FIRST CITIZENS BANCSHARES INC /DE/
Form 10-K
March 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
Commission File Number 001-16715

FIRST CITIZENS BANCSHARES, INC.
(Exact name of Registrant as specified in the 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 Principal Executive Offices, Zip Code)

(919) 716-7000
(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to:	
Section 12(b) of the Act:	Class A Common Stock, Par Value $1
Section 12(g) of the Act:	Class B Common Stock, Par Value $1
	(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 “large accelerated filer,” “accelerated filer,” “non-accelerated filer,” and “smaller reporting company” 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

The aggregate market value of the Registrant’s common equity held by nonaffiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant’s most recently completed second fiscal quarter was $1,139,006,602.

On February 29, 2012, there were 8,644,307 outstanding shares of the Registrant’s Class A Common Stock and 1,639,812 outstanding shares of the Registrant’s Class B Common Stock.

Portions of the Registrant’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders are incorporated in Part III of this report.

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CROSS REFERENCE INDEX

* Information required by Item 10 is incorporated herein by reference to the information that appears under the headings or captions 'Proposal 1: Election of Directors,' 'Code of Ethics,' 'Committees of our Board—General,' and '—Audit

and Compliance Committee', 'Executive Officers' and 'Section 16(a) Beneficial Ownership Reporting Compliance' from the Registrant's Proxy Statement for the 2012 Annual Meeting of Shareholders (2012 Proxy Statement) .
Information required by Item 11 is incorporated herein by reference to the information that appears under the headings or captions 'Compensation Committee Report,' 'Compensation Discussion and Analysis,' 'Executive Compensation,' and 'Director Compensation,' of the 2012 Proxy Statement.
Information required by Item 12 is incorporated herein by reference to the information that appears under the heading 'Beneficial Ownership of Our Common Stock' of the 2012 Proxy Statement.
Information required by Item 13 is incorporated herein by reference to the information that appears under the headings or captions 'Corporate Governance—Director Independence' and 'Transactions with Related Persons' of the 2012 Proxy Statement.
Information required by Item 14 is incorporated by reference to the information that appears under the caption 'Services and Fees During 2011 and 2010' of the 2012 Proxy Statement.

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Business

General

First Citizens BancShares, Inc. (BancShares) was incorporated under the laws of Delaware on August 7, 1986, to become the holding company of First-Citizens Bank & Trust Company (FCB), its banking subsidiary. FCB opened in 1898 as the Bank of Smithfield, Smithfield, North Carolina, and later became First-Citizens Bank & Trust Company.

On April 28, 1997, BancShares launched IronStone Bank (ISB), a federally-chartered thrift institution that originally operated under the name Atlantic States Bank. Initially, ISB operated in the counties surrounding Atlanta, Georgia, but gradually expanded into other high-growth markets in urban areas throughout the United States. On January 7, 2011 ISB was merged into FCB resulting in a single banking subsidiary of BancShares. As of December 31, 2011, FCB operated 430 branches in North Carolina, Virginia, West Virginia, Maryland, Tennessee, Washington, California, Florida, Georgia, Texas, Arizona, New Mexico, Oregon, Colorado, Oklahoma, Kansas, Missouri and Washington, DC.

During 2011, 2010 and 2009, FCB acquired the assets and assumed the liabilities of six institutions through FDIC-assisted transactions. These transactions have allowed FCB to enter new markets and expand its presence in other markets. These transactions have resulted in acquisition gains of $150.4 million, $136.0 million, and $104.4 million for the years ended December 31, 2011, 2010 and 2009 respectively. A summary of the FDIC-assisted transactions is provided in the table below.

Entity	Date of transaction	Primary markets	Fair value of Loans acquired	Deposits assumed
			(thousands)	
Colorado Capital Bank (CCB)	July 8, 2011	Central Colorado	$320,789	$606,501
United Western Bank (United Western)	January 21, 2011	Denver, Colorado area	759,351	1,604,858
Sun American Bank (SAB)	March 5, 2010	Southern Florida	290,891	420,012
First Regional Bank (First Regional)	January 29, 2010	Los Angeles, California area	1,260,249	1,287,719
Venture Bank (VB)	September 11, 2009	Washington State	456,995	709,091
Temecula Valley Bank (TVB)	July 17, 2009	Southern California	855,583	965,431
Total			$3,943,858	$5,593,612

BancShares' market areas enjoy a diverse employment base, including, in various locations, manufacturing, service industries, agricultural, wholesale and retail trade, technology and financial services. BancShares believes its current market areas will support future growth in loans and deposits. BancShares maintains a community bank approach to providing customer service, a competitive advantage that strengthens our ability to effectively provide financial products and services to individuals and businesses in our markets. However, like larger banks, BancShares has the capacity to offer most financial products and services that our customers require.

A substantial portion of BancShares’ revenue is derived from our operations throughout North Carolina, Virginia, and in the urban areas of Georgia, Florida, California and Texas in which we operate. The delivery of products and services to our customers is primarily accomplished through associates deployed throughout our extensive branch network. However, we also provide customers with access to our products and services through online banking, telephone banking and through various ATM networks. Business customers may also conduct banking transactions through use of remote image technology.

FCB’s primary deposit markets are North Carolina and Virginia. FCB’s deposit market share in North Carolina was 4.3 percent as of June 30, 2011 based on the FDIC Deposit Market Share Report. Based on this ranking of deposits, FCB was the fourth largest bank in North Carolina. The three banks larger than FCB based on deposits in North Carolina as of June 30, 2011, controlled 73.4 percent of North Carolina deposits. In Virginia, FCB was the 19th largest bank with a June 30, 2011 deposit market share of 0.6 percent. The 18 larger banks represent 84.3 percent of total deposits in Virginia as of June 30, 2011. The distribution of FCB branches as of December 31, 2011 is provided in the table below.

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December 31, 2011

State	Branches
North Carolina	273
Virginia	49
California	22
Florida	20
Georgia	15
Colorado	11
Washington	10
Texas	7
Tennessee	6
West Virginia	5
Arizona	2
New Mexico	2
Oklahoma	2
Oregon	2
District of Columbia	1
Kansas	1
Maryland	1
Missouri	1
Total Branches	430

FCB seeks to meet the needs of both individuals and commercial entities in its market areas. Services, offered at most offices, include taking of deposits, cashing of checks, and providing for individual and commercial cash needs; numerous checking and savings plans; commercial, business and consumer lending; a full-service trust department; and other activities incidental to commercial banking. FCB also provides various processing and operational services to approximately 60 other banks. FCB’s wholly-owned subsidiary, First Citizens Investor Services, Inc. (FCIS), provides various investment products, including annuities, discount brokerage services and third-party mutual funds to customers primarily through the bank's branch network. Other subsidiaries are not material to BancShares’ consolidated financial position or to consolidated net income.

The financial services industry is highly competitive and the ability of non-bank financial entities to provide services previously reserved for commercial banks has intensified competition. Traditional commercial banks are subject to significant competitive pressure from multiple types of financial institutions. This competitive pressure is perhaps most acute in wealth management and payments processing. Non-banks and other diversified financial conglomerates have developed powerful and focused franchises, which have eroded traditional commercial banks’ market share of both balance sheet and fee-based products. As the banking industry continues to consolidate, the degree of competition that exists in the banking market will be affected by the elimination of some regional and local institutions. Since 2008, asset quality challenges, capital erosion and a general inability to find reliable sources of new capital and a severe global economic recession have compelled many banks to merge and have led to bank failures that have had a significant impact on the competitive environment. We anticipate that industry consolidation will continue in the foreseeable future.

At December 31, 2011, BancShares and its subsidiaries employed a full-time staff of 4,417 and a part-time staff of 660 for a total of 5,077 employees.

Throughout its history, the operations of BancShares have been significantly influenced by descendants of Robert P. Holding, who came to control FCB during the 1920s. Robert P. Holding’s children and grandchildren have served as members of the board of directors, as chief executive officers and other executive management positions, and have remained shareholders controlling a large percentage of our common stock since BancShares was formed in 1986.

Our Chairman of the Board and Chief Executive Officer, Frank B. Holding, Jr., is the grandson of Robert P. Holding. Hope H. Connell, the Vice Chairman of BancShares and FCB, is Robert P. Holding’s granddaughter. Frank B. Holding, son of Robert P. Holding and father of Frank B. Holding, Jr. and Hope H. Connell, is our Executive Vice Chairman. Carmen Holding Ames, a granddaughter of Robert P. Holding, is a member of our board of directors.

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Lewis R. Holding preceded Frank B. Holding, Jr. as Chairman of the Board and Chief Executive Officer and served in both capacities from the time BancShares was formed until 2008, when he retired as Chief Executive Officer, and 2009, when he retired as Chairman of the Board. Lewis R. Holding, who died in August 2009, was the son of Robert P. Holding, brother of Frank B. Holding, and father of Carmen Holding Ames.

Various members of the Holding family, including those members who serve as our directors and in management positions, and certain of their related parties (including trusts established for their benefit), may be considered to beneficially own, in the aggregate, approximately 41.6 percent of the outstanding shares of our Class A common stock and approximately 82.8 percent of the outstanding shares of our Class B common stock, together representing approximately 72.4 percent of the voting control of BancShares.

Statistical information regarding our business activities is found in Management's Discussion and Analysis.

Regulatory Considerations

The business and operations of BancShares and FCB are subject to significant federal and state governmental regulation and supervision. BancShares is a financial holding company registered with the Federal Reserve Board (FRB) under the Bank Holding Company Act of 1956, as amended. It is subject to supervision and examination by, and the regulations and reporting requirements of, the FRB.

FCB is a state-chartered bank, subject to supervision and examination by, and the regulations and reporting requirements of, the FDIC and the North Carolina Commissioner of Banks. Deposit obligations are insured by the FDIC to the maximum legal limits.

The various regulatory authorities supervise all areas of FCB including loans, allowances for loan and lease losses, mergers and acquisitions, the payment of dividends, various compliance matters and other aspects of its operations. The regulators conduct regular examinations, and FCB must furnish periodic reports to its regulators containing detailed financial and other information.

Numerous statutes and regulations apply to and restrict the activities of FCB, including limitations on the ability to pay dividends, capital requirements, reserve requirements, deposit insurance requirements and restrictions on transactions with related parties. The impact of these statutes and regulations is discussed below and in the accompanying audited consolidated financial statements.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements far-reaching regulatory reform. Some of the more significant implications of the Dodd-Frank Act are summarized below:

- Established centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (CFPB), responsible for implementing, examining and enforcing compliance with federal consumer financial laws;
- Established the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies;
- Required financial holding companies to be well-capitalized and well managed as of July 21, 2011; bank holding companies and banks must also be both well-capitalized and well managed in order to acquire banks located outside their home state;
- Disallowed the ability of banks and holding companies with more than $10 billion in assets to include trust preferred securities as tier 1 capital; this provision will be applied over a three-year period beginning January 1, 2013;

- Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital;
- Eliminated the ceiling on the size of the deposit insurance fund (DIF) and increased the floor on the size of the DIF;
- Required large, publicly traded bank holding companies to create a board-level risk committee responsible for the oversight of enterprise risk management;
- Required implementation of corporate governance revisions;
- Established a permanent $250,000 limit for federal deposit insurance protection, increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provided unlimited federal deposit insurance protection until December 31, 2012 for noninterest-bearing demand transaction accounts at all insured depository institutions;
- Repealed the federal prohibition on the payment of interest on demand deposits, thereby permitting depository

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institutions to pay interest on business transaction and other accounts;

- Amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer;
- Increased the authority of the Federal Reserve to examine financial institutions including non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to financial institutions and consumers. The provision of the legislation related to allowable fees that may be charged for debit transactions has resulted in materially reduced revenue derived from debit cards while the repeal of the prohibition on the payment of interest on demand deposits is likely to increase the costs associated with certain deposit instruments.

