FIRST CITIZENS BANCSHARES INC /DE/
Form 10-Q
May 05, 2016
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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 March 31, 2016
or

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

Commission File Number: 001-16715

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

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

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

Class A Common Stock—$1 Par Value—11,005,220 shares
Class B Common Stock—$1 Par Value—1,005,185 shares
(Number of shares outstanding, by class, as of May 4, 2016)

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PART I

Item 1. Financial Statements

First Citizens BancShares, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, unaudited)	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$457,758	$534,086
Overnight investments	2,871,105	2,063,132
Investment securities available for sale	6,687,289	6,861,293
Investment securities held to maturity	194	255
Loans held for sale	66,988	59,766
Loans and leases	20,417,689	20,239,990
Allowance for loan and lease losses	(206,783)	(206,216)
Net loans and leases	20,210,906	20,033,774
Premises and equipment	1,127,371	1,135,829
Other real estate owned	65,068	65,559
Income earned not collected	73,518	70,036
FDIC loss share receivable	7,474	4,054
Goodwill	139,773	139,773
Other intangible assets	84,743	90,986
Other assets	403,470	417,391
Total assets	$32,195,657	$31,475,934
Liabilities		
Deposits:		
Noninterest-bearing	$9,661,441	$9,274,470
Interest-bearing	17,703,804	17,656,285
Total deposits	27,365,245	26,930,755
Short-term borrowings	689,236	594,733
Long-term obligations	779,087	704,155
FDIC loss share payable	128,243	126,453
Other liabilities	272,652	247,729
Total liabilities	29,234,463	28,603,825
Shareholders’ equity		
Common stock:		
Class A - $1 par value (16,000,000 shares authorized; 11,005,220 shares issued and outstanding at March 31, 2016 and December 31, 2015)	11,005	11,005
Class B - $1 par value (2,000,000 shares authorized; 1,005,185 shares issued and outstanding at March 31, 2016 and December 31, 2015)	1,005	1,005
Surplus	658,918	658,918
Retained earnings	2,314,090	2,265,621
Accumulated other comprehensive loss	(23,824)	(64,440)
Total shareholders’ equity	2,961,194	2,872,109
Total liabilities and shareholders’ equity	$32,195,657	$31,475,934

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended March 31	
(Dollars in thousands, except per share data, unaudited)	2016	2015
Interest income		
Loans and leases	$216,404	$210,862
Investment securities and dividend income	23,042	19,310
Overnight investments	3,666	1,338
Total interest income	243,112	231,510
Interest expense		
Deposits	4,659	5,629
Short-term borrowings	434	1,934
Long-term obligations	5,299	3,782
Total interest expense	10,392	11,345
Net interest income	232,720	220,165
Provision for loan and lease losses	4,843	5,792
Net interest income after provision for loan and lease losses	227,877	214,373
Noninterest income		
Gain on acquisition	1,704	42,930
Cardholder services	19,358	18,401
Merchant services	21,977	18,880
Service charges on deposit accounts	21,850	22,058
Wealth management services	19,634	20,880
Securities gains	4,628	5,126
Other service charges and fees	6,989	5,455
Mortgage income	1,311	4,549
Insurance commissions	3,178	3,297
ATM income	1,765	1,664
Adjustments to FDIC loss share receivable	(2,533)	(1,047)
Other	5,421	8,560
Total noninterest income	105,282	150,753
Noninterest expense		
Salaries and wages	103,899	105,471
Employee benefits	27,350	31,218
Occupancy expense	25,012	25,620
Equipment expense	22,345	23,541
FDIC insurance expense	4,789	4,271
Foreclosure-related expenses	1,731	2,557
Merger-related expenses	38	2,997
Other	66,507	62,491
Total noninterest expense	251,671	258,166
Income before income taxes	81,488	106,960
Income taxes	29,416	39,802
Net income	$52,072	$67,158
Average shares outstanding	12,010,405	12,010,405
Net income per share	$4.34	$5.59

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended March 31	
(Dollars in thousands, unaudited)	2016	2015
Net income	$52,072	$67,158
Other comprehensive income:		
Unrealized gains on securities:		
Change in unrealized securities gains arising during period	68,033	30,415
Tax effect	(26,016)	(11,813)
Reclassification adjustment for net gains realized and included in income before income taxes	(4,628)	(5,126)
Tax effect	1,770	1,977
Total change in unrealized gains on securities, net of tax	39,159	15,453
Change in fair value of cash flow hedges:		
Change in unrecognized loss on cash flow hedges	700	576
Tax effect	(263)	(222)
Total change in unrecognized loss on cash flow hedges, net of tax	437	354
Change in pension obligation:		
Amortization of actuarial losses and prior service cost	1,652	2,886
Tax effect	(632)	(1,123)
Total change in pension obligation, net of tax	1,020	1,763
Other comprehensive income	40,616	17,570
Total comprehensive income	$92,688	$84,728

See accompanying Notes to Consolidated Financial Statements.

