foreclosure; at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim and at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor.

The amendments in this ASU were effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We adopted this guidance effective first quarter of 2015.

The initial adoption did not have any effect on our consolidated financial position or consolidated results of operations.

FASB ASU 2014-11, Transfers and Servicing (Topic 860)

This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The ASU requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The ASU also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings.

The accounting changes in this ASU were effective for fiscal years beginning after December 15, 2014. In addition, the disclosures for certain transactions accounted for as a sale were effective for the fiscal period beginning after December 15, 2014, while the disclosures for transactions accounted for as secured borrowings were required to be presented for fiscal periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. We adopted the guidance effective first quarter of 2015. The initial adoption did not have any effect on our consolidated financial position or consolidated results of operations. The new disclosures required by this ASU are included in Note I.

FASB ASU 2014-04, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40)

This ASU clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are

in the process of foreclosure according to local requirements of the applicable jurisdiction.

The amendments in this ASU were effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We adopted the guidance effective first quarter of 2015. The initial adoption did not have any effect on our consolidated financial position or consolidated results of operations. The new disclosures required by this ASU are included in Note F.

Table of Contents

FASB ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323) - Accounting for Investments in Qualified Affordable Housing Projects

This ASU permits an accounting policy election to account for investments in qualified affordable housing projects (LIHTC) using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense (benefit).

For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with Accounting Standards Codification (ASC) 970-323.

The decision to apply the proportional amortization method of accounting will be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments.

BancShares early adopted the guidance effective in the fourth quarter of 2014. Previously, LIHTC investments were accounted for under the cost or equity method, and the amortization was recorded as a reduction to other noninterest income, with the tax credits and other benefits received recorded as a component of the provision for income taxes. BancShares believes the proportional amortization method better represents the economics of LIHTC investments and provides users with a better understanding of the returns from such investments than the cost or equity method. LIHTC investments were \$74.5 million and \$57.1 million at September 30, 2015 and December 31, 2014, respectively, and are included in "other assets" on the Consolidated Balance Sheets.

The cumulative effect of the retrospective application of the change in amortization method was a \$2.4 million decrease to both "other assets" and "retained earnings" on the Consolidated Balance Sheets as of January 1, 2012.

Under the new amortization method of accounting, amortization expense is recognized in income tax expense in the Consolidated Statements of Income and is offset by the tax effect of tax losses and tax credits received from the investments. This change resulted in a reclassification of expense previously recorded as a reduction in other noninterest income to income tax expense along with additional amortization recognized under the new method of accounting in the Consolidated Statements of Income. An additional change resulting from the new amortization method of accounting was that a deferred tax asset or liability no longer exists as a result of these investments, thus in the retrospective application of the new method, the removal of the deferred tax asset previously reported as well as the additional amortization of the investments, both recorded in other assets, reflected in the Consolidated Balance Sheets were removed. We do not believe the impact of this change in accounting principle is material.

Recently Issued Accounting Pronouncements

FASB ASU 2015-03, Interest–Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

This ASU simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update.

This ASU is effective for interim and annual periods beginning after December 15, 2015 for public business entities, and is to be applied retrospectively. Early adoption is permitted. We will adopt the guidance effective in the first quarter of 2016 and do not anticipate any impact on our consolidated financial position or consolidated results of operations as a result of adoption.

FASB ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis

This ASU improves targeted areas of consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard places more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity ("VIE"), and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs.

The amendments in this ASU are effective for periods beginning after December 15, 2015 for public business entities. Early adoption is permitted. We will adopt the guidance effective in the first quarter of 2016 and do not anticipate any significant impact on our consolidated financial position or consolidated results of operations as a result of adoption.

FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued a standard on the recognition of revenue from contracts with customers with the core principle being for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also results

Table of Contents

in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

Per ASU 2015-14, Deferral of the Effective Date, this guidance was deferred and is effective for fiscal periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for fiscal periods beginning after December 15, 2016. We are currently evaluating the impact of the new standard and we will adopt during the first quarter of 2018 using one of two retrospective application methods.

NOTE B - BUSINESS COMBINATIONS**Capitol City Bank & Trust Company**

On February 13, 2015, FCB entered into an agreement with the Federal Deposit Insurance Corporation (FDIC), as Receiver, to purchase certain assets and assume certain liabilities of Capitol City Bank & Trust (CCBT). The acquisition expanded FCB's presence in Georgia as CCBT operated eight branch locations in Atlanta, Stone Mountain, Albany, Augusta and Savannah, Georgia. In June of 2015, FCB closed one of the branches in Atlanta.

The CCBT transaction was accounted for under the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding closing date fair values becomes available.

The fair value of the assets acquired recorded was \$211.9 million, including \$154.5 million in loans and \$690 thousand of identifiable intangible assets. Liabilities assumed were \$272.5 million of which \$266.4 million were deposits. During the second quarter of 2015, adjustments were made to the acquisition fair values primarily based upon updated collateral valuations resulting in an increase of \$5.4 million to the gain on acquisition. These adjustments were applied retroactively to the first quarter of 2015 and brought the total gain on the transaction to \$42.9 million which is included in noninterest income in the Consolidated Statements of Income. The total after-tax impact of the gain was \$26.4 million.

The following table provides the identifiable assets acquired and liabilities assumed at their estimated fair values as of the acquisition date.

(Dollars in thousands)	As recorded by FCB
Assets	
Cash and cash equivalents	\$19,622
Investment securities	35,413
Loans	154,496
Intangible assets	690
Other assets	1,714
Total assets acquired	211,935
Liabilities	
Deposits	266,352
Short-term borrowings	5,501
Other liabilities	667
Total liabilities assumed	272,520
Fair value of net liabilities assumed	(60,585)
Cash received from FDIC	103,515
Gain on acquisition of CCBT	\$42,930

Merger-related expenses of \$525 thousand and \$1.8 million were recorded in the Consolidated Statements of Income for the three and nine months ended September 30, 2015, respectively. Loan-related interest income generated from CCBT was approximately \$2.3 million for the third quarter of 2015 and \$6.0 million since the acquisition date.

All loans resulting from the CCBT transaction were recorded at the acquisition date with a discount attributable, at least in part, to credit quality, and are therefore accounted for as purchased credit-impaired (PCI) loans under ASC

310-30.

First Citizens Bancorporation, Inc. and First Citizens Bank and Trust Company, Inc.

On October 1, 2014, BancShares completed the merger of First Citizens Bancorporation, Inc. (Bancorporation) with and into BancShares pursuant to an Agreement and Plan of Merger dated June 10, 2014, as amended on July 29, 2014. First Citizens Bank and Trust Company, Inc. merged with and into FCB on January 1, 2015.