Provisions within the Dodd-Frank Act related to the disallowance of our ability to include trust preferred securities as tier 1 capital will affect our capital ratios beginning in 2013. At December 31, 2011, BancShares had $243.5 million of trust preferred securities outstanding. Beginning in 2013 and continuing in each of the following two years, one-third or $81.2 million of the trust preferred securities will be disallowed from tier 1 capital. Elimination of the full $243.5 million of trust preferred securities from the December 31, 2011 capital structure would result in a proforma tier 1 leverage ratio of 8.73 percent, a proforma tier 1 risk-based ratio of 13.60 percent and a proforma total risk-based ratio of 15.46 percent. Although these are significant decreases from the amounts reported as of December 31, 2011, BancShares would continue to remain well-capitalized under current regulatory guidelines.

During 2008, in response to widespread concern about weakness within the banking industry, the Emergency Economic Stabilization Act was enacted, providing expanded insurance protection to depositors. In addition, the U.S. Treasury created the TARP Capital Purchase Program to provide qualifying banks with additional capital. The FDIC created the Temporary Liquidity Guarantee Program (TLGP), which allowed banks to purchase a guarantee for newly-issued senior unsecured debt and provided expanded deposit insurance benefits to certain noninterest-bearing accounts. Due to our strong capital ratios, we did not apply for additional capital under the TARP Capital Purchase Program. We also did not participate in the TLGP debt guarantee program, but did elect to participate in the TLGP expansion of deposit insurance. We continued to participate in the expanded deposit insurance program until the program was terminated.

Under the Federal Deposit Insurance Reform Act of 2005 (FDIRA), the FDIC uses a risk-based assessment system to determine the amount of a bank’s deposit insurance assessment based on an evaluation of the probability that the DIF will incur a loss with respect to that bank. The evaluation considers risks attributable to different categories and concentrations of the bank’s assets and liabilities and other factors the FDIC considers to be relevant, including information obtained from federal and state banking regulators.

The FDIC is responsible for maintaining the adequacy of the DIF, and the amount paid by a bank for deposit insurance is influenced not only by the assessment of the risk it poses to the DIF, but also by the adequacy of the insurance fund to cover the risk posed by all insured institutions. FDIC insurance assessments could be increased substantially in the future if the FDIC finds such an increase to be necessary in order to adequately maintain the DIF. A rate increase and special assessment was imposed on insured financial institutions in 2009 due to the high level of bank failures, and the elevated rates continued during 2010. During 2011, a new risk-based assessment model was introduced and future changes in our risk profile could impact our assessment costs. Under the provisions of the FDIRA, the FDIC may terminate a bank’s deposit insurance if it finds that the bank has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated applicable laws, regulations, rules, or orders.

The Sarbanes-Oxley Act of 2002 (SOX Act) mandated important new corporate governance, financial reporting and disclosure requirements intended to enhance the accuracy and transparency of public companies' reported financial results. It established new responsibilities for corporate chief executive officers, chief financial officers and audit committees in the financial reporting process, and it created a new regulatory body to oversee auditors of public companies. The SOX Act also mandated new enforcement tools, increased criminal penalties for federal mail, wire and securities fraud, and created new criminal penalties for document and record destruction in connection with federal investigations. Additionally, the SOX Act increased the opportunity for private litigation by lengthening the statute of limitations for securities fraud claims and providing new federal corporate whistleblower protection.

The SOX Act requires various securities exchanges, including The NASDAQ Global Select Market, to prohibit the listing of the stock of an issuer unless that issuer maintains an independent audit committee. In addition, the securities exchanges have imposed various corporate governance requirements, including the requirement that various corporate matters (including executive compensation and board nominations) be approved, or recommended for approval by the issuer's full board of directors, by directors of the issuer who are "independent" as defined by the exchanges' rules or by committees made up of "independent" directors. Since BancShares' Class A common stock is a listed stock, BancShares is subject to those provisions of the Act and to corporate governance requirements of The NASDAQ Global Select Market. The economic and operational effects of the SOX Act on public companies, including BancShares, have been and will continue to be significant in terms of the time, resources and costs required to achieve compliance.

The USA Patriot Act of 2001 (Patriot Act) is intended to strengthen the ability of United States law enforcement and the intelligence community to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws which required various new regulations, including standards for verifying customer identification at account opening, and rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The Patriot Act has required financial institutions to adopt new policies and procedures to combat money laundering, and it grants the Secretary of the Treasury broad authority to establish regulations and impose requirements and restrictions on financial institutions' operations.

The Gramm-Leach-Bliley Act (GLB Act) adopted by Congress during 1999 expanded opportunities for banks and bank holding companies to provide services and engage in other revenue-generating activities that previously were prohibited to them. The GLB Act permitted bank holding companies to become "financial holding companies" and expanded activities in which banks and bank holding companies may participate, including opportunities to affiliate with securities firms and insurance companies. During 2000, BancShares became a financial holding company.

Under Delaware law, BancShares is authorized to pay dividends declared by its Board of Directors, provided that no distribution results in its insolvency. The ability of FCB to pay dividends to BancShares is governed by North Carolina statutes and rules and regulations issued by regulatory authorities. Under federal law, and as an insured bank, FCB is prohibited from making any capital distributions, including paying a cash dividend, if it is, or after making the distribution it would become, "undercapitalized" as that term is defined in the Federal Deposit Insurance Act (FDIA).

BancShares is required to comply with the capital adequacy standards established by the FRB, and FCB is subject to capital adequacy standards established by the FDIC. The FRB and FDIC have promulgated risk-based capital and leverage capital guidelines for determining the adequacy of the capital of a bank holding company or a bank, and all applicable capital standards must be satisfied for a bank holding company or a bank to be considered in compliance with these capital requirements. The FRB intends to issue during 2012 proposed regulations to implement the minimum capital standards of the Basel Committee on Banking Supervision including Basel III.

Current federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized banks. Under this system, the FDIC has established five capital categories ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized"). The FDIC is required to take certain mandatory supervisory actions, and is authorized to take other discretionary actions, with respect to banks in the three undercapitalized categories.

Under the FDIC's rules implementing the prompt corrective action provisions, an insured, state-chartered bank that has a total capital ratio of 10.0 percent or greater, a tier 1 capital ratio of 6.0 percent or greater, a leverage ratio of 5.0 percent or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC, is considered to be "well-capitalized." As of December 31, 2011, FCB is well-capitalized.

Under regulations of the FRB, all FDIC-insured banks must maintain average daily reserves against their transaction accounts. Because required reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank or with a qualified correspondent bank, the effect of the reserve requirement is to reduce the amount of

FCB's assets that are available for lending or other investment activities.

With respect to acquired loans and other real estate that are subject to various loss share agreements, the FDIC also has responsibility for reviewing various reimbursement claims we submit for losses or expenses we have incurred in conjunction with the resolution of acquired assets.

FCB is subject to the provisions of Section 23A of the Federal Reserve Act which places limits on the amount of certain transactions with affiliate entities. The total amount of transactions with a single affiliate is limited to 10 percent of capital and surplus and, for all affiliates, to 20 percent of capital and surplus. Each of the transactions among affiliates must also meet specified collateral requirements and must comply with other provisions of Section 23A designed to avoid transfers of low-quality assets between affiliates. FCB is also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits the above and certain other transactions with affiliates unless the transactions are on terms substantially

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the same, or at least as favorable, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Under the Community Reinvestment Act, as implemented by regulations of the federal bank regulatory agencies, an insured bank has a continuing and affirmative obligation, consistent with safe and sound banking practices, to help meet the credit needs of its entire community, including low and moderate income neighborhoods.

FCIS is a registered broker-dealer and investment adviser. Broker-dealer activities are subject to regulation by the Financial Industry Regulatory Authority (FINRA), a self-regulatory organization to which the Securities and Exchange Commission (SEC) has delegated regulatory authority for broker-dealers, as well as by the state securities authorities of the various states in which FCIS operates. Investment advisory activities are subject to direct regulation by the SEC, and investment advisory representatives must register with the state securities authorities of the various states in which they operate.

FCIS is also licensed as an insurance agency in connection with various investment products, such as annuities, that are regulated as insurance products. FCIS' insurance sales activities are subject to concurrent regulation by securities regulators and by the insurance regulators of the various states in which FCIS conducts business.

Available Information

BancShares does not have its own separate Internet website. However, FCB's website (www.firstcitizens.com) includes a hyperlink to the SEC's website where the public may obtain copies of BancShares' annual reports on Form 10-K, quarterly reports on 10-Q, current reports on Form 8-K, and amendments to those reports, free of charge, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Interested parties may also directly access the SEC's website that contains reports and other information that BancShares files electronically with the SEC. The address of the SEC's website is www.sec.gov.

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Risk Factors

The risks and uncertainties that management believes are material are described below. Before making an investment decision, these risks and uncertainties should be carefully considered together with all of the other information included or incorporated herein by reference. The risks listed are not the only risks that BancShares faces. Additional risks and uncertainties that are not currently known or that management does not currently deem to be material could also have a material, adverse impact on our financial condition, the results of our operations, or our business. If this were to occur, the market price of our common stock could decline significantly.

Unfavorable economic conditions could continue to adversely affect our business

Our business is highly affected by national, regional and local economic conditions. These conditions cannot be predicted or controlled, and may have a material impact on our operations and financial condition. Unfavorable economic developments over the course of the last three years have resulted in negative effects on the business, risk profile, financial condition and results of operations of financial institutions in the United States including BancShares and FCB. Continued unfavorable economic conditions could weaken the national economy further as well as the economies of specific communities that we serve. Further deterioration in our market areas could depress our earnings and have an adverse impact on our financial condition and capital adequacy.

Weakness in real estate markets have adversely impacted our business and our results of operations and may continue to do so

Lower real estate values used as collateral for loans have resulted in reduced demand for loans secured by real estate assets. Such declining values have caused higher delinquencies and losses on various loan products, especially our non-commercial revolving mortgage loan portfolio. The revolving mortgage portfolio is comprised principally of loans secured by junior liens, and thus lower real estate values for collateral underlying these loans has, in many cases, resulted in the junior lien loan being collateralized by significantly reduced equity. In some cases, the outstanding balance of the senior lien is in excess of the value of the collateral resulting in a junior lien loan that is in effect unsecured.

Further declines in values, weak home sales activity, unfavorable economic conditions, and specifically high rates of unemployment could result in greater delinquency, write-downs or charge-offs in future periods which could have a material adverse impact on our results of operations and capital adequacy.

Accretion of fair value discounts may result in volatile interest income and net interest income

Fair value discounts that are recorded at the time an asset is acquired are accreted into interest income based on accounting principles generally accepted in the United States of America. The rate at which those discounts are accreted is unpredictable, the result of various factors including unscheduled prepayments and credit quality improvements that result in a reclassification from nonaccretable difference to accretable yield with prospective accretion into interest income. The discount accretion may result in significant volatility in interest income and net interest income.

To the extent that the changes in interest income and net interest income are attributable to improvements in credit quality of acquired loans, there will generally be a proportionate adjustment to the FDIC receivable that will be offset by an entry to noninterest income.

Reimbursements under loss share agreements are subject to FDIC oversight and interpretation and contractual term limitations

The FDIC-assisted transactions completed during 2011, 2010 and 2009 include significant protection to FCB from the exposures to prospective losses on certain assets that are covered under loss share agreements with the FDIC. These loss share agreements impose certain obligations on us that, in the event of noncompliance, could result in the delay or disallowance of some or all of our rights under those agreements. Requests for reimbursement are subject to FDIC review and may be delayed or disallowed for noncompliance. The loss share agreements are subject to interpretation by both the FDIC and FCB, and disagreements may arise regarding coverage of losses, expenses and contingencies. Additionally, losses that are currently projected to occur during the loss share term may not occur until after the expiration of the applicable agreement and those losses could have a material impact on results of operations in future periods.

We are subject to extensive oversight and regulation that continues to change

We and FCB are subject to extensive federal and state banking laws and regulations. These laws and regulations primarily focus on the protection of depositors, federal deposit insurance funds, and the banking system as a whole rather than the protection of security holders. Federal and state banking regulators possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums, increased expenses, reductions in fee income and limitations on activities that could have a material adverse effect on our results of operations.

The Dodd-Frank Act instituted significant changes to the overall regulatory framework for financial institutions including the creation of the CFPB that will impact BancShares and FCB. During the fourth quarter of 2011, limitations on debit card interchange fees became effective. Beginning January 1, 2013, a portion of our long-term borrowings that currently qualify as tier 1 capital will cease to be included in tier 1 capital.