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First 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, 2014	$ 11,005	$ 1,005	$658,918	$2,069,647	$ (52,981)	$2,687,594
Net income	—	—	—	67,158	—	67,158
Other comprehensive income, net of tax	—	—	—	—	17,570	17,570
Cash dividends ($0.30 per share)	—	—	—	(3,603)	—	(3,603)
Balance at March 31, 2015	$ 11,005	$ 1,005	$658,918	$2,133,202	$ (35,411)	$2,768,719
Balance at December 31, 2015	$ 11,005	$ 1,005	$658,918	$2,265,621	$ (64,440)	$2,872,109
Net income	—	—	—	52,072	—	52,072
Other comprehensive income, net of tax	—	—	—	—	40,616	40,616
Cash dividends ($0.30 per share)	—	—	—	(3,603)	—	(3,603)
Balance at March 31, 2016	$ 11,005	$ 1,005	$658,918	$2,314,090	$ (23,824)	$2,961,194

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended March 31	
(Dollars in thousands, unaudited)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$52,072	$67,158
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	4,843	5,792
Deferred tax benefit	(8,806)	(10,203)
Net change in current taxes	35,678	15,437
Depreciation	22,053	21,965
Net change in accrued interest payable	324	176
Net increase in income earned not collected	(3,482)	(5,988)
Gain on acquisition	(1,704)	(42,930)
Securities gains	(4,628)	(5,126)
Origination of loans held for sale	(144,895)	(126,547)
Proceeds from sale of loans	140,160	127,203
Gain on sale of loans	(2,487)	(3,468)
Net writedowns/losses on other real estate	2,599	1,978
Net amortization of premiums and discounts	(12,201)	(17,150)
Amortization of intangible assets	5,586	5,206
Reduction in FDIC receivable for loss share agreements	4,076	8,092
Increase in FDIC payable for loss share agreements	1,790	2,110
Net change in other assets	(19,678)	15,223
Net change in other liabilities	3,857	3,804
Net cash provided by operating activities	75,157	62,732
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans outstanding	(131,923)	(168,341)
Purchases of investment securities available for sale	(1,139,933)	(626,268)
Proceeds from maturities/calls of investment securities held to maturity	61	77
Proceeds from maturities/calls of investment securities available for sale	396,211	330,500
Proceeds from sales of investment securities available for sale	987,260	481,708
Net change in overnight investments	(805,699)	(734,004)
Cash paid to the FDIC for loss share agreements	(9,871)	(5,762)
Proceeds from sales of other real estate	8,202	22,794
Additions to premises and equipment	(13,595)	(13,177)
Business acquisition, net cash acquired	14,745	123,137
Net cash used by investing activities	(694,542)	(589,336)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in time deposits	(84,802)	(189,906)
Net increase in demand and other interest-bearing deposits	460,086	545,807
Net change in short-term borrowings	92,841	(50,835)
Repayment of long-term obligations	(68)	(3,140)
Origination of long-term obligations	75,000	120,000
Cash dividends paid	—	(3,603)
Net cash provided by financing activities	543,057	418,323
Change in cash and due from banks	(76,328)	(108,281)

Cash and due from banks at beginning of period	534,086	604,182
Cash and due from banks at end of period	$457,758	$495,901
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfers of loans to other real estate	$9,980	$21,300
Dividends declared but not paid	3,603	3,603

See accompanying Notes to Consolidated Financial Statements.

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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, 2015.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to the current financial statement presentation. Such reclassifications had no effect on previously reported 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 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) 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

This ASU eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination and requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts must be calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this ASU should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU with earlier application permitted for financial statements that have not been issued. We adopted the guidance effective in the first quarter of 2016. The initial adoption did not have an impact on our consolidated financial position or consolidated results of operations.

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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 fiscal years beginning after December 15, 2015 for public business entities, including interim periods within those fiscal years, and is to be applied retrospectively. We adopted the guidance effective in the first quarter of 2016. The initial adoption did not have an impact on our consolidated financial position or consolidated results of operations.

