FIRST CITIZENS BANCSHARES INC /DE/
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016
or

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

Commission File Number: 001-16715

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

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

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

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

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

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

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

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

Class A Common Stock—$1 Par Value—11,005,220 shares
Class B Common Stock—$1 Par Value—1,005,185 shares
(Number of shares outstanding, by class, as of August 3, 2016)

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PART I

Item 1. Financial Statements

First Citizens BancShares, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, unaudited)	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$507,569	$534,086
Overnight investments	2,276,080	2,063,132
Investment securities available for sale	6,557,580	6,861,293
Investment securities held to maturity	156	255
Loans held for sale	84,795	59,766
Loans and leases	20,742,571	20,239,990
Allowance for loan and lease losses	(208,008)	(206,216)
Net loans and leases	20,534,563	20,033,774
Premises and equipment	1,120,970	1,135,829
Other real estate owned	67,089	65,559
Income earned not collected	71,916	70,036
FDIC loss share receivable	5,281	4,054
Goodwill	139,773	139,773
Other intangible assets	80,555	90,986
Other assets	784,076	417,391
Total assets	$32,230,403	$31,475,934
Liabilities		
Deposits:		
Noninterest-bearing	$9,779,926	$9,274,470
Interest-bearing	17,477,848	17,656,285
Total deposits	27,257,774	26,930,755
Short-term borrowings	728,562	594,733
Long-term obligations	850,504	704,155
FDIC loss share payable	94,252	126,453
Other liabilities	263,607	247,729
Total liabilities	29,194,699	28,603,825
Shareholders' equity		
Common stock:		
Class A - $1 par value (16,000,000 shares authorized; 11,005,220 shares issued and outstanding at June 30, 2016 and December 31, 2015)	11,005	11,005
Class B - $1 par value (2,000,000 shares authorized; 1,005,185 shares issued and outstanding at June 30, 2016 and December 31, 2015)	1,005	1,005
Surplus	658,918	658,918
Retained earnings	2,379,803	2,265,621
Accumulated other comprehensive loss	(15,027)	(64,440)
Total shareholders' equity	3,035,704	2,872,109
Total liabilities and shareholders' equity	$32,230,403	$31,475,934

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended June 30		Six months ended June 30	
(Dollars in thousands, except per share data, unaudited)	2016	2015	2016	2015
Interest income				
Loans and leases	$215,442	$222,682	$431,846	$433,544
Investment securities and dividend income	24,702	21,806	47,744	41,116
Overnight investments	3,225	1,525	6,891	2,863
Total interest income	243,369	246,013	486,481	477,523
Interest expense				
Deposits	4,601	5,534	9,260	11,163
Short-term borrowings	454	1,658	888	3,592
Long-term obligations	6,125	4,171	11,424	7,953
Total interest expense	11,180	11,363	21,572	22,708
Net interest income	232,189	234,650	464,909	454,815
Provision for loan and lease losses	4,562	7,719	9,405	13,511
Net interest income after provision for loan and lease losses	227,627	226,931	455,504	441,304
Noninterest income				
Gain on acquisitions	3,290	—	4,994	42,930
Cardholder services	21,054	19,214	40,412	37,615
Merchant services	24,236	22,070	46,213	40,950
Service charges on deposit accounts	21,884	22,361	43,734	44,419
Wealth management services	21,291	21,555	40,925	42,435
Securities gains	12,529	147	17,157	5,273
Other service charges and fees	7,137	5,730	14,126	11,235
Mortgage income	4,537	5,571	5,848	10,120
Insurance commissions	2,265	2,456	5,443	5,753
ATM income	1,845	1,825	3,610	3,489
Adjustments to FDIC loss share receivable	(2,367)	(4,553)	(4,900)	(5,600)
Net impact from FDIC loss share termination	16,559	—	16,559	—
Other	5,990	11,074	11,411	19,584
Total noninterest income	140,250	107,450	245,532	258,203
Noninterest expense				
Salaries and wages	104,059	109,895	207,958	215,366
Employee benefits	25,661	28,002	53,011	59,220
Occupancy expense	24,955	25,532	49,967	51,152
Equipment expense	22,715	23,296	45,060	46,837
FDIC insurance expense	4,588	4,551	9,377	8,822
Foreclosure-related expenses	(1,116)	1,019	615	3,576
Merger-related expenses	1,385	4,573	1,423	7,570
Other	76,056	67,823	142,563	130,314
Total noninterest expense	258,303	264,691	509,974	522,857
Income before income taxes	109,574	69,690	191,062	176,650
Income taxes	40,258	25,168	69,674	64,970
Net income	$69,316	$44,522	$121,388	$111,680
Average shares outstanding	12,010,405	12,010,405	12,010,405	12,010,405
Net income per share	$5.77	$3.71	$10.11	$9.30