In September 2010, the Basel Committee on Banking Supervision announced new global regulatory capital guidelines (Basel III) aimed at strengthening existing capital requirements for bank holding companies, through a combination of higher minimum capital requirements, new capital conservation buffers, and more conservative definitions of capital and exposure. If adopted by US regulators, the more strenuous capital requirements under Basel III could potentially limit our ability to fund future acquisitions or expand our business.

We encounter significant competition

We compete with other banks and specialized financial service providers in our market areas. Our primary competitors include local, regional and national banks and savings associations, credit unions, commercial finance companies, various wealth management providers, independent and captive insurance agencies, mortgage companies and non-bank providers of financial services. Some of our larger competitors, including banks that have a significant presence in our market areas, have the capacity to offer products and services we do not offer. Some of our competitors operate in a regulatory environment that is significantly less stringent than the one in which we operate, or are not subject to federal and state income taxes. The fierce competitive pressure that we face tends to reduce pricing for many of our products and services to levels that are marginally profitable.

Our financial condition could be adversely affected by the soundness of other financial institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to numerous financial service providers, including banks, brokers and dealers in securities and other institutional clients. Transactions with other financial institutions expose us to credit risk in the event of default of the counterparty.

Natural disasters and other catastrophes could affect our ability to operate

The occurrence of catastrophic events including weather-related events such as hurricanes, tropical storms, floods, or windstorms, as well as earthquakes, pandemic disease, fires and other catastrophes could adversely affect our financial condition and results of operations. In addition to natural catastrophic events, man-made events, such as acts of terror and governmental response to acts of terror, could adversely affect general economic conditions, which could have a material impact on our results of operations.

Unpredictable natural and other disasters could have an adverse effect if those events materially disrupt our operations or affect customers' access to the financial services we offer. Although we carry insurance to mitigate our exposure to certain catastrophic events, catastrophic events could nevertheless adversely affect our results of operations.

We are subject to interest rate risk

Our results of operations and cash flows are highly dependent upon our net interest income. Interest rates are sensitive to economic and market conditions that are beyond our control, including the actions of the Federal Reserve Board's Federal Open Market Committee. Changes in monetary policy could influence our interest income and interest expense as well as the fair value of our financial assets and liabilities. If the changes in interest rates on our interest-earning assets are not roughly equal to the changes in interest rates paid on our interest-bearing liabilities, our net interest income and therefore our net income could be adversely impacted.

Even though we maintain what we believe to be an adequate interest rate risk monitoring system, the forecasts of future net interest income in the system are estimates and may be inaccurate. The shape of the yield curve may change differently than we forecasted, and we cannot accurately predict changes in interest rates or actions by the Federal Open Market Committee that may have a direct impact on market interest rates.

Our current level of balance sheet liquidity may come under pressure

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Our deposit base represents our primary source of core funding and thus balance sheet liquidity. We normally have the ability to stimulate core deposit growth through reasonable and effective pricing strategies. However, in circumstances where our ability to generate needed liquidity is impaired, we would need access to noncore funding such as advances from the Federal Home Loan Bank, fed funds purchased, and brokered deposits. While we maintain access to noncore funding sources, we are dependent on the availability of collateral, the counterparty's willingness to lend to us, and their liquidity capacity.

We face significant operational risks in our businesses

Our ability to adequately conduct and grow our business is dependent on our ability to create and maintain an appropriate operational and organizational control infrastructure. Operational risk can arise in numerous ways including employee fraud, customer fraud, and control lapses in bank operations and information technology. Our dependence on our employees and automated systems, including the automated systems used by acquired entities and third parties, to record and process transactions may further increase the risk that technical failures or tampering of those systems will result in losses that are difficult to detect. We are also subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control. Failure to maintain an appropriate operational infrastructure can lead to loss of service to customers, legal actions, and noncompliance with various laws and regulations.

Our business could suffer if we fail to attract and retain skilled people

FCB's success depends primarily on its ability to attract and retain key people. Competition is intense for people who we believe will be successful in developing and attracting new business and/or managing critical support functions for FCB. Our historical lack of providing compensation to key people through annual cash incentives, incentive stock awards or long-term incentive awards creates unique challenges to our attraction and retention of key people. We may not be able to hire the best people or retain them for an adequate period of time after their hire date.

We continue to encounter technological change

The financial services industry continues to experience an increase in technological complexity required to provide a competitive array of products and services to customers. Our future success depends in part on our ability to satisfactorily invest in and address our technology infrastructure to ensure that we can continue to provide products and services that meet the needs of our customers. Several of our principal competitors are much larger than we are, and thus have substantially greater resources to invest in their technological capabilities and infrastructure. We may not be able to satisfactorily address our technology needs in a timely and cost-effective manner, which could lead to a material adverse impact on our business, financial condition, and financial results of operations.

We are subject to information security risks

We maintain and transmit large amounts of sensitive information electronically including personal and financial information of our customers. While we maintain strict information security standards, unauthorized access and use of this data could lead to a material adverse impact on our business, financial condition, and financial results of operations.

We rely on external vendors

Third party vendors provide key components of our business infrastructure including certain data processing and information services. Failures of these third parties to provide services for any reason could adversely affect our ability to deliver products and services to our customers. We maintain a robust control environment designed to monitor vendor risks including the financial stability of critical vendors. While we believe that our control environment is adequate, the failure of a critical external vendor could disrupt our business and cause us to incur significant expense.

We are subject to litigation risks that may be uninsured

We face litigation risks as principal and fiduciary from customers, employees, vendors, federal and state regulatory agencies, and other parties who may seek to assert single or class action liabilities against us. The frequency of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against us may have material adverse financial effects or cause significant reputational harm. Although we carry insurance to mitigate our exposure to certain litigation risks, litigation could nevertheless adversely affect our results of operations.

We use accounting estimates in the preparation of our financial statements

The preparation of our financial statements in conformity with accounting principles generally accepted in the United

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States of America requires management to make significant estimates that affect the financial statements. Significant estimates include the allowance for loan and lease losses, the fair values of acquired loans, and OREO both at acquisition date and in subsequent periods, and the related receivable from the FDIC for loss share agreements. Due to the uncertainty of the circumstances relating to these estimates, we may experience more adverse outcomes than originally estimated. The allowance for loan and lease losses may need to be significantly increased. The actual losses or expenses on loans or the losses or expenses not covered under the FDIC agreements may differ from the recorded amounts resulting in charges that could materially affect our results of operations.

Accounting standards may change

The Financial Accounting Standards Board and the Securities and Exchange Commission periodically modify the standards that govern the preparation of our financial statements. The nature of these changes is not predictable, and could impact how we record transactions in our financial statements, which could lead to material changes in assets, liabilities, shareholders' equity, revenues, expenses and net income. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results or a cumulative adjustment to retained earnings. The application of new accounting rules or standards could require us to implement costly technology changes.

Integration of our FDIC-assisted acquisitions may be disruptive

Complications in the conversion of operating systems, data processing systems and products may result in the loss of customers, damage to our reputation, operational problems, one-time costs currently not anticipated, or reduced cost savings resulting from a merger or acquisition. The integration could result in higher than expected deposit attrition, loss of key employees, disruption of our businesses or the businesses of the acquired company or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition.

The acquisition gains that we have recorded in our financial statements are subject to adjustment

The acquisition gains recorded during 2011 are preliminary and subject to revision for a period of one year following the respective acquisition dates. Adjustments to the gains may be recorded based on additional information received after the acquisition date that affected the acquisition date fair values of assets acquired and liabilities assumed. Further downward adjustments in values of assets acquired or increases in values of liabilities assumed on the date of acquisition would lower the acquisition gains.

Our ability to generate future acquisition gains is uncertain

During 2011, 2010, and 2009, a significant portion of our earnings have been derived from acquisition gains resulting from FDIC-assisted transactions that may not occur in future periods. Our ability to participate in future FDIC-assisted transactions is dependent on several factors including regulatory approval, access to sufficient liquidity to fund the transactions, capital adequacy, and availability of profitable opportunities that meet our strategic objectives. Inability to execute profitable transactions could have a negative impact on our ability to generate additional capital through current earnings.

Our access to capital is limited which could impact our future growth

Based on existing capital levels, BancShares and FCB maintain well-capitalized ratios under current leverage and risk-based capital standards including the impact of the acquisitions in 2011, 2010 and 2009. Historically, our primary capital sources have been retained earnings and debt issued through both private and public markets including trust preferred securities and subordinated debt. The Dodd-Frank Act contains provisions that will eliminate our inclusion of $243.5 million of trust preferred securities in tier 1 risk-based capital beginning January 1, 2013 with total elimination on January 1, 2015. The inability to include the trust preferred securities in tier 1 risk-based capital may lead us to redeem a portion or all of the securities prior to their scheduled maturity dates. Since we have not historically raised capital through new issues of our common stock, we seek to replace the tier 1 capital provided by the trust preferred securities in part through acquisition gains arising from FDIC-assisted transactions. A lack of ready access to adequate amounts of tier 1 capital could limit our ability to consummate additional acquisitions, make new loans, meet our existing lending commitments, and could potentially affect our liquidity and capital adequacy.

The major rating agencies regularly evaluate our creditworthiness and assign credit ratings to our debt and the debt of our bank subsidiary. The ratings of the agencies are based on a number of factors, some of which are outside of our control. In addition to factors specific to our financial strength and performance, the rating agencies also consider conditions generally affecting the financial services industry. In light of the difficulties currently confronting the financial services industry, there can be no assurance that we will maintain our current credit ratings. Rating reductions could adversely affect our access to

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funding sources and the cost of obtaining funding.

The market price of our stock may be volatile

Although publicly traded, our common stock has substantially less liquidity and public float than other large publicly traded financial services companies as well as average companies listed on the NASDAQ National Market System. A relatively small percentage of our common stock is actively traded with average daily volume during 2011 of approximately 11,000 shares. This low liquidity increases the price volatility of our stock which may make it difficult for our shareholders to sell or buy our common stock when they deem a transaction is warranted at a price that they believe is attractive.

Excluding the impact of liquidity, the market price of our common stock can fluctuate widely in response to other factors including expectations of operating results, actual operating results, actions of institutional shareholders, speculation in the press or the investment community, market perception of acquisitions, rating agency upgrades or downgrades, stock prices of other companies that are similar to us, general market expectations related to the financial services industry and the potential impact of government actions affecting the financial services industry.

BancShares relies on dividends from FCB

As a financial holding company, BancShares is a separate legal entity from FCB and receives substantially all of its revenue and cash flow from dividends paid by FCB. The cash flow from these dividends is the primary source which allows BancShares to pay dividends on its common stock and interest and principal on its debt obligations. North Carolina state law limits the amount of dividends that FCB may pay to BancShares. In the event that FCB is unable to pay dividends to BancShares for an extended period of time, BancShares may not be able to service its debt obligations or pay dividends on its common stock.

The value of our goodwill may decline

As of December 31, 2011, we had $102.6 million of goodwill recorded as an asset on our balance sheet. We test goodwill for impairment at least annually, and the impairment test compares the estimated fair value of a reporting unit with its net book value. A significant decline in our expected future cash flows, a significant adverse change in the business climate, or a sustained decline in the price of our common stock may result in an impairment charge related to our goodwill. Such write-off could have a significant impact on our results of operations, but would not impact our capital ratios as such ratios are calculated using tangible capital amounts.

Properties

As of December 31, 2011, FCB operated branch offices at 430 locations in North Carolina, Virginia, West Virginia, Maryland, Tennessee, Florida, Georgia, Texas, Arizona, California, New Mexico, Colorado, Oregon, Washington, Oklahoma, Kansas, Missouri and Washington, DC. FCB owns many of the buildings and leases other facilities from third parties.

Additional information relating to premises, equipment and lease commitments is set forth in Note F of BancShares' Notes to Consolidated Financial Statements.

Legal Proceedings

BancShares and various subsidiaries have been named as defendants in various legal actions arising from our normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such legal actions cannot be determined, in the opinion of management, there is no pending action that would have a material effect on BancShares' consolidated financial statements.