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 fiscal years beginning after December 15, 2015 for public business entities, including interim periods within those fiscal years. We adopted the guidance effective in the first quarter of 2016. The initial adoption did not have an impact on our consolidated financial position or consolidated results of operations.

Recently Issued Accounting Pronouncements

FASB ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting

This ASU eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The ASU requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. Further, the ASU requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognizes through earnings, the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method.

The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the new standard and will adopt the guidance during the first quarter of 2017.

FASB ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments

This ASU clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. When a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks.

The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We will adopt the guidance during the first quarter of 2017. BancShares does not anticipate any effect on our consolidated financial position or consolidated results of options as a result of adoption.

FASB ASU 2016-02, Leases (Topic 842)

This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The key difference between existing standards and this ASU is the requirement for lessees to recognize on their balance sheet all lease contracts with lease terms greater than 12 months, including operating leases. Both a right-of-use asset, representing the right to use the leased asset, and a lease liability, representing the contractual obligation, are required to be recognized on the balance sheet of the lessee at lease commencement. Further, this ASU requires lessees to classify leases as either operating or finance leases, which are substantially similar to the current operating and capital leases classifications. The distinction between these two classifications under the new standard does not relate to balance sheet treatment, but relates to treatment in the statements of income and cash flows. Lessor guidance remains largely unchanged with the exception of how a lessor determines the appropriate lease classification for each lease to better align the lessor guidance with revised lessee classification guidance.

The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the new standard and we will adopt during the first quarter of 2019.

FASB ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

This ASU addresses certain aspects of recognition, measurement, presentation and disclosure. The amendments in this ASU (1) require equity investments to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without readily determinable fair value; (3) require public business entities to use exit prices, rather than entry prices, when measuring fair value of financial instruments for disclosure purposes; (4) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; (5) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (6) require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and (7) state that a valuation allowance on deferred tax assets related to available-for-sale securities should be evaluated in combination with other deferred tax assets.

The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The ASU only permits early adoption of the instrument-specific credit risk provision. We are currently evaluating the impact of the new standard and we will adopt during the first quarter of 2018.

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 in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, to improve the operability and understandability of the implementation guidance on principal versus agent considerations.

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

North Milwaukee State Bank

On March 11, 2016, FCB entered into an agreement with the Federal Deposit Insurance Corporation (FDIC), as Receiver, to purchase certain assets and assume certain liabilities of North Milwaukee State Bank (NMSB) of Milwaukee, Wisconsin. The acquisition provided FCB with value enhancement.

The NMSB 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 was $52.4 million, including $35.4 million in loans and $240 thousand of identifiable intangible assets. Liabilities assumed were $60.9 million of which $59.2 million were deposits. As a result of the transaction, FCB recorded a gain on the acquisition of $1.7 million which is included in noninterest income in the Consolidated Statements of Income.

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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	$ 4,545
Overnight investments	2,274
Investment securities	9,425
Loans	35,416
Other real estate owned	330
Intangible assets	240
Other assets	216
Total assets acquired	52,446
Liabilities	
Deposits	59,206
Short-term borrowings	1,662
Other liabilities	74
Total liabilities assumed	60,942
Fair value of net liabilities assumed	(8,496)
Cash received from FDIC	10,200
Gain on acquisition of NMSB	$ 1,704

Merger-related expenses of $38 thousand were recorded in the Consolidated Statements of Income for the three months ended March 31, 2016. Loan-related interest income generated from NMSB was approximately $123 thousand since the acquisition date.

All loans resulting from the NMSB 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.

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NOTE C - INVESTMENTS

The amortized cost and fair value of investment securities classified as available for sale and held to maturity at March 31, 2016 and December 31, 2015, are as follows:

	March 31, 2016			
(Dollars in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury	$1,538,907	$ 2,308	$ —	$1,541,215
Government agency	355,488	669	—	356,157
Mortgage-backed securities	4,693,313	37,375	3,406	4,727,282
Equity securities	50,066	2,314	285	52,095
Other	10,615	—	75	10,540
Total investment securities available for sale	$6,648,389	$ 42,666	$ 3,766	$6,687,289

	December 31, 2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	$1,675,996	$ 4	$ 1,118	$1,674,882
Government agency	498,804	230	374	498,660
Mortgage-backed securities	4,692,447	5,120	29,369	4,668,198
Equity securities	7,935	968	10	8,893
Other	10,615	45	—	10,660
Total investment securities available for sale	$6,885,797	$ 6,367	$ 30,871	$6,861,293

	March 31, 2016			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities held to maturity				
Mortgage-backed securities	$194	$ 9	$ —	$203

	December 31, 2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	$255	$ 10	$ —	$265

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. Equity securities do not have a stated maturity date.