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended June 30		Six months ended June 30	
(Dollars in thousands, unaudited)	2016	2015	2016	2015
Net income	$69,316	$44,522	$121,388	$111,680
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Change in unrealized securities gains (losses) arising during period	24,176	(29,226)	92,209	1,189
Tax effect	(9,261)	11,352	(35,277)	(461)
Reclassification adjustment for net gains realized and included in income before income taxes	(12,529)	(147)	(17,157)	(5,273)
Tax effect	4,793	74	6,563	2,051
Total change in unrealized gains (losses) on securities, net of tax	7,179	(17,947)	46,338	(2,494)
Change in fair value of cash flow hedges:				
Change in unrecognized loss on cash flow hedges	729	709	1,429	1,285
Tax effect	(274)	(274)	(537)	(496)
Total change in unrecognized loss on cash flow hedges, net of tax	455	435	892	789
Change in pension obligation:				
Amortization of actuarial losses and prior service cost	1,882	2,887	3,534	5,773
Tax effect	(719)	(1,123)	(1,351)	(2,246)
Total change in pension obligation, net of tax	1,163	1,764	2,183	3,527
Other comprehensive income (loss)	8,797	(15,748)	49,413	1,822
Total comprehensive income	$78,113	$28,774	$170,801	$113,502

See accompanying Notes to Consolidated Financial Statements.

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

(Dollars in thousands, unaudited)	Class A Common Stock	Class B Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance at December 31, 2014	$ 11,005	$ 1,005	$658,918	$2,069,647	$ (52,981)	$2,687,594
Net income	—	—	—	111,680	—	111,680
Other comprehensive income, net of tax	—	—	—	—	1,822	1,822
Cash dividends ($0.60 per share)	—	—	—	(7,206)	—	(7,206)
Balance at June 30, 2015	$ 11,005	$ 1,005	$658,918	$2,174,121	$ (51,159)	$2,793,890
Balance at December 31, 2015	$ 11,005	$ 1,005	$658,918	$2,265,621	$ (64,440)	$2,872,109
Net income	—	—	—	121,388	—	121,388
Other comprehensive income, net of tax	—	—	—	—	49,413	49,413
Cash dividends ($0.60 per share)	—	—	—	(7,206)	—	(7,206)
Balance at June 30, 2016	$ 11,005	$ 1,005	$658,918	$2,379,803	$ (15,027)	$3,035,704

See accompanying Notes to Consolidated Financial Statements.