Additional information relating legal proceedings is set forth in Note T of BancShares' Notes to Consolidated Financial Statements.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

BancShares has two classes of common stock—Class A common and Class B common. Shares of Class A common have one vote per share, while shares of Class B common have 16 votes per share. BancShares' Class A common stock is listed on the NASDAQ Global Select Market under the symbol FCNCA. The Class B common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol FCNCB. As of December 31, 2011, there were 1,766 holders of record of the Class A common stock and 327 holders of record of the Class B common stock. The market for Class B common stock is extremely limited. On many days, there is no trading and, to the extent there is trading, it is generally low in

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volume.

The average monthly trading volume for the Class A common stock was 234,082 shares for the fourth quarter of 2011 and 255,900 shares for the year ended December 31, 2011. The Class B common stock monthly trading volume averaged 5,370 shares in the fourth quarter of 2011 and 2,421 shares for the year ended December 31, 2011.

The per share cash dividends declared by BancShares on both the Class A and Class B common stock and the high and low sales prices for each quarterly period during 2011 and 2010 are set forth in the following table.

	2011				2010			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cash dividends (Class A and Class B)	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30
Class A sales price								
High	180.25	191.66	204.89	208.55	198.06	199.79	213.99	213.48
Low	138.71	137.10	176.48	188.81	173.89	165.36	186.40	164.26
Class B sales price								
High	189.00	193.00	207.69	208.50	199.99	205.00	211.09	212.99
Low	146.00	153.00	184.00	191.25	178.10	177.10	195.00	165.00

Sales prices for Class A common were obtained from the NASDAQ Global Select Market. Sales prices for Class B common were obtained from the OTC Bulletin Board.

A cash dividend of 30.0 cents per share was declared by the Board of Directors on January 23, 2012, payable April 2, 2012, to holders of record as of March 15, 2012. Payment of dividends is made at the discretion of the Board of Directors and is contingent upon satisfactory earnings as well as projected future capital needs. BancShares’ principal source of liquidity for payment of shareholder dividends is the dividend it receives from FCB. FCB is subject to various requirements under federal and state banking laws that restrict the payment of dividends and its ability to lend to BancShares. Subject to the foregoing, it is currently management’s expectation that comparable cash dividends will continue to be paid in the future.

In January 2011, our Board of Directors authorized the purchase of up to 50,000 shares of our Class B common stock during the period from the date of the resolution through December 31, 2011, to be made in one or more privately negotiated transactions. The repurchase of 37,688 shares was made in June 2011 under this authorization.

Further, our Board of Directors approved a stock trading plan ("the Plan") on July 8, 2011. The Plan provides for the repurchase of up to 100,000 shares of BancShares' Class A common stock, and up to 25,000 shares of its class B common stock from time to time through June 30, 2012. Additionally, on October 8, 2011 the Board of Directors authorized an additional 100,000 shares of BancShares' Class A common stock under the Plan. During the year ended December 31, 2011, 112,471 shares of Class A common stock and 175 shares of Class B common stock were repurchased under the Plan. The Board’s action approving share repurchases does not obligate us to acquire any particular amount of shares, and purchases may be suspended or discontinued at any time. Any shares of stock that are repurchased will be canceled. BancShares did not issue, sell or repurchase any Class A or Class B common stock during 2010.

The following table provides the shares of Class A common stock repurchased by BancShares during the three month period ended December 31, 2011 as well as shares that may be purchased under publicly announced plans.

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Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
Repurchases from October 1, 2011 through October 31, 2011	25,132	$ 148.03	25,132	—
Repurchases from November 1, 2011 through November 30, 2011	—	—	—	—
Repurchases from December 1, 2011 through December 31, 2011	—	—	—	—
Total	25,132	$ 148.03	25,132	87,529

There were no repurchases on Class B common stock during the three month period ended December 31, 2011 and 24,825 shares of Class B common stock remain authorized for repurchase as of December 31, 2011.

The following graph compares the cumulative total shareholder return (CTSR) of our Class A common stock during the previous five years with the CTSR over the same measurement period of the Nasdaq-Banks Index and the Nasdaq-U.S. Index. Each trend line assumes that $100 was invested on December 31, 2006, and that dividends were reinvested for additional shares.

NASDAQ Market
CTSR Total Returns

		12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
u	FCNCA	$100	73	76	83	96	89
l	Nasdaq - Bank Index	$100	79	58	48	57	51
n	Nasdaq - US Index	$100	108	66	95	113	114

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Table 1
FINANCIAL SUMMARY AND SELECTED AVERAGE BALANCES AND RATIOS

	2011	2010	2009	2008	2007
	(thousands, except share data and ratios)				
SUMMARY OF OPERATIONS					
Interest income	$1,015,159	$969,368	$738,159	$813,351	$902,181
Interest expense	144,192	195,125	227,644	314,945	423,714
Net interest income	870,967	774,243	510,515	498,406	478,467
Provision for loan and lease losses	232,277	143,519	79,364	65,926	32,939
Net interest income after provision for loan and lease losses	638,690	630,724	431,151	432,480	445,528
Gains on acquisitions	150,417	136,000	104,434	—	—
Other noninterest income	313,949	270,214	299,017	307,506	291,832
Noninterest expense	792,925	733,376	651,503	600,382	569,806
Income before income taxes	310,131	303,562	183,099	139,604	167,554
Income taxes	115,103	110,518	66,768	48,546	58,937
Net income	$195,028	$193,044	$116,331	$91,058	$108,617
Net interest income, taxable equivalent	$874,727	$778,382	$515,446	$505,151	$486,144
PER SHARE DATA					
Net income	$18.80	$18.50	$11.15	$8.73	$10.41
Cash dividends	1.20	1.20	1.20	1.10	1.10
Market price at December 31 (Class A)	174.99	189.05	164.01	152.80	145.85
Book value at December 31	180.97	166.08	149.42	138.33	138.12
SELECTED AVERAGE BALANCES					
Total assets	$21,135,572	$20,841,180	$17,557,484	$16,403,717	$15,919,222
Investment securities	4,215,761	3,641,093	3,412,620	3,112,717	3,112,172
Loans and leases	14,050,453	13,865,815	12,062,954	11,306,900	10,513,599
Interest-earning assets	18,824,668	18,458,160	15,846,514	14,870,501	14,260,442
Deposits	17,776,419	17,542,318	14,578,868	13,108,246	12,659,236
Interest-bearing liabilities	15,044,889	15,235,253	13,013,237	12,312,499	11,883,421
Long-term obligations	766,509	885,145	753,242	607,463	405,758
Shareholders’ equity	$1,811,520	$1,672,238	$1,465,953	$1,484,605	$1,370,617
Shares outstanding	10,376,445	10,434,453	10,434,453	10,434,453	10,434,453
SELECTED PERIOD-END BALANCES					
Total assets	$20,881,493	$20,806,659	$18,466,063	$16,745,662	$16,212,107
Investment securities	4,058,245	4,512,608	2,932,765	3,225,194	3,236,835
Loans and leases:					
Covered under loss share agreements	2,362,152	2,007,452	1,173,020	—	—
Not covered under loss share agreements	11,581,637	11,480,577	11,644,999	11,649,886	10,888,083
Interest-earning assets	18,529,548	18,487,960	16,541,425	15,119,095	14,466,948
Deposits	17,577,274	17,635,266	15,337,567	13,713,763	12,928,544
Interest-bearing liabilities	14,548,389	15,015,446	13,561,924	12,441,025	12,118,967
Long-term obligations	687,599	809,949	797,366	733,132	404,392

Shareholders' equity	$1,861,128	$1,732,962	$1,559,115	$1,443,375	$1,441,208
Shares outstanding	10,284,119	10,434,453	10,434,453	10,434,453	10,434,453
SELECTED RATIOS AND OTHER DATA					
Rate of return on average assets	0.92 %	0.93 %	0.66 %	0.56 %	0.68 %
Rate of return on average shareholders' equity	10.77	11.54	7.94	6.13	7.92
Net yield on interest-earning assets (taxable equivalent)	4.65	4.22	3.25	3.40	3.41
Allowance for loan and lease losses on noncovered loans to noncovered loans and leases at year-end	1.56	1.54	1.45	1.35	1.25
Nonperforming assets to total loans and leases plus other real estate at year-end:					
Covered under loss share agreements	22.98	17.14	17.39	—	—
Not covered under loss share agreements	1.95	1.71	1.32	0.61	0.18
Tier 1 risk-based capital ratio	15.41	14.86	13.34	13.20	13.02
Total risk-based capital ratio	17.27	16.95	15.59	15.49	15.36
Leverage capital ratio	9.90	9.18	9.54	9.88	9.63
Dividend payout ratio	6.38	6.49	10.76	12.60	10.57
Average loans and leases to average deposits	79.04	79.04	82.74	86.26	83.05

Average loans and leases include nonaccrual loans. See discussion of issues affecting comparability of financial statements under the caption FDIC-Assisted Transactions.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of earnings and related financial data are presented to assist in understanding the consolidated financial condition and results of operations of First Citizens BancShares, Inc. and Subsidiaries (BancShares). This discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes presented within this report. Intercompany accounts and transactions have been eliminated. Unless otherwise noted, the terms we, us and BancShares refer to the consolidated financial position and consolidated results of operations for BancShares.

Although certain amounts for prior years have been reclassified to conform to statement presentations for 2011, the reclassifications have no effect on shareholders' equity or net income as previously reported.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of BancShares are in accordance with accounting principles generally accepted in the United States of America (US GAAP) and conform to general practices within the banking industry. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions to arrive at the carrying value of assets and liabilities and amounts reported for revenues and expenses. Our financial position and results of operations can be materially affected by these estimates and assumptions. Critical accounting policies are those policies that are most important to the determination of our financial condition and results of operations or that require management to make assumptions and estimates that are subjective or complex. The most critical accounting and reporting policies include those related to the allowance for loan and lease losses, fair value estimates, the receivable from the Federal Deposit Insurance Corporation (FDIC) for loss share agreements, pension plan assumptions and income taxes. Significant accounting policies are discussed in Note A of the Notes to Consolidated Financial Statements.

The following is a summary of our critical accounting policies that are highly dependent on estimates and assumptions.

Allowance for loan and lease losses. The allowance for loan and lease losses reflects the estimated losses resulting from the inability of our customers to make required loan and lease payments. The allowance reflects management's evaluation of the risk characteristics of the loan and lease portfolio under current economic conditions and considers such factors as the financial condition of the borrower, fair market value of collateral and other items that, in our opinion, deserve current recognition in estimating possible loan and lease losses. Our evaluation process is based on historical evidence and current trends among delinquencies, defaults and nonperforming assets. A consistent methodology is utilized that includes allowances assigned to specific impaired commercial loans and leases, general commercial loan allowances that are based upon estimated loss rates by credit grade with the loss rates derived in part from migration analysis among grades, general non-commercial allowances based upon estimated loss rates derived primarily from historical losses, and a nonspecific allowance based upon economic conditions, loan concentrations and other relevant factors. Specific allowances for impaired loans are primarily determined through estimated cash flows discounted at loan's original rate. Substantially all impaired loans are collateralized by real property.

Loans covered by loss share agreements are recorded at fair value at acquisition date. Therefore, amounts deemed uncollectible at acquisition date become part of the fair value calculation and are excluded from the allowance for loan and lease losses. Following acquisition, we routinely review covered loans to determine if changes in estimated cash flows have occurred. Subsequent decreases in the amount expected to be collected result in a provision for loan and lease losses with a corresponding increase in the allowance for loan and lease losses. Subsequent increases in the amount expected to be collected result in a reversal of any previously recorded provision for loan and lease losses and related allowance for loan and lease losses, if any, or prospective adjustment to the accretable yield if no provision for loan and lease losses had been recorded. Proportional adjustments are also recorded to the FDIC receivable under the loss share agreements.

Management considers the established allowance adequate to absorb losses that relate to loans and leases outstanding at December 31, 2011, although future additions may be necessary based on changes in economic conditions, changes in collateral values, erosion of the borrower's access to liquidity and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan and lease losses. These agencies may require the recognition of additions to the allowance based on their judgments of information available to them at the time of their examination. If the financial condition of our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, our estimates would be updated, and additions to the allowance may be required.