	March 31, 2016		December 31, 2015	
(Dollars in thousands)	Cost	Fair value	Cost	Fair value
Investment securities available for sale				

Non-amortizing securities maturing in:				
One year or less	$1,554,483	$1,556,414	$1,255,714	$1,255,094
One through five years	339,912	340,958	919,086	918,448
Five through 10 years	8,500	8,500	8,500	8,500
Over 10 years	2,115	2,040	2,115	2,160
Mortgage-backed securities	4,693,313	4,727,282	4,692,447	4,668,198
Equity securities	50,066	52,095	7,935	8,893
Total investment securities available for sale	$6,648,389	$6,687,289	$6,885,797	$6,861,293
Investment securities held to maturity				
Mortgage-backed securities held to maturity	$194	$203	$255	$265

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

	Three months ended March 31	
(Dollars in thousands)	2016	2015
Gross gains on sales of investment securities available for sale	$4,933	$5,135
Gross losses on sales of investment securities available for sale	(305)	(9)
Total securities gains	$4,628	$5,126

The following table provides information regarding securities with unrealized losses as of March 31, 2016 and December 31, 2015.

	March 31, 2016					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
Mortgage-backed securities	$417,711	$ 1,071	$291,021	$ 2,335	$708,732	$ 3,406
Equity securities	13,037	285	—	—	13,037	285
Other	2,040	75	—	—	2,040	75
Total	$432,788	$ 1,431	$291,021	$ 2,335	$723,809	$ 3,766

	December 31, 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:						
U.S. Treasury	$1,539,637	$ 1,118	$—	$ —	$1,539,637	$ 1,118
Government agency	229,436	374	—	—	229,436	374
Mortgage-backed securities	3,570,470	23,275	280,126	6,094	3,850,596	29,369
Equity securities	728	10	—	—	728	10
Total	$5,340,271	$ 24,777	$280,126	$ 6,094	$5,620,397	$ 30,871

Investment securities with an aggregate fair value of $291.0 million and $280.1 million had continuous unrealized losses for more than 12 months with a corresponding aggregate unrealized loss of $2.3 million and $6.1 million as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016, all 52 of these investments are government sponsored enterprise-issued mortgage-backed securities. None of the unrealized losses identified as of March 31, 2016 or December 31, 2015 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 $4.94 billion at March 31, 2016 and $4.73 billion at December 31, 2015 were pledged as collateral to secure public funds on deposit and certain short-term borrowings, and for other purposes as required by law.

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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 non-impaired loans, purchased leases and certain purchased revolving credit. 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.

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Loans and leases outstanding included the following at March 31, 2016 and December 31, 2015:

(Dollars in thousands)	March 31, 2016	December 31, 2015
Non-PCI loans and leases:		
Commercial:		
Construction and land development	$626,311	$620,352
Commercial mortgage	8,353,631	8,274,548
Other commercial real estate	324,858	321,021
Commercial and industrial	2,389,946	2,368,958
Lease financing	751,292	730,778
Other	343,877	314,832
Total commercial loans	12,789,915	12,630,489
Noncommercial:		
Residential mortgage	2,718,208	2,695,985
Revolving mortgage	2,521,902	2,523,106
Construction and land development	213,232	220,073
Consumer	1,228,545	1,219,821
Total noncommercial loans	6,681,887	6,658,985
Total non-PCI loans and leases	19,471,802	19,289,474
PCI loans:		
Commercial:		
Construction and land development	32,799	33,880
Commercial mortgage	526,776	525,468
Other commercial real estate	18,050	17,076
Commercial and industrial	14,742	15,182
Other	1,860	2,008
Total commercial loans	594,227	593,614
Noncommercial:		
Residential mortgage	298,662	302,158
Revolving mortgage	50,574	52,471
Consumer	2,424	2,273
Total noncommercial loans	351,660	356,902
Total PCI loans	945,887	950,516
Total loans and leases	$20,417,689	$20,239,990

At March 31, 2016, $258.2 million of total loans and leases were covered under loss share agreements, compared to $272.6 million at December 31, 2015. Loss share protection for United Western Bank (UWB), Atlantic Bank & Trust (ABT) and Colorado Capital Bank (CCB) non-single family residential loans with balances of $113.7 million, $9.0 million and $2.7 million at March 31, 2016 will expire at the beginning of the second quarter of 2016, third quarter of 2016 and fourth quarter of 2016, respectively.