11

Table of Contents

Under the terms of the Merger Agreement, each share of Bancorporation common stock was converted into the right to receive 4.00 shares of BancShares' Class A common stock and \$50.00 cash, unless the holder elected for each share to be converted into the right to receive 3.58 shares of BancShares' Class A common stock and 0.42 shares of BancShares' Class B common stock. BancShares issued 2,586,762 Class A common shares at a fair value of \$560.4 million and 18,202 Class B common shares at a fair value of \$3.9 million to Bancorporation shareholders. Also, cash paid to Bancorporation shareholders was \$30.4 million. At the time of the merger, Bancorporation owned 32,042 shares of common stock in Bancorporation with an approximate fair value of \$29.6 million. The fair value of common stock owned by BancShares in Bancorporation was considered part of the purchase price, and the shares ceased to exist after completion of the merger.

The Bancorporation transaction was accounted for under the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition. Assets acquired, excluding goodwill, totaled \$8.28 billion, including \$4.49 billion in loans and leases, \$2.01 billion of investment securities available for sale, \$1.28 billion in cash and overnight investments, and \$109.4 million of identifiable intangible assets. Liabilities assumed were \$7.66 billion, including \$7.17 billion of deposits. Goodwill of \$4.2 million was recorded equaling the excess purchase price over the estimated fair value of the net assets acquired on the acquisition date.

The following unaudited pro forma financial information reflects the consolidated results of operations of BancShares. These results combine the historical results of Bancorporation in the BancShares' Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place at the beginning of the period presented. The unaudited pro forma information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or the future results of operations of BancShares.

	Three months ended September 30 2014	Nine months ended September 30 2014
(Dollars in thousands)		
Total revenue (interest income plus noninterest income)	\$341,927	\$995,704
Net loss	\$(127,768)	\$(50,279)

The merger transaction between BancShares and Bancorporation constituted a triggering event for which Bancorporation undertook a goodwill impairment assessment. Based on the analysis performed, Bancorporation determined that its fair value did not support the goodwill recorded; therefore, Bancorporation recorded a \$166.8 million goodwill impairment charge to write-off a portion of goodwill prior to the October 1, 2014 effective date of the merger. This goodwill impairment is included in the pro forma financial results for the quarter and nine months ended September 30, 2014.

Table of Contents

NOTE C - INVESTMENTS

The amortized cost and fair value of investment securities classified as available for sale and held to maturity at September 30, 2015 and December 31, 2014, are as follows:

(Dollars in thousands)	September 30, 2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury	\$1,685,794	\$5,708	\$—	\$1,691,502
Government agency	633,162	1,742	—	634,904
Mortgage-backed securities	4,343,105	26,375	6,919	4,362,561
Equity securities	1,591	20	—	1,611
Total investment securities available for sale	\$6,663,652	\$33,845	\$6,919	\$6,690,578
December 31, 2014				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	\$2,626,900	\$2,922	\$152	\$2,629,670
Government agency	908,362	702	247	908,817
Mortgage-backed securities	3,628,187	16,964	11,847	3,633,304
Municipal securities	125	1	—	126
Total investment securities available for sale	\$7,163,574	\$20,589	\$12,246	\$7,171,917
September 30, 2015				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities held to maturity				
Mortgage-backed securities	\$301	\$13	\$—	\$314
December 31, 2014				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	\$518	\$26	\$—	\$544

Investments in mortgage-backed securities primarily represent securities issued by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. The following table provides the amortized cost and fair value by contractual maturity. Expected maturities will differ from contractual maturities on certain securities because borrowers and issuers may have the right to call or prepay obligations with or without prepayment penalties. Repayments of mortgage-backed securities are dependent on the repayments of the underlying loan balances.

(Dollars in thousands)	September 30, 2015		December 31, 2014	
	Cost	Fair value	Cost	Fair value
Investment securities available for sale				
Non-amortizing securities maturing in:				
One year or less	\$673,879	\$675,164	\$447,866	\$447,992

Edgar Filing: FIRST CITIZENS BANCSHARES INC /DE/ - Form 10-Q

One through five years	1,645,077	1,651,242	3,087,521	3,090,621
Mortgage-backed securities	4,343,105	4,362,561	3,628,187	3,633,304
Equity securities	1,591	1,611	—	—
Total investment securities available for sale	\$6,663,652	\$6,690,578	\$7,163,574	\$7,171,917
Investment securities held to maturity				
Mortgage-backed securities held to maturity	\$301	\$314	\$518	\$544

13

Table of Contents

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

	Three months ended September 30		Nine months ended September 30	
(Dollars in thousands)	2015	2014	2015	2014
Gross gains on sales of investment securities available for sale	\$5,564	\$—	\$10,850	\$—
Gross losses on sales of investment securities available for sale	—	—	(13)) —
Total net securities gain	\$5,564	\$—	\$10,837	\$—

The following table provides information regarding securities with unrealized losses as of September 30, 2015 and December 31, 2014.

(Dollars in thousands)	September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
Mortgage-backed securities	\$911,980	\$3,024	\$300,157	\$3,895	\$1,212,137	\$6,919
Total	\$911,980	\$3,024	\$300,157	\$3,895	\$1,212,137	\$6,919

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
U.S. Treasury	\$338,612	\$151	\$1,015	\$1	\$339,627	\$152
Government agency	261,288	247	—	—	261,288	247
Mortgage-backed securities	573,374	1,805	831,405	10,042	1,404,779	11,847
Total	\$1,173,274	\$2,203	\$832,420	\$10,043	\$2,005,694	\$12,246

Investment securities with an aggregate fair value of \$300.2 million and \$832.4 million had continuous unrealized losses for more than 12 months as of September 30, 2015 and December 31, 2014, respectively, with an aggregate unrealized loss of \$3.9 million and \$10.0 million, respectively. As of September 30, 2015, all 40 of these investments are government sponsored enterprise-issued mortgage-backed securities. None of the unrealized losses identified as of September 30, 2015 or December 31, 2014 relate to the marketability of the securities or the issuer's ability to honor redemption obligations. Rather, the unrealized losses relate to changes in interest rates relative to when the investment securities were purchased. 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 \$4.75 billion at September 30, 2015 and \$4.37 billion at December 31, 2014 were pledged as collateral to secure public funds on deposit and certain short-term borrowings, and for other purposes as required by law.