Fair value estimates.   BancShares reports investment securities available for sale and interest rate swaps accounted for as cash flow hedges at fair value. At December 31, 2011, the percentage of total assets and total liabilities measured at fair value on a recurring basis was 19.4 percent and less than 1.0 percent , respectively. The majority of assets and liabilities reported at fair value are based on quoted market prices. At December 31, 2011, no assets measured at fair value on a recurring basis were based on significant nonobservable inputs. Other assets are reported at fair value on a nonrecurring basis, including loans held for sale, OREO and impaired loans. See Note L "Estimated Fair Values" in the Notes to Consolidated Financial Statements for additional disclosures regarding fair value.

US GAAP requires assets acquired and liabilities assumed in a business combination be recognized at fair value at acquisition date. The assets acquired and liabilities assumed in our FDIC-assisted transactions were recognized at their fair values using valuation methods and assumptions established by management. Use of different assumptions and methods could yield significantly different fair values. Cash flow estimates for loans and leases and other real estate owned (OREO) were based on judgments regarding future expected loss experience, which included the use of commercial loan credit grades, collateral valuations and current economic conditions. The cash flows were discounted to fair value using rates that included considerations of factors such as current interest rates, costs to service the loans, and liquidation of the asset.

FDIC receivable for loss share agreements. The FDIC receivable for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable should the assets be sold. Fair value was initially calculated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages discounted to present value using a rate that reflects the inherent risk associated with the cashflows. The FDIC receivable is reviewed and updated quarterly as loss estimates and timing of estimated cash flows related to covered loans and OREO change. Subsequent decreases in the amount of loan-related cash flows expected to be collected result in a provision for loan and lease losses, an increase in the allowance for loan and lease losses and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected result in the reversal of any previously-recorded provision for loan and lease losses and related allowance for loan and lease losses, or prospective adjustment to the accretable yield if no provision for loan and lease losses had been recorded along with proportional adjustments to the FDIC Receivable. Subsequent changes to the fair value estimates of OREO also result in a proportional adjustment to the FDIC receivable. Certain of the loss share agreements also include clawback provisions that require payments by the acquirer to the FDIC in the event actual losses do not exceed a calculated amount. We have estimated the amount of any clawback we expect to pay based on our current loss projections, and have netted any such estimated payments against the estimated payments we anticipate receiving from the FDIC. Projected cash flows are discounted to reflect the estimated timing of receipt of funds from the FDIC.

Pension plan assumptions. BancShares offers a defined benefit pension plan to qualifying employees. The calculation of the benefit obligation, the future value of plan assets, funded status and related pension expense under the pension plan requires the use of actuarial valuation methods and assumptions. The valuations and assumptions used to determine the future value of plan assets and liabilities are subject to management judgment and may differ significantly depending upon the assumptions used. The discount rate used to estimate the present value of the benefits to be paid under the pension plan reflects the interest rate that could be obtained for a suitable investment used to fund the benefit obligation. The assumed discount rate equaled 4.75 percent at December 31, 2011 and 5.50 percent at December 31, 2010. A reduction in the assumed discount rate increases the calculated benefit obligations, which results in higher pension expense subsequent to adoption of the lower discount rate. Conversely, an increase in the assumed discount rate causes a reduction in obligations, thereby resulting in lower pension expense following the increase in the discount rate.

We also estimate a long-term rate of return on pension plan assets that is used to estimate the future value of plan assets. We consider such factors as the actual return earned on plan assets, historical returns on the various asset classes in the plan and projections of future returns on various asset classes. The calculation of pension expense was based on an assumed expected long-term return on plan assets of 7.75 percent during 2011 compared to 8.00 percent in 2010. A reduction in the long-term rate of return on plan assets increases pension expense for periods following the decrease in the assumed rate of return.

The assumed rate of future compensation increases is reviewed annually based on actual experience and future salary expectations. We used an assumed rate of compensation increase of 4.00 percent to calculate pension expense during 2011 and 4.50 percent during 2010. Assuming other variables remain unchanged, an increase in the rate of future compensation increases results in higher pension expense for periods following the increase in the assumed rate of future compensation increases.

Income taxes. Management estimates income tax expense using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the amount of assets and liabilities reported in the consolidated financial statements and their respective tax bases. In estimating the liabilities and corresponding expense related to income taxes, management assesses the relative merits and risks of various tax positions considering statutory, judicial and regulatory guidance. Because of the complexity of tax laws and regulations, interpretation is difficult and subject to differing judgments. Accrued income taxes payable represents an estimate of the net amounts due to or from taxing jurisdictions based upon various estimates, interpretations and judgments.

We evaluate our effective tax rate on a quarterly basis based upon the current estimate of net income, the favorable

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impact of various credits, statutory tax rates expected for the year, and the amount of tax liability in each jurisdiction in which we operate. Annually, we file tax returns with each jurisdiction where we have tax nexus and settle our return liabilities.

Changes in the estimate of income tax liabilities occur periodically due to changes in actual or estimated future tax rates and projections of taxable income, interpretations of tax laws, the complexities of multi-state income tax reporting, the status of examinations being conducted by various taxing authorities and the impact of newly enacted legislation or guidance as well as income tax accounting pronouncements.

EXECUTIVE OVERVIEW

During 2011, the banking industry continued to resolve lingering asset quality challenges, address revenue reductions resulting from various provisions of the Dodd-Frank Act and weak economic conditions, overcome capital shortages and endure the continuing effects of global economic pressures. Consistent with our actions since the industry-wide turmoil began in 2008, BancShares has continued its long-standing attention to prudent banking practices. Historically, we have focused on liquidity, asset quality and capital strength as key areas of focus. We believe these qualities are critical to our company's long-term health and also enable us to participate in various growth opportunities, either through organic growth or, during the past three years, through FDIC-assisted transactions.

Prior to 2011, BancShares operated through two wholly-owned subsidiaries, First-Citizens Bank & Trust Company (FCB) and IronStone Bank (ISB). On January 7, 2011, ISB was merged into FCB. FCB is a state-chartered bank organized under the laws of the state of North Carolina and ISB was a federally-charted thrift institution.

While our growth has historically been achieved primarily through de novo activities, since mid-2009 BancShares has elected to participate in six FDIC-assisted transactions involving failed financial institutions. During 2011, we completed two FDIC-assisted transactions. Participation in FDIC-assisted transactions creates opportunities to significantly increase our business volumes in markets in which we presently operate, and to expand our banking presence to geographically adjacent markets which we deem demographically attractive. For each of the six FDIC-assisted transactions we have completed as of December 31, 2011, loss share agreements protect us from a substantial portion of the asset quality risk we would otherwise incur. Additionally, purchase discounts and fair value adjustments on acquired assets and assumed liabilities along with the loss mitigation offered in the loss share agreements have resulted in significant acquisition gains that have created a substantial portion of the equity required to support the incremental assets acquired in the transactions. Management believes that further opportunities may be available during 2012 to participate in FDIC-assisted transactions although the timing and size of potential transactions cannot be estimated.

As we consider our position in the current business environment, we continue to benefit from our organization's strengths. We are also challenged to take advantage of market opportunities that are perceived to exist in the financial institutions marketplace. In our effort to optimally allocate our resources, we have identified the following corporate strengths and market opportunities:

- Our multi-state delivery network that serves both major metropolitan markets and rural communities
- Our strategic concentration on narrow business customer segments that utilize mainstream banking services
- Our focus on balance sheet liquidity
- Our conservative credit philosophies
- Our commitment to the long-term impact of strategic, financial and operational decisions
- The closely held nature of a majority of our common equity
- Our dedicated associates and experienced executive leadership
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- Our size, which allows us to provide services typically only available through large banks, but with a focus on customer service that is typical of community banks
- The opportunity to expand our branch network and asset base primarily as a result of FDIC-assisted transactions
- Our presence in diverse and growing geographic markets
- Our ability to attract customers of super-regional banks who demand a higher level of customer service than they currently receive
- Our ability to attract customers of banks that have merged or are likely to merge with other banks
- Our potential attraction of customers of community banks that lack our level of financial expertise and breadth of products and services, or have experienced financial and reputation challenges
- The opportunity to generate increased volumes of fee income in areas such as merchant processing, credit card interchange, insurance, business and treasury services and wealth management activities.
- Our potential for customer attraction, enhanced customer experience and incremental sales as a result of the growing desire of customers to acquire financial services over the Internet

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We have identified the following challenges and threats that are most relevant and likely to have an impact on our success.

- Continuation of a weak domestic economy driving high unemployment, elevated credit costs and low interest rates
- Effective management of assets acquired from FDIC failed institutions
- Future economic improvement that causes the Federal Reserve to initiate interest rate increases, leading to higher long-term interest rates
- Increased competition from non-bank financial service providers
- Continued decline in the role of traditional commercial banks in the large loan credit market
- Challenge to attract and retain qualified associates
- Competition from global financial service providers that operate with narrower margins on loan and deposit products
- Existing legislative and regulatory actions and the threat of new actions that will have an adverse impact on fee income, increase our compliance costs and eliminate existing capital
- The need to make significant investments in our information technology infrastructure
- Overcapacity in noninterest expense structure that reduces our ability to effectively compete with larger financial institutions
- Incremental capital required by BASEL III

Bank earnings faced multiple challenges during 2011, with particular pressure on net interest income, credit costs and noninterest income. The Federal Reserve controls interest rates through various forms of monetary policy, and the slow recovery from the global recession has caused the Federal Reserve to hold interest rates at unprecedented low levels, with an expressed intent to hold benchmark interest rates stable during 2012 and 2013. The low interest rate environment has created pressure on net interest income.

Credit costs remain high due to elevated nonperforming asset levels and the continuing efforts by banks to resolve asset quality issues. Extremely inactive real estate markets have caused banks to build large inventories of OREO or to sell properties for amounts less than estimated market prices. Real estate demand in many of our markets continues to be weak, resulting in depressed real estate prices that have adversely affected collateral values for many borrowers. In particular, the stressed residential real estate markets in Georgia and Florida have adversely impacted our asset quality and profitability since 2009. In an effort to assist customers who are experiencing financial difficulty, we have selectively agreed to modify existing loan terms to provide relief to customers who are experiencing liquidity challenges or other circumstances that could affect their ability to meet their debt obligations. These modifications are typically executed only when customers are current on their payment obligation and we believe the modification will result in the avoidance of default.

Our noninterest income has been adversely affected by two provisions of the Dodd-Frank Act. Income derived from debit card interchange fees declined due to the limitation on those fees that became effective during the fourth quarter of 2011. The impact of this regulation is expected to continue to negatively affect earnings in 2012. Additionally, during the third quarter of 2010, revisions to Regulation E became effective that had a significant adverse impact on fees collected for insufficient fund and overdraft items. In addition to these regulatory provisions, we also changed the posting order of transactions and the daily overdraft fee limits during 2011. The combined impact of these changes was an estimated reduction in our noninterest income of $9.1 million in 2011.

Various external factors influence customer demand for our loan, lease and deposit products and ultimately affect asset quality and profitability. Weak economic conditions in our principal market areas throughout 2011 have had an adverse impact on our financial condition and results of operations through soft demand for our loan products and elevated provisions for loan and lease losses. In many of our markets, unfavorable trends such as increased unemployment, severely depressed real estate prices and increased loan default and bankruptcy rates demonstrate the difficult business conditions that are affecting the general economy and therefore our operating results. While some businesses and consumers struggle to meet their debt service obligations, other customers continue to repay existing debt or defer new borrowings due to lingering economic uncertainty.

We experienced little deposit growth in our legacy markets during 2011, although demand for our treasury services products increased despite extraordinarily low interest rates. While our balance sheet liquidity position remains strong, our participation in FDIC-assisted transactions creates liquidity challenges due to the volatile structure and mix of assumed deposits. Typically, prior to the date it is closed by its regulator, a failed depository institution struggles with liquidity and must utilize high-cost deposits and brokered funding sources to meet its liquidity needs. Those liabilities typically experience significant run-off, particularly if the assuming bank adjusts the terms of the borrowing to more normal levels.