At March 31, 2016, $8.51 billion in noncovered loans with a lendable collateral value of $6.08 billion were used to secure $585.3 million in Federal Home Loan Bank (FHLB) of Atlanta advances, resulting in additional borrowing capacity of $5.50 billion. At December 31, 2015, $8.58 billion in noncovered loans with a lendable collateral value of $6.08 billion were used to secure $510.3 million in FHLB of Atlanta advances, resulting additional borrowing capacity of $5.57 billion.

Net deferred fees on originated non-PCI loans and leases, including unearned income and unamortized costs, fees, premiums and discounts, were $13.2 million and $16.6 million at March 31, 2016 and December 31, 2015, respectively. The unamortized discount related to the non-PCI loans and leases acquired in the First Citizens Bancorporation, Inc. (Bancorporation) merger was $37.9 million and $41.1 million at March 31, 2016 and

December 31, 2015, respectively. During the three months ended March 31, 2016 and March 31, 2015, accretion income on non-PCI loans was $3.2 million and $5.6 million, respectively.

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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 March 31, 2016 and December 31, 2015 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.

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Non-PCI loans and leases outstanding at March 31, 2016 and December 31, 2015 by credit quality indicator are provided below:

	March 31, 2016						
(Dollars in thousands)	Non-PCI commercial loans and leases						
Grade:	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Lease financing	Other	Total non-PCI commercial loans and leases
Pass	$622,312	$8,102,908	$ 321,375	$2,241,626	$ 744,585	$341,300	$12,374,106
Special mention	1,926	97,425	1,294	14,003	3,698	1,334	119,680
Substandard	2,073	149,651	1,030	20,070	2,639	1,243	176,706
Doubtful	—	458	—	399	46	—	903
Ungraded	—	3,189	1,159	113,848	324	—	118,520
Total	$626,311	$8,353,631	$ 324,858	$2,389,946	$ 751,292	$343,877	$12,789,915

	December 31, 2015						
	Non-PCI commercial loans and leases						
	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Lease financing	Other	Total non-PCI commercial loans and leases
Pass	$611,314	$8,024,831	$ 318,187	$2,219,606	$ 719,338	$311,401	$12,204,677
Special mention	5,191	100,220	475	19,361	4,869	1,905	132,021
Substandard	3,847	146,071	959	21,322	6,375	1,526	180,100
Doubtful	—	599	—	408	169	—	1,176
Ungraded	—	2,827	1,400	108,261	27	—	112,515
Total	$620,352	$8,274,548	$ 321,021	$2,368,958	$ 730,778	$314,832	$12,630,489

	March 31, 2016				
	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	$2,673,451	$2,501,519	$ 208,944	$1,220,091	$ 6,604,005
30-59 days past due	24,701	11,219	3,121	5,339	44,380
60-89 days past due	7,041	2,396	325	1,722	11,484
90 days or greater past due	13,015	6,768	842	1,393	22,018
Total	$2,718,208	$2,521,902	$ 213,232	$1,228,545	$ 6,681,887

	December 31, 2015				
	Non-PCI noncommercial loans and leases				
	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total non-PCI noncommercial loans and leases
Current	$2,651,209	$2,502,065	$ 214,555	$1,210,832	$ 6,578,661
30-59 days past due	23,960	11,706	3,211	5,545	44,422
60-89 days past due	7,536	3,704	669	1,822	13,731

90 days or greater past due	13,280	5,631	1,638	1,622	22,171
Total	$2,695,985	$2,523,106	$ 220,073	$1,219,821	$ 6,658,985

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PCI loans outstanding at March 31, 2016 and December 31, 2015 by credit quality indicator are provided below:

	March 31, 2016					
(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	$12,797	$ 261,904	$ 8,500	$ 8,595	$623	$ 292,419
Special mention	1,781	87,801	59	548	—	90,189
Substandard	14,056	159,083	9,081	4,292	1,237	187,749
Doubtful	4,165	17,656	—	1,240	—	23,061
Ungraded	—	332	410	67	—	809
Total	$32,799	$ 526,776	$ 18,050	$ 14,742	$1,860	$ 594,227

	December 31, 2015					
	PCI commercial loans					
	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Other	Total PCI commercial loans
Pass	$14,710	$ 262,579	$ 7,366	$ 9,302	$706	$ 294,663
Special mention	758	87,870	60	937	—	89,625
Substandard	14,131	163,801	9,229	4,588	1,302	193,051
Doubtful	4,281	10,875	—	282	—	15,438
Ungraded	—	343	421	73	—	837
Total	$33,880	$ 525,468	$ 17,076	$ 15,182	$2,008	