Table of Contents

NOTE D - LOANS AND LEASES

BancShares' accounting methods for loans and leases differ depending on whether they are purchased credit-impaired (PCI) or non-PCI. Non-PCI loans and leases include originated commercial, originated noncommercial, purchased revolving, and purchased non-impaired loans. For purchased non-impaired loans to be included as non-PCI, it must be determined that the loans do not have a discount due, at least in part, to credit quality at the time of acquisition. Conversely, loans for which it is probable at acquisition that all required payments will not be collected in accordance with contractual terms are considered PCI loans. PCI loans are evaluated at acquisition and where a discount is required at least in part due to credit quality, the nonrevolving loans are accounted for under the guidance in ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. PCI loans and leases are recorded at fair value at the date of acquisition. No allowance for loan and lease losses is recorded on the acquisition date as the fair value of the acquired assets incorporates assumptions regarding credit risk. An allowance is recorded if there is additional credit deterioration after the acquisition date.

BancShares reports PCI and non-PCI loan portfolios separately, and each portfolio is further divided into commercial and non-commercial based on the type of borrower, purpose, collateral, and/or our underlying credit management processes. Additionally, loans are assigned to loan classes, which further disaggregate loans based upon common risk characteristics.

Commercial – Commercial loans include construction and land development, mortgage, other commercial real estate, commercial and industrial, lease financing and other.

Construction and land development – Construction and land development consists of loans to finance land for development, investment, and use in a commercial business enterprise; multifamily apartments; and other commercial buildings that may be owner-occupied or income generating investments for the owner.

Commercial mortgage – Commercial mortgage consists of loans to purchase or refinance owner-occupied nonresidential and investment properties. Investment properties include office buildings and other facilities that are rented or leased to unrelated parties.

Other commercial real estate – Other commercial real estate consists of loans secured by farmland (including residential farms and other improvements) and multifamily (5 or more) residential properties.

Commercial and industrial – Commercial and industrial consists of loans or lines of credit to finance corporate credit cards, accounts receivable, inventory and other general business purposes.

Lease financing – Lease financing consists solely of lease financing agreements for business equipment, vehicles and other assets.

Other – Other consists of all other commercial loans not classified in one of the preceding classes. These typically include loans to non-profit organizations such as churches, hospitals, educational and charitable organizations.

Noncommercial – Noncommercial consist of residential and revolving mortgage, construction and land development, and consumer loans.

Residential mortgage – Residential real estate consists of loans to purchase, construct or refinance the borrower's primary dwelling, second residence or vacation home.

Revolving mortgage – Revolving mortgage consists of home equity lines of credit that are secured by first or second liens on the borrower's primary residence.

Construction and land development – Construction and land development consists of loans to construct the borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date.

Consumer – Consumer loans consist of installment loans to finance purchases of vehicles, unsecured home improvements and revolving lines of credit that can be secured or unsecured, including personal credit cards.

Table of Contents

Loans and leases outstanding included the following at September 30, 2015 and December 31, 2014:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Non-PCI loans and leases:		
Commercial:		
Construction and land development	\$563,926	\$493,133
Commercial mortgage	8,076,946	7,552,948
Other commercial real estate	316,924	244,875
Commercial and industrial	2,211,973	1,988,934
Lease financing	691,915	571,916
Other	357,760	353,833
Total commercial loans	12,219,444	11,205,639
Noncommercial:		
Residential mortgage	2,659,821	2,493,058
Revolving mortgage	2,519,972	2,561,800
Construction and land development	220,493	205,016
Consumer	1,192,012	1,117,454
Total noncommercial loans	6,592,298	6,377,328
Total non-PCI loans and leases	18,811,742	17,582,967
PCI loans:		
Commercial:		
Construction and land development	41,582	78,079
Commercial mortgage	568,256	577,518
Other commercial real estate	18,013	40,193
Commercial and industrial	17,023	27,254
Other	2,087	3,079
Total commercial loans	646,961	726,123
Noncommercial:		
Residential mortgage	334,518	382,340
Revolving mortgage	59,695	74,109
Construction and land development	347	912
Consumer	2,543	3,014
Total noncommercial loans	397,103	460,375
Total PCI loans	1,044,064	1,186,498
Total loans and leases	\$19,855,806	\$18,769,465

At September 30, 2015, \$296.5 million of total loans and leases were covered under loss share agreements, compared to \$485.3 million at December 31, 2014. At the beginning of the second quarter of 2015, loss share protection expired for non-single family residential loans acquired from Sun American Bank ("SAB") and all loans acquired from First Regional Bank ("FRB"). The loan balance at September 30, 2015 for the expired agreements from SAB were \$29.9 million. FRB loan balances at September 30, 2015 were insignificant. Loss share protection for Williamsburg First National Bank non-single family residential loans with a balance of \$7.0 million at September 30, 2015 will expire at the beginning of the fourth quarter of 2015.

At September 30, 2015, \$3.69 billion in noncovered loans with a lendable collateral value of \$2.59 billion were used to secure \$520.3 million in Federal Home Loan Bank ("FHLB") of Atlanta advances, resulting in additional borrowing capacity of \$2.07 billion. At December 31, 2014, \$3.16 billion in noncovered loans with a lendable collateral value of \$2.20 billion were used to secure \$240.3 million in FHLB of Atlanta advances, resulting additional borrowing capacity of \$1.96 billion.

The unamortized discount related to the non-PCI loans and leases acquired in the Bancorporation merger totaled \$45.1 million and \$61.2 million at September 30, 2015 and December 31, 2014, respectively. During the three and nine

months ended September 30, 2015, accretion income on non-PCI loans equaled \$4.5 million and \$15.6 million, respectively. There was no accretion income on non-PCI loans recorded for the same periods in 2014.

Table of Contents

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 and noncommercial loans and leases have different credit quality indicators as a result of the unique characteristics of the loan segment being evaluated. The credit quality indicators for non-PCI and PCI commercial loans and leases are developed through a review of individual borrowers on an ongoing basis. Each commercial loan is evaluated annually with more frequent evaluation of more severely criticized loans or leases. The credit quality indicators for non-PCI and PCI noncommercial loans are based on the delinquency status of the borrower. As the borrower becomes more delinquent, the likelihood of loss increases. 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.

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 charge-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 ungraded loans at September 30, 2015 and December 31, 2014 relate to business credit cards. 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. The remaining balance is comprised of a small amount of commercial mortgage and other commercial real estate loans.