We operate in diverse geographic markets and can potentially increase our business volumes and profitability by offering competitive products and superior customer service. In addition to our focus on retaining customers resulting from the six

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FDIC-assisted transactions, we continue to concentrate our marketing efforts on business owners, medical and other professionals and financially active individuals.

Financial institutions have typically focused their strategic and operating emphasis on maximizing profitability, and therefore have measured their relative success by reference to profitability measures such as return on average assets or return on average shareholders' equity. BancShares' return on average assets and return on average equity have historically compared unfavorably to the returns of similar-sized financial holding companies. The strength of our earnings for 2011, 2010 and 2009 is directly attributable to the favorable impact resulting from the FDIC-assisted transactions and the relatively modest increase in credit costs for noncovered loans. We have consistently placed primary strategic emphasis upon balance sheet liquidity, asset quality and capital conservation, even when those priorities may have been detrimental to short-term profitability. While we have not been immune from adverse influences arising from economic weaknesses, our long-standing focus on balance sheet strength served us well during each of the past three years.

Although we are unable to control the external factors that influence our business, by maintaining high levels of balance sheet liquidity, prudently managing our interest rate exposures and by actively monitoring asset quality, we seek to minimize the potentially adverse risks of unforeseen and unfavorable economic trends and take advantage of favorable economic conditions and opportunities when appropriate.

When economic conditions improve, we believe that we will be well positioned to resume favorable organic growth in loans and deposits and achieve appropriate profitability levels without the benefit of acquisition gains.

FDIC-ASSISTED TRANSACTIONS

Participation in FDIC-assisted transactions has provided significant growth opportunities for us during 2011, 2010, and 2009. These transactions have allowed us to increase our presence in markets in which we presently operate, and to expand our banking presence to contiguous markets. Additionally, purchase discounts and fair value adjustments on acquired assets and assumed liabilities, along with the assistance offered through the loss share agreements, have resulted in significant acquisition gains. All of the FDIC-assisted transactions completed as of December 31, 2011 include loss share agreements which protect us from a substantial portion of the credit risk that we would otherwise incur.

Acquisition accounting and issues affecting comparability of financial statements. As estimated exposures related to the acquired assets covered by loss share agreements change based on post-acquisition events, our adherence to US GAAP and accounting policy elections that we have made affect the comparability of our current results of operations to earlier periods. Several of the key issues affecting comparability are as follows:

- When post-acquisition events suggest that the amount of cash flows we will ultimately receive for a loan covered by a loss share agreement is less than originally expected:

- An allowance for loan and lease losses is established for the post-acquisition exposure that has emerged with a corresponding increase to provision for loan and lease losses;

- The receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding increase to noninterest income;

- When post-acquisition events suggest that the amount of cash flows we will ultimately receive for a loan covered by a loss share agreement is greater than originally expected:

- Any allowance for loan and lease losses that was previously established for post-acquisition exposure is reversed with a corresponding reduction in the provision for loan and lease losses; if no allowance was established in earlier periods, the amount of the improvement in the cash flow projection results in a reclassification from the nonaccretable difference created at the acquisition date to an accretable yield; the newly-identified accretable yield is accreted into income in future periods over the remaining life of the loan as an increase to interest income;

- The receivable from the FDIC is adjusted prospectively to reflect the indemnified portion of the post-acquisition change in exposure with a corresponding reduction in noninterest income over the remaining life of the related loan;

- When actual payments received on loans are greater than initial estimates, large nonrecurring discount accretion may be recognized during a specific period; discount accretion is recognized as an increase in interest income.

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Adjustments to the FDIC receivable resulting from changes in estimated cash flows are based on the reimbursement provision of the applicable loss share agreement with the FDIC. Adjustments to the FDIC receivable partially offset the adjustment to the asset carrying value, but the rate of the change to the FDIC receivable relative to the change in the asset carrying value is not constant. Each loss share agreement establishes specific reimbursement rates for losses incurred within specified tranches. In certain of our loss share agreements, higher loss estimates result in higher reimbursement rates, while in other loss share agreements, higher loss estimates trigger a reduction in the reimbursement rates. In addition, certain of our loss share agreements include clawback provisions that would require that we remit a payment to the FDIC in the event that the aggregate amount of losses is less than a loss estimate established by the FDIC. The adjustments to the FDIC receivable based on changes in loss estimates are measured based on the actual reimbursement rates and consider the impact of changes in the projected clawback payment.

Balance sheet impact. Table 2 provides information regarding the six FDIC-assisted transactions consummated during 2011, 2010 and 2009. Adjustments to acquisition date fair values are subject to change for one year following the closing date of each respective transaction.

Table 2
FDIC-ASSISTED TRANSACTIONS

		Fair value of				
Entity	Date of transaction	Loans acquired	Deposits assumed	Short-term borrowings assumed	Long-term obligations assumed	Gains on acquisition
		(thousands)				
Colorado Capital Bank (CCB)	July 8, 2011	$320,789	$606,501	$ 15,212	$—	$ 86,943
United Western Bank (United Western)	January 21, 2011	759,351	1,604,858	336,853	207,627	63,474
Sun American Bank (SAB)	March 5, 2010	290,891	420,012	42,533	40,082	27,777
First Regional Bank (First Regional)	January 29, 2010	1,260,249	1,287,719	361,876	—	107,738
Venture Bank (VB)	September 11, 2009	456,995	709,091	—	55,618	48,000
Temecula Valley Bank (TVB)	July 17, 2009	855,583	965,431	79,096	—	56,400
Total		$3,943,858	$5,593,612	$ 835,570	$ 303,327	$ 390,332

US GAAP permits acquired loans to be accounted for in designated pools based on common risk characteristics. For all CCB loans and for United Western residential mortgage loans, we assigned loans to pools based on various factors including loan type, collateral type and performance status. When loans are pooled, improvements in some loans within a pool may offset against deterioration in other loans within the same pool resulting in less volatility in net interest income and provision for loan and lease losses. The CCB loans had a fair value of $320.8 million at the acquisition date; the residential mortgage loans acquired from United Western had a fair value of $223.1 million at the acquisition date. All other acquired loans are not assigned to loan pools and are being accounted for at the individual loan level. The non-pool election for the majority of our acquired loans could potentially accentuate volatility in net interest income and the provision for loan and lease losses

Income statement impact. The six FDIC-assisted transactions created acquisition gains recognized at the time of the respective transaction. For the years ended December 31, 2011, 2010 and 2009 acquisition gains totaled $150.4 million, $136.0 million, and $104.4 million, respectively. Additionally, the acquired loans, assumed deposits and assumed borrowings originated by the six banks have affected net interest income, provision for loan and lease losses and noninterest income. Increases in noninterest expense have resulted from incremental staffing and facility costs for the branch locations and other expenses resulting from the FDIC-assisted transactions. Various fair value discounts and premiums that were previously recorded are being accreted and amortized into income over the life of the underlying asset or liability.

As previously discussed, post-acquisition changes that affect the amount of expected cash flows can result in recognition of provision for loan and lease losses or the reversal of previously-recognized provision for loan and lease losses. During the years ended December 31, 2011 and 2010, total provision for loan and lease losses related to acquired loans equaled $174.5 million and $86.9 million, respectively. Much of the increase in the provision for loan losses in 2011 relates to post acquisition deterioration of covered loans acquired from First Regional and TVB. Provision for loan and lease losses related to acquired loans equaled $3.5 million in 2009.

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During the years ended December 31, 2011 and 2010, total discount accretion on acquired loans equaled $319.4 million and $181.4 million, respectively.

Accretion income is generated by recognizing accretable yield over the life of acquired loans. Accretable yield is the difference in the expected cash flows and the fair value of acquired loans. The amount of accretable yield related to the loans can change if the estimated cash flows expected to be collected changes subsequent to the initial estimates. Further, the recognition of accretion income can be accelerated in the event of large unscheduled repayments, loan payoffs, other loan settlements for amounts in excess of original estimates, and various other post-acquisition events. During the years ended December 31, 2011 and 2010, unscheduled discount accretion recorded due to loan payoffs was $100.6 million and $94.5 million, respectively. Due to the many factors that can influence the amount of accretion income recognized in a given period, this component of net interest income is not easily predictable for future periods and impacts the comparability of interest income, net interest income, and overall results of operations. Unscheduled prepayment of loan balances and post-acquisition deterioration of covered loans also result in adjustments to the FDIC receivable for changes in the estimated amount that would be covered under the respective loss share agreement. During the year ended December 31, 2011, the adjustment to the FDIC receivable resulting from large unscheduled payments and other favorable adjustments exceeded the amount of the adjustment for post-acquisition deterioration, resulting in a net reduction to the FDIC receivable and a corresponding net charge of $19.3 million to noninterest income compared to a net reduction to the FDIC receivable and a corresponding net charge of $46.8 million to noninterest income during 2010. The result is a net increase in noninterest income of $27.5 million.
The various terms of each loss share agreement and the components of the resulting FDIC receivable is provided in Table 3 below. The table includes the estimated fair value of the FDIC receivable at the respective acquisition dates of each FDIC-assisted transaction as well as the carrying value of each FDIC receivable at December 31, 2011. Additionally, the portion of the carrying value of the receivable that relates to accretable yield from improvements in acquired loan cash flows subsequent to acquisition is provided for each loss share agreement. This component of the FDIC receivable will be recognized as a reduction to noninterest income over the shorter of the remaining life of the associated receivables or the related loss share agreement.

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Table 3
LOSS SHARE PROVISIONS AND RECEIVABLE FROM FDIC

	FDIC receivable				Losses/expenses realized through 12/31/2011		
Entity/Loss ranges	Reimbursement rate	Fair value at acquisition date	Carrying value at December 31, 2011	Receivable related to accretable yield as of 12/31/11	Amount incurred	Cumulative amount reimbursed by FDIC through 12/31/11	Amount due from FDIC for 12/31/11 filings
	(dollars in thousands)						
TVB - combined losses		$103,558	$88,565	$32,022	$142,681	$—	$—
Losses up to $193,262	0%						
Losses between $193,262 and $464,000	80%						
Losses above $464,000	95%						
No clawback provision applies							
VB - combined losses		138,963	42,095	9,404	142,888	109,666	4,645
Losses up to $235,000	80%						
Losses above $235,000	95%						
No clawback provision applies							
First Regional - combined losses		378,695	79,935	34,658	287,692	182,355	14,344
Losses up to $41,815	0%						
Losses between $41,815 and $1,017,000	80%						
Losses above $1,017,000	95%						
Clawback provisions apply							
SAB - combined losses		89,734	38,600	5,938	70,162	53,885	2,245
Losses up to $99,000	80%						
Losses above $99,000	95%						
Clawback provisions apply							
United Western							

Non-single family residential losses							
Losses up to $111,517	80%	112,672	107,086	8,902	84,262	—	66,989
Losses between $111,517 and $227,032	30%						
Losses above $227,032	80%						
Single family residential losses							
Losses up to $32,489	80%	24,781	20,981	201	685	—	549
Losses between$32,489 and $57,653	0%						
Losses above $57,653	80%						
Clawback provisions apply							
CCB - combined losses		155,070	162,249	—	44,075	—	35,173
Losses up to $230,991	80%						
Losses between $230,991 and $285,947	0%						
Losses above $285,947	80%						
Clawback provisions apply							
Total		$1,003,473	$539,511	$91,125	$772,445	$345,906	$123,945

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2011 FDIC-Assisted Transactions

The FDIC-assisted transactions involving United Western and CCB were accounted for under the acquisition method of accounting. The purchased assets, assumed liabilities and identifiable intangible assets were recorded at their respective acquisition date estimated fair values. Fair values are subject to refinement for up to one year after the closing date of the transaction as additional information regarding closing date fair values becomes available. During this one year period, the cause of any change in cash flow estimates is considered to determine whether the change results from circumstances that existed as of the acquisition date or if the change results from an event that occurred after the acquisition.

United Western Bank

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

Table 4 identifies the assets acquired, liabilities assumed, fair value adjustments, the resulting amounts recorded by FCB and the calculation of the gain recognized for the United Western FDIC-assisted transaction.