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

	Six months ended June 30	
(Dollars in thousands, unaudited)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$121,388	$111,680
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	9,405	13,511
Deferred tax benefit	(8,501)	(23,762)
Net change in current taxes	(5,757)	(25,261)
Depreciation	44,476	44,312
Net change in accrued interest payable	624	(2,359)
Net increase in income earned not collected	(1,872)	(9,475)
Gain on acquisitions	(4,994)	(42,930)
Securities gains	(17,157)	(5,273)
Loss on termination of FDIC loss share agreements	3,377	—
Origination of loans held for sale	(361,652)	(355,819)
Proceeds from sale of loans	342,505	338,466
Gain on sale of loans	(5,882)	(3,991)
Net writedowns/losses on other real estate	3,884	3,188
Net accretion of premiums and discounts	(23,859)	(45,662)
Amortization of intangible assets	11,135	8,302
Reduction in FDIC receivable for loss share agreements	7,571	27,291
Net change in FDIC payable for loss share agreements	(14,001)	5,503
Net change in other assets	(25,924)	14,243
Net change in other liabilities	19,718	25,085
Net cash provided by operating activities	94,484	77,049
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans outstanding	(416,812)	(566,524)
Purchases of investment securities available for sale	(1,966,181)	(1,435,387)
Proceeds from maturities/calls of investment securities held to maturity	99	167
Proceeds from maturities/calls of investment securities available for sale	627,971	757,780
Proceeds from sales of investment securities available for sale	1,370,768	522,024
Net change in overnight investments	(173,134)	21,578
Proceeds from sales of loans	13,328	—
Cash paid to the FDIC for loss share agreements	(13,502)	(10,890)
Net cash paid to the FDIC for termination of loss share agreements	(20,115)	—
Proceeds from sales of other real estate	16,010	47,391
Additions to premises and equipment	(29,617)	(31,921)
Business acquisition, net of cash acquired	27,943	123,137
Net cash used by investing activities	(563,242)	(572,645)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in time deposits	(250,151)	(359,125)
Net increase in demand and other interest-bearing deposits	421,082	926,092
Net change in short-term borrowings	132,167	(269,460)
Repayment of long-term obligations	(3,651)	(4,483)
Origination of long-term obligations	150,000	120,000

Cash dividends paid	(7,206)	(7,206)
Net cash provided by financing activities	442,241	405,818
Change in cash and due from banks	(26,517)	(89,778)
Cash and due from banks at beginning of period	534,086	604,182
Cash and due from banks at end of period	$507,569	$514,404
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfers of loans to other real estate	$21,280	$30,350
Dividends declared but not paid	3,603	3,603
Unsettled sales of investment securities	361,225	—

See accompanying Notes to Consolidated Financial Statements.

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

NOTE A - ACCOUNTING POLICIES AND BASIS OF PRESENTATION

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

General
These consolidated financial statements and notes thereto are presented in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the consolidated financial position and consolidated results of operations have been made. The unaudited interim consolidated financial statements included in this Form 10-Q should be read in conjunction with the consolidated financial statements and footnotes included in BancShares' Annual Report on Form 10-K for the year ended December 31, 2015.

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

Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and different assumptions in the application of these policies could result in material changes in BancShares' consolidated financial position, the consolidated results of operations or related disclosures. Material estimates that are particularly susceptible to significant change include:

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

Recently Adopted Accounting Pronouncements
Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments
This ASU eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination and requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts must be calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this ASU should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU with earlier

application permitted for financial statements that have not been issued. We adopted the guidance effective in the first quarter of 2016. The initial adoption did not have an impact on our consolidated financial position or consolidated results of operations.

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During the second quarter of 2016, adjustments were made to the acquisition fair values for the FDIC-assisted acquisition of North Milwaukee State Bank (NMSB) of Milwaukee, Wisconsin, primarily based upon updated collateral valuations, resulting in an increase of $1.2 million to the gain on acquisition reflected in the three months ended June 30, 2016. These adjustments brought the total gain on the transaction to $2.9 million which is included in noninterest income in the Consolidated Statements of Income.

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

FASB ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This ASU eliminates the delayed recognition of the full amount of credit losses until the loss was probable of occurring and instead will reflect an entity's current estimate of all expected credit losses. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The ASU does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate based on the entity's size, complexity and risk profile. In addition, the disclosures of credit quality indicators in relation to the amortized cost of financing receivables, a current disclosure requirement, are further disaggregated by year of origination.

The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of the new standard and we will adopt the guidance by the first quarter of 2020.

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

This ASU eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The ASU requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting.

Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. Further, the ASU requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings, the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method.