Table of Contents

Non-PCI loans and leases outstanding at September 30, 2015 and December 31, 2014 by credit quality indicator are provided below:

September 30, 2015							
(Dollars in thousands)	Non-PCI commercial loans and leases						
Grade:	Construction and land development	Commercial mortgage	Other commercial estate	Commercial realand industrial	Lease financing	Other	Total non-PCI commercial loans and leases
Pass	\$555,833	\$7,821,706	\$314,171	\$2,070,568	\$683,265	\$354,222	\$11,799,765
Special mention	5,606	107,790	285	16,812	5,161	1,828	137,482
Substandard	2,487	143,536	1,010	15,241	3,163	1,710	167,147
Doubtful	—	647	—	1,544	326	—	2,517
Ungraded	—	3,267	1,458	107,808	—	—	112,533
Total	\$563,926	\$8,076,946	\$316,924	\$2,211,973	\$691,915	\$357,760	\$12,219,444

December 31, 2014							
Non-PCI commercial loans and leases							
	Construction and land development	Commercial mortgage	Other commercial estate	Commercial realand industrial	Lease financing	Other	Total non-PCI commercial loans and leases
Pass	\$474,374	\$7,284,714	\$242,053	\$1,859,415	\$564,319	\$349,111	\$10,773,986
Special mention	13,927	129,247	909	27,683	3,205	1,384	176,355
Substandard	4,720	134,677	1,765	8,878	3,955	3,338	157,333
Doubtful	—	2,366	—	164	365	—	2,895
Ungraded	112	1,944	148	92,794	72	—	95,070
Total	\$493,133	\$7,552,948	\$244,875	\$1,988,934	\$571,916	\$353,833	\$11,205,639

September 30, 2015					
Non-PCI noncommercial loans and leases					
(Dollars in thousands)	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total non-PCI noncommercial loans and leases
Current	\$2,615,954	\$2,503,750	\$216,736	\$1,181,710	\$6,518,150
30-59 days past due	24,179	9,936	2,539	6,889	43,543
60-89 days past due	7,640	2,031	642	2,091	12,404
90 days or greater past due	12,048	4,255	576	1,322	18,201
Total	\$2,659,821	\$2,519,972	\$220,493	\$1,192,012	\$6,592,298

December 31, 2014					
Non-PCI noncommercial loans and leases					
	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total non-PCI noncommercial loans and leases
Current	\$2,454,797	\$2,542,807	\$202,344	\$1,110,153	\$6,310,101

Edgar Filing: FIRST CITIZENS BANCSHARES INC /DE/ - Form 10-Q

30-59 days past due	23,288	11,097	1,646	4,577	40,608
60-89 days past due	6,018	2,433	824	1,619	10,894
90 days or greater past due	8,955	5,463	202	1,105	15,725
Total	\$2,493,058	\$2,561,800	\$205,016	\$1,117,454	\$6,377,328

Table of Contents

PCI loans and leases outstanding at September 30, 2015 and December 31, 2014 by credit quality indicator are provided below:

	September 30, 2015					
(Dollars in thousands)	PCI commercial loans					
Grade:	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Other	Total PCI commercial loans
Pass	\$18,236	\$302,848	\$8,519	\$10,744	\$775	\$341,122
Special mention	2,250	94,955	—	1,462	—	98,667
Substandard	16,806	159,148	9,048	4,395	1,312	190,709
Doubtful	4,290	10,967	—	292	—	15,549
Ungraded	—	338	446	130	—	914
Total	\$41,582	\$568,256	\$18,013	\$17,023	\$2,087	\$646,961

	December 31, 2014					
	PCI commercial loans					
	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Other	Total PCI commercial loans
Pass	\$13,514	\$300,187	\$11,033	\$16,637	\$801	\$342,172
Special mention	6,063	98,724	16,271	4,137	—	125,195
Substandard	53,739	171,920	12,889	6,312	2,278	247,138
Doubtful	2,809	6,302	—	130	—	9,241
Ungraded	1,954	385	—	38	—	2,377
Total	\$78,079	\$577,518	\$40,193	\$27,254	\$3,079	\$726,123

	September 30, 2015				
	PCI noncommercial loans				
(Dollars in thousands)	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total PCI noncommercial loans
Current	\$286,402	\$54,594	\$347	\$2,322	\$343,665
30-59 days past due	14,514	1,234	—	90	15,838
60-89 days past due	6,103	307	—	131	6,541
90 days or greater past due	27,499	3,560	—	—	31,059
Total	\$334,518	\$59,695	\$347	\$2,543	\$397,103

	December 31, 2014				
	PCI noncommercial loans				
	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total PCI noncommercial loans
Current	\$326,589	\$68,548	\$506	\$2,582	\$398,225
30-59 days past due	11,432	1,405	—	147	12,984
60-89 days past due	10,073	345	—	25	10,443
90 days or greater past due	34,246	3,811	406	260	38,723
Total	\$382,340	\$74,109	\$912	\$3,014	\$460,375

Table of Contents

The aging of the outstanding non-PCI loans and leases, by class, at September 30, 2015 and December 31, 2014 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 as various grace periods allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

	September 30, 2015			Total past due	Current	Total loans and leases
(Dollars in thousands)	30-59 days past due	60-89 days past due	90 days or greater			
Non-PCI loans and leases:						
Construction and land development - commercial	\$1,319	\$266	\$282	\$1,867	\$562,059	\$563,926
Commercial mortgage	14,587	4,897	21,416	40,900	8,036,046	8,076,946
Other commercial real estate	403	290	159	852	316,072	316,924
Commercial and industrial	5,492	961	1,328	7,781	2,204,192	2,211,973
Lease financing	398	169	310	877	691,038	691,915
Residential mortgage	24,179	7,640	12,048	43,867	2,615,954	2,659,821
Revolving mortgage	9,936	2,031	4,255	16,222	2,503,750	2,519,972
Construction and land development - noncommercial	2,539	642	576	3,757	216,736	220,493
Consumer	6,889	2,091	1,322	10,302	1,181,710	1,192,012
Other	11	—	184	195	357,565	357,760
Total non-PCI loans and leases	\$65,753	\$18,987	\$41,880	\$126,620	\$18,685,122	\$18,811,742
	December 31, 2014					
	30-59 days past due	60-89 days past due	90 days or greater	Total past due	Current	Total loans and leases
Non-PCI loans and leases:						
Construction and land development - commercial	\$520	\$283	\$330	\$1,133	\$492,000	\$493,133
Commercial mortgage	11,367	4,782	8,061	24,210	7,528,738	7,552,948
Other commercial real estate	206	70	102	378	244,497	244,875
Commercial and industrial	2,843	1,545	378	4,766	1,984,168	1,988,934
Lease financing	1,631	8	2	1,641	570,275	571,916
Residential mortgage	23,288	6,018	8,955	38,261	2,454,797	2,493,058
Revolving mortgage	11,097	2,433	5,463	18,993	2,542,807	2,561,800
Construction and land development - noncommercial	1,646	824	202	2,672	202,344	205,016
Consumer	4,577	1,619	1,105	7,301	1,110,153	1,117,454
Other	146	1,966	—	2,112	351,721	353,833
Total non-PCI loans and leases	\$57,321	\$19,548	\$24,598	\$101,467	\$17,481,500	\$17,582,967

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 September 30, 2015 and December 31, 2014 for non-PCI loans, were as follows:

(Dollars in thousands)	September 30, 2015		December 31, 2014	
	Nonaccrual loans and leases	Loans and leases > 90 days and accruing	Nonaccrual loans and leases	Loans and leases > 90 days and accruing
Non-PCI loans and leases:				
Construction and land development - commercial	\$617	\$45	\$343	\$56
Commercial mortgage	41,607	3,353	24,720	1,003
Other commercial real estate	262	—	619	35
Commercial and industrial	6,633	502	1,741	239
Lease financing	374	—	374	2
Residential mortgage	24,911	1,444	14,242	3,191
Revolving mortgage	10,856	19	—	5,463
Construction and land development - noncommercial	875	—	—	202
Consumer	1,008	863	—	1,059
Other	133	51	1,966	—
Total non-PCI loans and leases	\$87,276	\$6,277	\$44,005	\$11,250

Purchased credit-impaired loans (PCI) loans

The following table relates to PCI loans acquired in the CCBT acquisition and summarizes the contractually required payments, which include principal and interest, expected cash flows to be collected, and the fair value of PCI loans and leases at the acquisition date.

(Dollars in thousands)	
Contractually required payments	\$247,812
Cash flows expected to be collected	\$207,688
Fair value of loans at acquisition	\$154,496

The recorded fair values of PCI loans acquired in the CCBT acquisition as of the acquisition date were as follows:

(Dollars in thousands)	
Commercial:	
Construction and land development	\$4,116
Commercial mortgage	129,732
Other commercial real estate	3,202
Commercial and industrial	2,844
Total commercial loans	139,894
Noncommercial:	
Residential mortgage	13,251
Consumer	1,351
Total noncommercial loans	14,602
Total PCI loans and leases	\$154,496

The following table provides changes in the carrying value of all purchased credit-impaired loans during the nine months ended September 30, 2015 and September 30, 2014:

(Dollars in thousands)	2015	2014
Balance at January 1	\$1,186,498	\$1,029,426
Fair value of acquired loans	154,496	316,327
Accretion	91,642	89,775
Payments received and other changes, net	(388,572)	(439,248)
Balance at September 30	\$1,044,064	\$996,280

Unpaid principal balance at September 30	\$1,788,136	\$1,754,882
--	-------------	-------------

The carrying value of loans on the cost recovery method was \$6.9 million at September 30, 2015 and \$33.4 million at December 31, 2014. The cost recovery method is applied to loans when the timing of future cash flows is not reasonably

Table of Contents

estimable due to borrower nonperformance or uncertainty in the ultimate disposition of the asset. The recorded investment of PCI loans on nonaccrual status was \$5.3 million and \$33.4 million at September 30, 2015 and December 31, 2014, respectively.

For PCI loans, improved cash flow estimates and receipt of unscheduled loan payments result in the reclassification of nonaccretable difference to 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 nine months of 2015 and 2014.

(Dollars in thousands)	2015	2014
Balance at January 1	\$418,160	\$439,990
Additions from acquisitions	53,192	84,295
Accretion	(91,642	) (89,775
Reclassifications from nonaccretable difference	15,687	1,374
Changes in expected cash flows that do not affect nonaccretable difference	(53,458	) (22,068
Balance at September 30	\$341,939	\$413,816

Table of Contents

NOTE E - ALLOWANCE FOR LOAN AND LEASE LOSSES ("ALLL")

The following tables present the activity in the ALLL for non-PCI loan and lease losses by loan class for the three months ended September 30, 2015 and September 30, 2014:

Three months ended September 30, 2015

(Dollars in thousands)	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	Total
Non-PCI Loans Allowance for loan and lease losses:											
Balance at July 1	\$13,079	\$80,436	\$804	\$39,392	\$4,706	\$1,188	\$12,705	\$17,290	\$1,133	\$22,116	\$192,849
Provision	1,189	(5,664)	) 291	(799)	) 424	(58)	) 520	871	114	450	(2,662)
Charge-offs	(336)	(411)	) —	(784)	(7)	) —	(394)	(677)	) —	(2,409)	(5,018)
Recoveries	129	794	15	296	16	45	314	363	3	762	2,737
Balance at September 30	\$14,061	\$75,155	\$1,110	\$38,105	\$5,139	\$1,175	\$13,145	\$17,847	\$1,250	\$20,919	\$187,906

Three months ended September 30, 2014

(Dollars in thousands)	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	Total
Balance at July 1	\$11,116	\$92,129	\$806	\$26,909	\$4,365	\$612	\$9,301	\$16,797	\$905	\$13,975	\$176,915
Provision	1,469	(8,082)	) 61	4,361	(71)	) 127	15	2,075	21	1,758	1,734
Charge-offs	—	(277)	) —	(1,414)	(28)	) —	(231)	(925)	(45)	(2,467)	(5,387)
Recoveries	15	476	8	227	34	—	28	174	14	867	1,843
Balance at September 30	\$12,600	\$84,246	\$875	\$30,083	\$4,300	\$739	\$9,113	\$18,121	\$895	\$14,133	\$175,105

Nine months ended September 30, 2015

(Dollars in thousands)	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	Total
------------------------	--	---------------------	------------------------------	---------------------------	-----------------	-------	----------------------	--------------------	--	----------	-------

Edgar Filing: FIRST CITIZENS BANCSHARES INC /DE/ - Form 10-Q

Balance at January 1	\$ 11,961	\$ 85,189	\$ 732	\$ 30,727	\$ 4,286	\$ 3,184	\$ 10,661	\$ 18,650	\$ 892	\$ 16,555	\$ 182,837
Provision	2,380	(11,221)	522	11,294	843	(2,100)	2,495	440	306	10,029	14,988
Charge-offs	(575)	(691)	(178)	(4,815)	(28)	—	(768)	(2,086)	(22)	(7,935)	(17,098)
Recoveries	295	1,878	34	899	38	91	757	843	74	2,270	7,179
Balance at September 30	\$ 14,061	\$ 75,155	\$ 1,110	\$ 38,105	\$ 5,139	\$ 1,175	\$ 13,145	\$ 17,847	\$ 1,250	\$ 20,919	\$ 187,906

Nine months ended September 30, 2014

	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	Total
Balance at January 1	\$ 10,335	\$ 100,257	\$ 1,009	\$ 22,362	\$ 4,749	\$ 190	\$ 10,511	\$ 16,239	\$ 681	\$ 13,541	\$ 179,874
Provision	2,219	(17,021)	(167)	9,369	(420)	562	(933)	4,681	274	5,770	4,334
Charge-offs	—	(718)	—	(2,440)	(100)	(13)	(649)	(3,249)	(138)	(7,271)	(14,578)
Recoveries	46	1,728	33	792	71	—	184	450	78	2,093	5,475
Balance at September 30	\$ 12,600	\$ 84,246	\$ 875	\$ 30,083	\$ 4,300	\$ 739	\$ 9,113	\$ 18,121	\$ 895	\$ 14,133	\$ 175,105

The net provision credits for the commercial mortgage class totaled \$5.7 million and \$11.2 million for the three and nine months ended September 30, 2015, respectively, compared to net provision credits of \$8.1 million and \$17.0 million for the same respective periods of 2014. The reduction in the net provision credits was attributable to higher 2015 loan growth compared to the prior year offsetting the impact of continued improvement in credit quality.