Table 4

UNITED WESTERN BANK

	January 21, 2011			
	As recorded by United Western	Fair value adjustments at date of acquisition	Subsequent acquisition-date adjustments	As recorded by FCB
	(thousands)			
Assets				
Cash and due from banks	$420,902	$—	$—	$420,902
Investment securities available for sale	281,862	—	—	281,862
Loans covered by loss share agreements (1)	1,034,074	(278,913)	4,190	759,351
Other real estate owned covered by loss share agreements	37,812	(10,252)	(1,469)	26,091
Income earned not collected	5,275	—	—	5,275
Receivable from FDIC for loss share agreements	—	140,285	(2,832)	137,453
FHLB stock	22,783	—		22,783
Mortgage servicing rights	4,925	(1,489)	—	3,436
Core deposit intangible	—	537	—	537
Other assets	15,421	109	(991)	14,539
Total assets acquired	$1,823,054	$(149,723)	$(1,102)	$1,672,229
Liabilities				
Deposits:				
Noninterest-bearing	$101,875	$—	$—	$101,875
Interest-bearing	1,502,983	—	—	1,502,983
Total deposits	1,604,858	—	—	1,604,858
Short-term borrowings	336,853	—	—	336,853
Long-term obligations	$206,838	789	—	207,627
Deferred tax liability	1,351	(565)	—	786

Other liabilities	11,772	—	—	11,772
Total liabilities assumed	2,161,672	224	—	2,161,896
Excess (shortfall) of assets acquired over liabilities assumed	$(338,618)			
Aggregate fair value adjustments		$(149,947)	$(1,102)	
Cash received from FDIC (2)				553,141
Gain on acquisition of United Western				$63,474

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

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Loans and OREO purchased in the United Western transaction are covered by two loss share agreements between the FDIC and FCB (one for single family residential mortgage loans and the other for all other non-consumer loans and OREO), which afford FCB significant loss protection. Under the loss share agreement for single family residential mortgage loans (SFRs), the FDIC will cover 80 percent of covered loan losses up to $32.5 million; 0 percent from $32.5 million up to $57.7 million and 80 percent of losses in excess of $57.7 million. The loss share agreement for all other non-consumer loans and OREO will cover 80 percent of covered loan and OREO losses up to $111.5 million; 30 percent of losses from $111.5 million to $227.0 million; and 80 percent of losses in excess of $227.0 million. UWB consumer loans are not covered under the FDIC loss share agreements. Based on current projections, we anticipate losses on United Western covered SFR assets will total $26.3 million and losses on other non-consumer loans and OREO will total $217.0 million.

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

The loss share agreements include a clawback provision that requires a true-up payment in the event FCB's losses do not reach the Total Intrinsic Loss Estimate of $294.0 million. On March 17, 2021, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of the following calculation: A-(B+C+D), where (A) equals 20 percent of the Total Intrinsic Loss Estimate, or $58.8 million; (B) equals 20 percent of the Net Loss Amount; (C) equals 25 percent of the asset (discount) bid, or ($52.9) million; and (D) equals 3.5 percent of total Shared Loss Assets at Bank Closing, or $37.9 million. Current loss estimates suggest that a true-up payment of $12.6 million will be paid to the FDIC during 2021.

FCB recorded a $137.5 million receivable that was based on the present value of projected amounts to be received from and paid to the FDIC under the United Western loss share agreements. Subsequent adjustments to the FDIC receivable resulting from changes in estimated cash flows will be based on the reimbursement provisions of the applicable loss share agreement with the FDIC and the appropriate reimbursement rate based on aggregate estimated losses.

Inclusive of all acquisition accounting adjustments that have been backdated to the date of the acquisition, first quarter 2011 noninterest income included an acquisition gain of $63.5 million that resulted from the FDIC-assisted acquisition of United Western. FCB recorded a deferred tax liability for the gain of $24.9 million resulting from differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. Our operating results for the period ended December 31, 2011 include the results of the acquired assets and liabilities for the period from January 21, 2011 through December 31, 2011. Accretion and amortization of various purchase accounting discounts and premiums were recorded during 2011.

Colorado Capital Bank

On July 8, 2011, FCB entered into an agreement with the FDIC to purchase substantially all the assets and assume the majority of the liabilities of CCB of Castle Rock, Colorado at a discount of $154.9 million, with no deposit premium. CCB operated in Castle Rock, Colorado, and in six branch locations in Boulder, Castle Pines, Cherry Creek, Colorado Springs, Edwards, and Parker. The Purchase and Assumption Agreement with the FDIC includes loss share agreements on the loans and OREO purchased by FCB which provide protection against losses to FCB.

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Table 5 identifies the assets acquired, liabilities assumed, fair value adjustments, the resulting amounts recorded by FCB and the calculation of the gain recognized for the CCB FDIC-assisted transaction.

Table 5
COLORADO CAPITAL BANK

	July 8, 2011			
	As recorded by CCB	Fair value adjustments at acquisition date	Subsequent acquisition-date adjustments	As recorded by FCB
	(thousands)			
Assets				
Cash and due from banks	$74,736	$ —	$—	$74,736
Investment securities available for sale	40,187	—	—	40,187
Loans covered by loss share agreements	538,369	(216,207)	(1,373)	320,789
Other real estate owned covered by loss share agreements	14,853	(7,699)	3,058	10,212
Income earned not collected	1,720	—	—	1,720
Receivable from FDIC for loss share agreements	—	157,600	(2,530)	155,070
Core deposit intangible	—	984	—	984
Other assets	3,296	—	—	3,296
Total assets acquired	$673,161	$ (65,322)	$(845)	$606,994
Liabilities				
Deposits:				
Noninterest-bearing	$35,862	$ —	$—	$35,862
Interest-bearing	571,251	(612)	—	570,639
Total deposits	607,113	(612)	—	606,501
Short-term borrowings	15,008	204	—	15,212
Other liabilities	438	—	—	438
Total liabilities assumed	622,559	(408)	—	622,151
Excess of assets acquired over liabilities assumed	$50,602			
Aggregate fair value adjustments		$ (64,914)	$(845)	
Cash received from FDIC				102,100
Gain on acquisition of CCB				$86,943

The loans and OREO purchased in the CCB transaction are covered by two loss share agreements between the FDIC and FCB (one for SFRs and the other for all other loans and OREO excluding consumer loans and CD-secured loans), which afford FCB significant loss protection. Under the loss share agreements, the FDIC will cover 80 percent of combined covered losses up to $231.0 million; 0 percent from $231.0 million up to $285.9 million; and 80 percent of losses in excess of $285.9 million. CCB consumer loans and CD-secured loans are not covered under the FDIC loss share agreements. Based on current projections, we anticipate covered losses on CCB covered assets will total $200.6 million.

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

The loss share agreements include a clawback provision that requires a true-up payment in the event FCB’s losses do not reach the Total Intrinsic Loss Estimate of $285.7 million. On August 22, 2021, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of the following calculation: A-(B+C+D), where (A) equals 20 percent of the Total Intrinsic Loss Estimate, or $57.1 million; (B) equals 20 percent of the Net Loss Amount; (C) equals 25 percent of the asset (discount) bid, or ($38.7) million; and (D) equals 3.5 percent of total Shared Loss Assets at Bank Closing, or $19.3 million. Current loss estimates suggest that a true-up payment of $17.3 million will be paid to

the FDIC during 2021.
FCB recorded a $155.1 million receivable that was based on the present value of projected amounts to be received from and paid to the FDIC under the CCB loss share agreements. Subsequent adjustments to the FDIC receivable resulting from changes in estimated cash flows will be based on the reimbursement provisions of the applicable loss share agreement with the FDIC and the appropriate reimbursement rate based on aggregate estimated losses.
Inclusive of all acquisition accounting adjustments that have been backdated to the date of the acquisition, third quarter 2011 noninterest income included an acquisition gain of $86.9 million that resulted from the CCB FDIC-assisted acquisition. The gain resulted from the difference between the estimated fair value of acquired assets and assumed liabilities. FCB recorded a deferred tax liability for the gain of $34.0 million resulting from differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. To the extent there are additional adjustments to the acquisition date fair values for up to one year following the acquisition, there will be additional adjustments to the gain. Our operating results for the period ended December 31, 2011 include the results of the acquired assets and liabilities for the period from July 8, 2011 through December 31, 2011

EARNINGS SUMMARY

BancShares reported earnings for 2011 of $195.0 million, or $18.80 per share, compared to $193.0 million, or $18.50 per share during 2010. Net income as a percentage of average assets equaled 0.92 percent during 2011, compared to 0.93 percent during 2010. The return on average equity was 10.77 percent for 2011, compared to 11.54 percent for 2010. The $2.0 million, or 1.0 percent, increase in net income reflects higher noninterest expense, substantially offset by increases in net interest income and noninterest income. Noninterest income increased modestly, exclusive of acquisition gains and entries arising from post-acquisition adjustments to the receivable from the FDIC. The growth in noninterest expense was primarily caused by higher collection and foreclosure costs and salaries and benefits resulting from new staffing to manage growth arising from the FDIC-assisted transactions.

Net interest income during 2011 increased $96.7 million, or 12.5 percent, versus 2010. Average interest-earning assets increased modestly due primarily to the 2011 FDIC-assisted transactions. The taxable-equivalent net yield on interest-earning assets increased 43 basis points due to accretion of fair value discounts relating to acquired loans. During 2011 and 2010, accreted loan discounts resulting from various post-acquisition events, including unscheduled prepayments on acquired loans significantly impacted the taxable-equivalent net yield on interest-earning assets. Since such events are unpredictable, the yield on interest-earning assets may decline in future periods.

The provision for loan and lease losses increased $88.8 million, to $232.3 million for 2011, compared to $143.5 million for 2010 caused by higher provisions resulting from post-acquisition deterioration of acquired loans covered by loss share agreements. To the extent that the deterioration is covered by a loss share agreement, there is a corresponding adjustment to the FDIC receivable with an offset to noninterest income for the covered portion at the appropriate indemnification rate.

Noninterest income increased $58.2 million or 14.3 percent during 2011. The net impact of the acquisition gains and entries arising from post-acquisition adjustments to the receivable from the FDIC equaled $131.1 million in 2011 compared to $89.2 million in 2010. Excluding these amounts, noninterest income increased $16.2 million, or 5.1 percent during 2011.

Noninterest expense increased $59.5 million, or 8.1 percent, during 2011, primarily due to acquisition-related activities, including operating costs for acquired branches, increased corporate staffing to manage the growth, and expenses for the operation and disposition of other real estate.

INTEREST-EARNING ASSETS

Interest-earning assets include loans and leases, investment securities, interest bearing cash in banks and overnight investments, all of which reflect varying interest rates based on the risk level and repricing characteristics of the underlying asset. Riskier interest-earning assets typically carry a higher interest rate, but expose us to potentially higher levels of default.

We have historically focused on maintaining high asset quality, which results in a loan and lease portfolio subjected to strenuous underwriting and monitoring procedures. Our focus on asset quality also influences the composition of our investment securities portfolio. At December 31, 2011, United States Treasury securities represented 21.9 percent and government agency securities represented 63.9 percent of our investment securities portfolio. Mortgage-backed securities comprise only 7.6 percent of the total portfolio while corporate bonds insured under the TLGP represent 6.2 percent. Overnight investments are selectively made with the Federal Reserve Bank and other financial institutions that are within our risk tolerance.

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During 2011, changes in interest-earning assets primarily reflect the impact of assets acquired in the FDIC-assisted transactions. Changes in the amount of our investment securities result from trends among loans and leases, deposits and short-term borrowings. When inflows arising from deposit and treasury services products exceed loan and lease demand, we invest excess funds in the securities portfolio. Conversely, when loan demand exceeds growth in deposits and short-term borrowings, we allow overnight investments to decline and use proceeds from maturing securities to fund loan demand.

Loans and leases

Loans and leases totaled $13.94 billion at December 31, 2011, an increase of $455.8 million or 3.4 percent over December 31, 2010. Loans covered under loss share agreements totaled $2.36 billion at December 31, 2011 or 16.9 percent of total loans, compared to $2.01 billion at December 31, 2010, representing 14.9 percent of loans outstanding. Table 6 details the composition of loans and leases for the past five years.