Commercial and industrial loans had a net provision credit of \$799 thousand and provision expense of \$11.3 million for the three and nine months ended September 30, 2015, respectively, compared to provision expense of \$4.4 million and \$9.4 million for the same respective periods of 2014. The current period quarter net provision credit is driven by a reversal of previously recorded specific reserves on impaired loans. Reserves were released as refinements were made to discount rate assumptions used in estimating cash flows based on annual back testing results.

The other loan class had net provision credits of \$58 thousand and \$2.1 million for the three and nine months ended September 30, 2015, respectively, compared to provision expense of \$127 thousand and \$562 thousand for the same respective periods of 2014. The year-to-date

Table of Contents

2015 net provision credit was the result of the reversal of previously identified impairment on individually impaired loans due to credit quality improvement.

The provision expense for the residential mortgage loan class totaled \$520 thousand and \$2.5 million for the three and nine months ended September 30, 2015, respectively, compared to net provision expense of \$15 thousand and a net provision credit of \$933 thousand for the same respective periods of 2014. The increases in the provision expense were attributable to newly originated non-PCI loans. In 2014, improved credit quality trends resulted in a release of reserves for the nine months ended September 30, 2014.

The provision expense for the revolving mortgage loan class totaled \$871 thousand and \$440 thousand for the three and nine months ended September 30, 2015, respectively, compared to provision expense of \$2.1 million and \$4.7 million for the same respective periods of 2014. The decrease for both periods was due to lower net charge-offs.

The provision expense for the consumer loan class totaled \$450 thousand and \$10.0 million for the three and nine months ended September 30, 2015, respectively, compared to provision expense of \$1.8 million and \$5.8 million for the same respective periods of 2014. The reduction in the current period quarter provision expense was due to an adjustment to the loss rate for certain consumer loans originated during 2015. The increase in year-to-date provision expense was primarily due to higher loan growth than the prior year.

The following tables present the allowance for non-PCI loan losses and the recorded investment in loans, by loan class, based on impairment method as of September 30, 2015 and December 31, 2014:

	September 30, 2015									
(Dollars in thousands)	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
Allowance for loan and lease losses:										
ALLL for loans and leases individually evaluated for impairment	\$417	\$4,007	\$295	\$1,154	\$291	\$67	\$1,158	\$526	\$78	\$498
ALLL for loans and leases collectively evaluated for impairment	13,644	71,148	815	36,951	4,848	1,108	11,987	17,321	1,172	20,421
Total allowance for loan and lease losses	\$14,061	\$75,155	\$1,110	\$38,105	\$5,139	\$1,175	\$13,145	\$17,847	\$1,250	\$20,919
Loans and leases:										
Loans and leases individually	\$3,194	\$92,745	\$436	\$16,395	\$1,908	\$1,464	\$19,691	\$4,986	\$1,045	\$1,098

evaluated for impairment Loans and leases collectively evaluated for impairment	560,732	7,984,201	316,488	2,195,578	690,007	356,296	2,640,130	2,514,986	219,448	1,190,914
Total loan and leases	\$563,926	\$8,076,946	\$316,924	\$2,211,973	\$691,915	\$357,760	\$2,659,821	\$2,519,972	\$220,493	\$1,192,010
	December 31, 2014									
(Dollars in thousands)	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
Allowance for loan and lease losses: ALLL for loans and leases individually evaluated for impairment	\$92	\$8,610	\$112	\$1,743	\$150	\$1,972	\$1,360	\$1,052	\$71	\$555
ALLL for loans and leases collectively evaluated for impairment	11,869	76,579	620	28,984	4,136	1,212	9,301	17,598	821	16,000
Total allowance for loan and lease losses	\$11,961	\$85,189	\$732	\$30,727	\$4,286	\$3,184	\$10,661	\$18,650	\$892	\$16,555
Loans and leases: Loans and leases individually evaluated for impairment	\$1,620	\$82,803	\$584	\$11,040	\$623	\$2,000	\$14,913	\$3,675	\$1,340	\$995
Loans and leases collectively evaluated	491,513	7,470,145	244,291	1,977,894	571,293	351,833	2,478,145	2,558,125	203,676	1,116,459

for
impairment

Total loan
and leases

\$493,133	\$7,552,948	\$244,875	\$1,988,934	\$571,916	\$353,833	\$2,493,058	\$2,561,800	\$205,016	\$1,117,45
-----------	-------------	-----------	-------------	-----------	-----------	-------------	-------------	-----------	------------

24

Table of Contents

The following tables show the activity in the allowance for PCI loan and lease losses by loan class for the three months and nine months ended September 30, 2015 and September 30, 2014.

Three months ended September 30, 2015

(Dollars in thousands)	Construction and land development commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	Total
PCI Loans									
Allowance for loan and lease losses:									
Balance at July 1	\$569	\$ 6,428	\$ 69	\$ 323	\$ 5,842	\$ 2,051	\$ —	\$ 186	\$15,468
Provision	632	2,187	235	118	(281)	(151)	—	29	2,769
Charge-offs	—	(48)	—	(39)	(15)	(577)	—	(1)	(680)
Recoveries	—	—	—	—	—	—	—	—	—
Balance at September 30	\$1,201	\$ 8,567	\$ 304	\$ 402	\$ 5,546	\$ 1,323	\$ —	\$ 214	\$17,557

Three months ended September 30, 2014

(Dollars in thousands)	Construction and land development commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	Total
Balance at July 1	\$3,803	\$ 17,315	\$ 407	\$ 375	\$ 7,093	\$ 81	\$ —	\$ 257	\$29,331
Provision	(1,815)	(2,374)	(435)	182	187	3,899	239	(80)	(197)
Charge-offs	(1,633)	(2,357)	106	839	(188)	(1)	(83)	(17)	(3,334)
Recoveries	—	—	—	—	—	—	—	—	—
Balance at September 30	\$355	\$ 12,584	\$ 78	\$ 1,396	\$ 7,092	\$ 3,979	\$ 156	\$ 160	\$25,800

Nine months ended September 30, 2015

(Dollars in thousands)	Construction and land development commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	Total
Balance at January 1	\$150	\$ 10,135	\$ 75	\$ 1,240	\$ 5,820	\$ 3,999	\$ 183	\$ 27	\$21,629
Provision	1,148	(803)	229	(514)	21	(1,918)	(183)	650	(1,370)
Charge-offs	(97)	(765)	—	(324)	(295)	(758)	—	(463)	(2,702)
Recoveries	—	—	—	—	—	—	—	—	—
Balance at September 30	\$1,201	\$ 8,567	\$ 304	\$ 402	\$ 5,546	\$ 1,323	\$ —	\$ 214	\$17,557

Nine months ended September 30, 2014

(Dollars in thousands)	Construction and land development commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	Total
	\$1,320	\$ 29,906	\$ 1,354	\$ 5,275	\$ 11,802	\$ 2,959	\$ 682	\$ 222	\$53,520

Balance at January

1

Provision	1,463	(6,946)	(1,382)	(1,883)	(4,289)	1,502	(443)	(21)	(11,999)
Charge-offs	(2,428)	(10,376)	106	(1,996)	(421)	(482)	(83)	(41)	(15,721)
Recoveries	—	—	—	—	—	—	—	—	—
Balance at September 30	\$355	\$ 12,584	\$ 78	\$ 1,396	\$ 7,092	\$ 3,979	\$ 156	\$ 160	\$25,800

The PCI loan portfolio net provision expense totaled \$2.8 million during the third quarter of 2015, compared to a net provision credit of \$197 thousand during the same period of 2014. The increase in the current period quarter provision for loan and lease losses on PCI loans resulted from a \$3.9 million reclassification increasing provision expense. In the current quarter, \$3.9 million was reclassified between accretable yield and the allowance for loan and lease losses that increased both accretion income and provision expense. There was no net impact on earnings as a result of this reclassification.

We recorded PCI loan portfolio net provision credits of \$1.4 million and \$12.0 million for the nine months ended September 30, 2015 and 2014, respectively. The decrease in the net provision credit was primarily due to lower impairment reversals on the PCI loan portfolio.

Table of Contents

The following tables show the ending balances of PCI loans and leases and related allowance by class of loans as of September 30, 2015 and December 31, 2014:

(Dollars in thousands)	September 30, 2015								Total
	Construction and land development commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	
ALLL for loans and leases acquired with deteriorated credit quality	\$ 1,201	\$ 8,567	\$ 304	\$ 402	\$ 5,546	\$ 1,323	\$ —	\$ 214	\$ 17,557
Loans and leases acquired with deteriorated credit quality	41,582	568,256	18,013	17,023	334,518	59,695	347	4,630	1,044,064
(Dollars in thousands)	December 31, 2014								Total
	Construction and land development commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial	Residential mortgage	Revolving mortgage	Construction and land development noncommercial	Consumer and other	
ALLL for loans and leases acquired with deteriorated credit quality	\$ 150	\$ 10,135	\$ 75	\$ 1,240	\$ 5,820	\$ 3,999	\$ 183	\$ 27	\$ 21,629
Loans and leases acquired with deteriorated credit quality	78,079	577,518	40,193	27,254	382,340	74,109	912	6,093	1,186,498

As of September 30, 2015, and December 31, 2014, \$514.8 million and \$285.6 million, respectively, in PCI loans experienced an adverse change in expected cash flows since the date of acquisition. The corresponding valuation reserve was \$17.6 million and \$21.6 million, respectively.

Table of Contents

The following tables provide information on non-PCI impaired loans and leases, exclusive of loans and leases evaluated collectively as a homogenous group, as of September 30, 2015 and December 31, 2014 including interest income recognized in the period during which the loans and leases were considered impaired.

(Dollars in thousands)	September 30, 2015		Total	Unpaid principal balance	Related allowance recorded
	With a recorded allowance	With no recorded allowance			
Non-PCI impaired loans and leases:					
Construction and land development - commercial	\$1,799	\$1,395	\$3,194	\$4,594	\$417
Commercial mortgage	42,562	50,183	92,745	100,914	4,007
Other commercial real estate	312	124	436	868	295
Commercial and industrial	5,352	11,043	16,395	19,608	1,154
Lease financing	1,610	298	1,908	1,908	291
Other	1,464	—	1,464	1,540	67
Residential mortgage	9,746	9,945	19,691	21,559	1,158
Revolving mortgage	2,852	2,134	4,986	6,137	526
Construction and land development - noncommercial	1,045	—	1,045	1,045	78
Consumer	877	221	1,098	1,134	498
Total non-PCI impaired loans and leases	\$67,619	\$75,343	\$142,962	\$159,307	\$8,491

(Dollars in thousands)	December 31, 2014		Total	Unpaid principal balance	Related allowance recorded
	With a recorded allowance	With no recorded allowance			
Non-PCI impaired loans and leases:					
Construction and land development - commercial	\$996	\$624	\$1,620	\$6,945	\$92
Commercial mortgage	57,324	25,479	82,803	87,702	8,610
Other commercial real estate	112	472	584	913	112
Commercial and industrial	10,319	721	11,040	12,197	1,743
Lease financing	319	304	623	623	150
Other	2,000	—	2,000	2,000	1,972
Residential mortgage	10,198	4,715	14,913	15,746	1,360
Revolving mortgage	3,675	—	3,675	4,933	1,052
Construction and land development - noncommercial	1,077	263	1,340	1,340	71
Consumer	987	8	995	1,067	555
Total non-PCI impaired loans and leases	\$87,007	\$32,586	\$119,593	\$133,466	\$15,717

Table of Contents

The following tables show the average non-PCI impaired loan balance and the interest income recognized by loan class for the three and nine months ended September 30, 2015 and September 30, 2014:

	Three months ended September 30, 2015		Three months ended September 30, 2014	
(Dollars in thousands)	Average balance	Interest income recognized	Average balance	Interest income recognized
Non-PCI impaired loans and leases:				
Construction and land development - commercial	\$3,257	\$37	\$2,296	\$26
Commercial mortgage	99,613	803	90,318	806
Other commercial real estate	539	6	1,980	7
Commercial and industrial	17,005	130	11,699	108
Lease financing	1,939	21	312	5
Other	1,543	20	42	1
Residential mortgage	19,945	141	15,071	111
Revolving mortgage	5,064	29	3,708	29
Construction and land development - noncommercial	1,027	12	1,942	27
Consumer	1,176	19	1,063	19
Total non-PCI impaired loans and leases	\$151,108	\$1,218	\$128,431	\$1,139
	Nine months ended September 30, 2015		Nine months ended September 30, 2014	
(Dollars in thousands)	Average balance	Interest income recognized	Average balance	Interest income recognized
Non-PCI impaired loans and leases:				
Construction and land development - commercial	\$3,148	\$107	\$1,701	\$57
Commercial mortgage	88,614	2,405	86,131	2,522
Other commercial real estate	498	7	2,474	67
Commercial and industrial	13,815	379	14,227	461
Lease financing	1,664	55	589	26
Other	1,789	20	29	2
Residential mortgage	17,376	401	15,525	395
Revolving mortgage	4,022	68	4,069	105
Construction and land development - noncommercial	821	28	1,902	77
Consumer	1,117	58	1,710	70
Total non-PCI impaired loans and leases	\$132,864	\$3,528	\$128,357	\$3,782