Loans not covered by loss share agreements secured by commercial mortgages totaled $5.10 billion at December 31, 2011, a $367.1 million or 7.7 percent increase from December 31, 2010. In 2010 commercial mortgage loans increased 4.1 percent over 2009. The sustained growth reflects our continued focus on small business customers, particularly among medical-related and other professional customers. As a percentage of total loans and leases not covered by loss share agreements, noncovered commercial mortgage loans represent 44.1 percent at December 31, 2011 and 41.3 percent at December 31, 2010. The majority of our commercial mortgage portfolio not covered by loss share agreements is secured by owner-occupied facilities rather than investment property. These loans are underwritten based primarily upon the cash flow from the operation of the business rather than the value of the real estate collateral.

At December 31, 2011, there were $1.26 billion of commercial mortgage loans covered by loss share agreements, 53.4 percent of the $2.36 billion in covered loans. Including the commercial mortgage loans not covered by loss share agreements, total commercial mortgage loans as of December 31, 2011 total $6.37 billion or 45.7 percent of total loans and leases.

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Table 6
LOANS AND LEASES

	December 31				
	2011	2010	2009	2008	2007
	(thousands)				
Covered loans	$2,362,152	$2,007,452	$1,173,020	$—	$—
Noncovered loans and leases :					
Commercial:					
Construction and land development	381,163	338,929	541,110	548,095	608,114
Commercial mortgage	5,104,993	4,737,862	4,552,078	4,343,809	3,982,496
Other commercial real estate	144,771	149,710	158,187	149,478	145,552
Commercial and industrial	1,764,407	1,869,490	1,832,670	1,885,358	1,707,394
Lease financing	312,869	301,289	330,713	353,933	340,601
Other	158,369	182,015	195,084	99,264	85,354
Total commercial loans	7,866,572	7,579,295	7,609,842	7,379,937	6,869,511
Non-commercial:					
Residential mortgage	784,118	878,792	864,704	894,802	953,209
Revolving mortgage	2,296,306	2,233,853	2,147,223	1,911,852	1,494,431
Construction and land development	137,271	192,954	81,244	230,220	202,704
Consumer	497,370	595,683	941,986	1,233,075	1,368,228
Total non-commercial loans	3,715,065	3,901,282	4,035,157	4,269,949	4,018,572
Total noncovered loans and leases	11,581,637	11,480,577	11,644,999	11,649,886	10,888,083
Total loans and leases	13,943,789	13,488,029	12,818,019	11,649,886	10,888,083
Less allowance for loan and lease losses	270,144	227,765	172,282	157,569	136,974
Net loans and leases	$13,673,645	$13,260,264	$12,645,737	$11,492,317	$10,751,109

	December 31, 2011			December 31, 2010		
	Impaired at acquisition date (thousands)	All other acquired loans	Total	Impaired at acquisition date	All other acquired loans	Total
Covered loans:						
Commercial:						
Construction and land development	$117,603	$221,270	$338,873	$102,988	$265,432	$368,420
Commercial mortgage	138,465	1,122,124	1,260,589	120,240	968,824	1,089,064
Other commercial real estate	33,370	125,024	158,394	34,704	175,957	210,661
Commercial and industrial	27,802	85,640	113,442	9,087	123,390	132,477
Lease financing	—	57	57	—	—	—
Other	—	1,330	1,330	—	1,510	1,510
Total commercial loans	317,240	1,555,445	1,872,685	267,019	1,535,113	1,802,132
Non-commercial:						
Residential mortgage	46,130	281,438	327,568	11,026	63,469	74,495
Revolving mortgage	15,350	36,202	51,552	8,400	9,466	17,866
Construction and land development	78,108	27,428	105,536	44,260	61,545	105,805
Consumer	1,477	3,334	4,811	—	7,154	7,154
Total non-commercial loans	141,065	348,402	489,467	63,686	141,634	205,320

Total covered loans	$458,305	$1,903,847	$2,362,152	$330,705	$1,676,747	$2,007,452

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There were no foreign loans or leases, covered or noncovered, in any period.

At December 31, 2011, revolving mortgage loans not covered by loss share agreements totaled $2.30 billion or 19.8 percent of total noncovered loans and leases, compared to $2.23 billion or 19.5 percent at December 31, 2010. At December 31, 2011 and 2010, an additional $51.6 million and $17.9 million, respectively, were covered by loss share agreements. At December 31, 2011, total revolving mortgage loans equaled $2.35 billion or 16.8 percent of total loans and leases, compared to $2.25 billion or 16.7 percent at December 31, 2010. The 2011 increase in total revolving mortgage loans results from additional acquired loans as well as growth in noncovered revolving mortgage loans due to low interest rates and the attractive variable rate nature of the revolving mortgage loan product. The $86.6 million increase in noncovered revolving mortgage loans during 2010 resulted principally from changes to accounting for QSPE's and controlling financial interests that became effective on January 1, 2010. As a result of the accounting change, $97.3 million of revolving mortgage loans that were previously securitized, sold and removed from the consolidated balance sheet were returned to the balance sheet in the first quarter of 2010 upon adoption of the new accounting guidance.

Commercial and industrial loans not covered by loss share agreements equaled $1.76 billion at December 31, 2011, compared to $1.87 billion at December 31, 2010, a decline of $105.1 million or 5.6 percent. This decrease follows a decline of $36.8 million or 2.0 percent from 2009 to 2010. Weak economic conditions have limited our ability to originate commercial and industrial loans that meet our underwriting standards. Commercial and industrial loans not covered by loss share agreements represent 15.2 percent and 16.3 percent of total loans and leases not covered by loss share agreements, respectively, as of December 31, 2011 and 2010. Including covered loans, total commercial and industrial loans as of December 31, 2011 equal $1.88 billion, or 13.5 percent of total loans and leases.

Consumer loans not covered by loss share agreements amounted to $497.4 million at December 31, 2011, a decrease of $98.3 million, or 16.5 percent, from the prior year. This decline results from our decision during 2008 to discontinue originations of automobile sales finance loans through our dealer network. At December 31, 2011 and 2010, consumer loans not covered by loss share agreements represent 4.3 percent and 5.2 percent of total noncovered loans, respectively.

There were $784.1 million of residential mortgage loans not covered by loss share agreements and an additional $327.6 million covered for a total of $1.11 billion of residential mortgage loans as of December 31, 2011, representing 8.0 percent of total loans and leases. The vast majority of residential mortgage loans that we originated during 2011 and 2010 were sold to investors on a "best efforts" basis while certain loans are retained in the loan portfolio principally due to the nonconforming characteristics of the retained loans.

Commercial and residential construction and land development loans not covered by loss share agreements equaled $518.4 million at December 31, 2011, a decrease of $13.4 million, or 2.5 percent from December 31, 2010. The noncovered construction and land development loans are generally not comprised of loans to builders to acquire, develop or construct homes in large tracts of real estate, and are located in North Carolina and Virginia where residential real estate values have declined moderately. Construction and land development loans covered by loss share agreements at December 31, 2011 totaled $444.4 million, 18.8 percent of total loans covered by loss share agreements. Total covered and non-covered construction and land development loans equal $962.8 million, which is 6.9 percent of total loans and leases.

We expect non-acquisition loan growth to be modest in 2012 due to the weak demand for loans and widespread customer efforts to deleverage. All growth projections are subject to change due to further economic deterioration or improvement, our ability to generate adequate liquidity to fund loan growth and other external factors.

Investment securities

Investment securities available for sale at December 31, 2011 and 2010 totaled $4.06 billion and $4.51 billion, respectively, a $453.7 million or 10.1 percent decrease. The reduction during 2011 resulted from a decrease in liquidity due to run-off of deposits assumed in FDIC-assisted transactions, low organic deposit growth and slightly improved loan demand. Investments in U.S Treasury and government agency securities generally have final maturities of three years or less. The majority of the agency securities are callable by the issuer at periodic intervals prior to the final maturity date. Available for sale securities are reported at their aggregate fair value, and unrealized gains and losses are included as a component of other comprehensive income, net of deferred taxes.

Since 2009, FCB has invested a significant portion of its available liquidity in government agency securities, while the balance of US Treasury securities has declined as securities mature.

Investments in residential mortgage-backed securities primarily represent securities issued by the Government National

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Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. The growth in residential mortgage-backed securities during 2011 resulted from securities purchased in the United Western transaction.

Table 7 presents detailed information relating to the investment securities portfolio.

Income on interest-earning assets.

Interest income amounted to $1.02 billion during 2011, a $45.8 million or 4.7 percent increase from 2010, compared to a $231.2 million or 31.3 percent increase from 2009 to 2010. The increase in interest income during 2011 is primarily the result of higher average balances and accretion income recognized on acquired loans. During 2011, interest-earning assets averaged $18.82 billion, an increase of $366.5 million from 2010. This increase results from loans acquired in FDIC-assisted transactions and investment security purchases resulting from deposit growth within our legacy branch network in excess of loan and lease demand.

Table 8 analyzes taxable-equivalent yields and rates on interest-earning assets and interest-bearing liabilities for the five years ending December 31, 2011. The taxable-equivalent yield on interest-earning assets was 5.41 percent during 2011, a 14 basis point increase from the 5.27 percent reported in 2010, the result of the accretion during 2011 of fair value discounts on acquired loans. The taxable-equivalent yield on interest-earning assets equaled 4.69 percent in 2009.

The taxable-equivalent yield on the loan and lease portfolio increased from 6.61 percent in 2010 to 6.91 percent in 2011. The 30 basis point yield increase coupled with the $184.6 million or 1.3 percent growth in average loans and leases contributed to an increase in loan interest income of $53.2 million or 5.8 percent over 2010. The increased yield resulted from $319.4 million of discount accreted into income during 2011 compared to $181.4 million during 2010. Loan interest income increased in 2010 from 2009 by $255.0 million, or 38.7 percent, driven by a 112 basis point yield increase resulting from loan discount accretion income in 2010, and by incremental interest from a $1.80 billion, or 14.9 percent increase in average loans and leases. During the years ended December 31, 2011 and 2010, unscheduled discount accretion recorded due loan payoffs was $100.6 million and $94.5 million, respectively.

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Table 7
INVESTMENT SECURITIES

	2011					2010		2009	
	Cost	Fair Value	Average Maturity (Yrs./Mos.)	Taxable Equivalent Yield		Cost	Fair Value	Cost	Fair Value
Investment securities available for sale:	(dollars in thousands)								
U. S. Treasury:									
Within one year	$811,038	$811,835	0/6	0.38	%	$1,332,798	$1,336,446	$1,251,624	$1,260,993
One to five years	76,003	75,984	1/1	0.16		602,868	602,954	729,824	732,543
Total	887,041	887,819	0/6	0.36		1,935,666	1,939,400	1,981,448	1,993,536
Government agency:									
Within one year	2,176,527	2,176,143	0/7	0.77		1,879,988	1,869,569	292,136	293,360
One to five years	415,447	416,066	2/1	0.55		50,481	50,417	500	527
Total	2,591,974	2,592,209	0/10	0.73		1,930,469	1,919,986	292,636	293,887
Residential mortgage-backed securities:									
Within one year	374	373	0/9	3.13		6	3	—	—
One to five years	56,650	56,929	3/8	2.54		10,755	11,061	13,430	13,729
Five to ten years	90,595	91,077	6/4	1.93		1,673	1,700	917	914
Over ten years	150,783	158,842	25/10	6.60		126,857	130,781	112,254	115,695
Total	298,402	307,221	15/11	4.46		139,291	143,545	126,601	130,338
Corporate bonds:									
Within one year	250,476	252,820	0/6	1.95		227,636	230,043	—	—
One to five years	—	—	—	—		251,524	256,615	481,341	485,667
Total	250,476	252,820	0/6	1.95		479,160	486,658	481,341	485,667
State, county and municipal:									
Within one year	242	244	0/6	5.34		757	757	303	304
One to five years	359	372	1/3	4.95		473	489	1,107	1,138
Five to ten years	10	10	8/11	4.97		10	10	—	—
Over ten years	415	415	10/11	4.80		—	—		