Table of Contents

Troubled Debt Restructurings

BancShares accounts for certain loan modifications or restructurings as troubled debt restructurings ("TDRs"). In general, the modification or restructuring of a loan is considered a TDR if, for economic reasons or legal reasons related to a borrower's financial difficulties, a concession is granted to the borrower that creditors would not otherwise grant. Concessions may relate to the contractual interest rate, maturity date, payment structure or other actions. In accordance with GAAP, acquired loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, are not initially considered to be TDRs, but can be classified as such if a modification is made subsequent to acquisition. Subsequent modifications of a PCI loan accounted for in a pool that would otherwise meet the definition of a TDR is not reported, or accounted for, as a TDR since pooled PCI loans are excluded from the scope of TDR accounting.

The following table provides a summary of total TDRs by accrual status.

(Dollars in thousands)	September 30, 2015			December 31, 2014		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial loans						
Construction and land development - commercial	\$3,479	\$630	\$4,109	\$2,591	\$446	\$3,037
Commercial mortgage	71,885	12,884	84,769	92,184	8,937	101,121
Other commercial real estate	1,889	95	1,984	2,374	449	2,823
Commercial and industrial	9,733	4,122	13,855	9,864	664	10,528
Lease	1,082	326	1,408	258	365	623
Other	—	—	—	34	—	34
Total commercial TDRs	88,068	18,057	106,125	107,305	10,861	118,166
Noncommercial						
Residential mortgage	24,103	7,000	31,103	22,597	4,655	27,252
Revolving mortgage	3,592	1,313	4,905	3,675	—	3,675
Construction and land development - noncommercial	1,045	—	1,045	1,391	—	1,391
Consumer and other	2,454	87	2,541	995	—	995
Total noncommercial TDRs	31,194	8,400	39,594	28,658	4,655	33,313
Total TDRs	\$119,262	\$26,457	\$145,719	\$135,963	\$15,516	\$151,479

The majority of TDRs are included in the special mention, substandard or doubtful grading categories. When a restructured loan subsequently defaults, it is evaluated and downgraded if appropriate. The more severely graded the loan, the lower the estimated expected cash flows and the greater the allowance recorded. Further, TDRs over \$500,000 and graded substandard or lower are evaluated individually for impairment through a review of collateral values or analysis of cash flow.

The following table shows the accrual status of non-PCI and PCI TDRs.

(Dollars in thousands)	September 30, 2015	December 31, 2014
Accruing TDRs:		
PCI	\$32,370	\$44,647
Non-PCI	86,892	91,316
Total accruing TDRs	119,262	135,963
Nonaccruing TDRs:		
PCI	717	2,225
Non-PCI	25,740	13,291
Total nonaccruing TDRs	26,457	15,516

All TDRs:

PCI

33,087

46,872

Non-PCI

112,632

104,607

Total TDRs

\$145,719

\$151,479

29

Table of Contents

The following tables provide the types of TDRs made during the three and nine months ended September 30, 2015 and September 30, 2014, as well as a summary of loans that were modified as a TDR during the twelve months ended September 30, 2015 and September 30, 2014 that subsequently defaulted during the three and nine months ended September 30, 2015 and September 30, 2014. BancShares defines payment default as movement of the TDR to nonaccrual status, which is generally 90 days past due for TDRs, foreclosure or charge-off, whichever occurs first.

(Dollars in thousands)	Three months ended September 30, 2015				Three months ended September 30, 2014			
	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
Non-PCI loans and leases								
Interest only period provided								
Construction and land development - noncommercial	1	\$ 92	—	\$ —	—	\$ —	—	\$ —
Total interest only	1	92	—	—	—	—	—	—
Loan term extension								
Commercial mortgage	1	75	—	—	1	462	—	—
Commercial and industrial	3	1,445	—	—	—	—	—	—
Residential mortgage	—	—	—	—	3	80	—	—
Construction and land development - noncommercial	—	—	—	—	2	141	—	—
Consumer	—	—	—	—	2	81	—	—
Total loan term extension	4	1,520	—	—	8	764	—	—
Below market interest rate								
Construction and land development - commercial	4	193	—	—	—	—	—	—
Commercial mortgage	8	1,248	—	—	6	3,062	1	176
Commercial and industrial	3	1,797	1	1,757	3	462	—	—
Other commercial real estate	2	124	—	—	—	—	—	—
Residential mortgage	25	1,592	4	158	11	609	1	45
Revolving mortgage	1	37	—	—	—	—	—	—
Construction and land development - noncommercial	—	—	—	—	3	173	—	—
Consumer	2	17	—	—	5	162	—	—
Total below market interest rate	45	5,008	5	1,915	28	4,468	2	221
Discharged from bankruptcy								
Construction and land development - commercial	2	21	—	—	—	—	—	—
Commercial mortgage	2	965	1	275	1	—	1	—
Commercial and industrial	2	148	—	—	—	—	—	—
Residential mortgage	6	395	—	—	—	—	—	—
Revolving mortgage	9	666	2	162	2	99	1	—

Construction and land development-noncommercial	—	—	—	—	—	—	1	62
Consumer	6	91	2	39	1	13	—	—
Total discharged from bankruptcy	27	2,286	5	476	4	112	3	62
Total non-PCI restructurings	77	\$ 8,906	10	\$ 2,391	40	\$ 5,344	5	\$ 283

30

Table of Contents

(Dollars in thousands)	Nine months ended September 30, 2015				Nine months ended September 30, 2014			
	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
Non-PCI loans and leases								
Interest only period provided								
Commercial mortgage	2	\$ 68	—	\$ —	6	\$ 2,449	2	\$ 592
Commercial and industrial	2	1,112	1	—	2	375	—	—
Construction and land development - noncommercial	1	92	—	—	—	—	—	—
Lease financing	—	—	—	—	2	131	—	—
Other	—	—	—	—	1	40	—	—
Total interest only	5	1,272	1	—	11	2,995	2	592
Loan term extension								
Construction and land development - commercial	1	204	1	204	2	189	—	—
Commercial mortgage	7	1,406	—	—	11	4,072	—	—
Commercial and industrial	4	1,473	—	—	4	2,040	—	—
Lease financing	—	—	—	—				