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

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FASB ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments
This ASU clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. When a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks.
The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We will adopt the guidance during the first quarter of 2017. BancShares does not anticipate any effect on our consolidated financial position or consolidated results of operations as a result of adoption.
FASB ASU 2016-02, Leases (Topic 842)
This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The key difference between existing standards and this ASU is the requirement for lessees to recognize on their balance sheet all lease contracts. An entity may make an accounting election by classification to not recognize leases with terms less than 12 months on their balance sheet. Both a right-of-use asset, representing the right to use the leased asset, and a lease liability, representing the contractual obligation, are required to be recognized on the balance sheet of the lessee at lease commencement. Further, this ASU requires lessees to classify leases as either operating or finance leases, which are substantially similar to the current operating and capital leases classifications. The distinction between these two classifications under the new standard does not relate to balance sheet treatment, but relates to treatment in the statements of income and cash flows. Lessor guidance remains largely unchanged with the exception of how a lessor determines the appropriate lease classification for each lease to better align the lessor guidance with revised lessee classification guidance.
The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the new standard and we will adopt during the first quarter of 2019.
FASB ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities
This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of certain financial instruments. The amendments in this ASU (1) require equity investments to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without a readily determinable fair value; (3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (4) require public business entities to use exit price notion, rather than entry prices, when measuring fair value of financial instruments for disclosure purposes; (5) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; (6) require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and (7) state that a valuation allowance on deferred tax assets related to available-for-sale securities should be evaluated in combination with other deferred tax assets.
The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The ASU only permits early adoption of the instrument-specific credit risk provision. We are currently evaluating the impact of the new standard and we will adopt during the first quarter of 2018.
FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606)
In May 2014, the FASB issued a standard on the recognition of revenue from contracts with customers with the core principle being for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The

new standard also results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, to clarify guidance for identifying performance obligations and licensing implementation. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, to clarify and improve the guidance for certain aspects of Topic 606.

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

NOTE B - BUSINESS COMBINATIONS

Cordia Bancorp Inc.

On May 19, 2016, FCB entered into a definitive merger agreement with Cordia Bancorp Inc. (Cordia). Cordia had total assets of $347.8 million at March 31, 2016. The agreement provides for the acquisition by FCB of Midlothian, Virginia-based Cordia and its bank subsidiary, Bank of Virginia. Under the terms of the agreement, cash consideration of $5.15 will be paid to Cordia's shareholders in exchange for each of their shares of Cordia's common stock. Total consideration is estimated to be $35.0 million based on Cordia's common stock outstanding at March 31, 2016. The agreement has been approved by the Board of Directors of both companies. The transaction is expected to close no later than the fourth quarter of 2016, subject to the receipt of regulatory approvals and the approval of Cordia's shareholders.

First CornerStone Bank

On May 6, 2016, FCB entered into an agreement with the FDIC, as Receiver, to purchase certain assets and assume certain liabilities of First CornerStone Bank (FCSB) of King of Prussia, Pennsylvania. The acquisition provided FCB with value enhancement from expanded banking relationships in Pennsylvania as FCSB operated six branch locations in Chadds Ford, King of Prussia, Malvern, Media, Phoenixville and Ridley, Pennsylvania.

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

The fair value of the assets acquired was $86.6 million, including $43.2 million in loans and $390 thousand of identifiable intangible assets. Liabilities assumed were $96.9 million of which the majority were deposits. As a result of the transaction, FCB recorded a gain on the acquisition of $2.1 million which is included in noninterest income in the Consolidated Statements of Income.

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

(Dollars in thousands)	As recorded by FCB
Assets	
Cash and cash equivalents	$ 748
Overnight investments	37,540
Investment securities	4,564
Loans	43,170
Other real estate owned	144
Income earned not collected	8
Intangible assets	390
Other assets	13
Total assets acquired	86,577
Liabilities	
Deposits	96,882
Other liabilities	23
Total liabilities assumed	96,905
Fair value of net liabilities assumed	(10,328)
Cash received from FDIC	12,450

Gain on acquisition of FCSB	$ 2,122

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Merger-related expenses of $793 thousand from the FCSB transaction were recorded in the Consolidated Statements of Income for the three and six months ended June 30, 2016. Loan-related interest income generated from FCSB was approximately $324 thousand since the acquisition date.
All loans resulting from the FCSB transaction were recorded at the acquisition date with a discount attributable, at least in part, to credit quality, and are therefore accounted for as purchased credit-impaired (PCI) loans under ASC 310-30.
North Milwaukee State Bank
On March 11, 2016, FCB entered into an agreement with the FDIC, as Receiver, to purchase certain assets and assume certain liabilities of NMSB with two branches in Milwaukee, Wisconsin. The acquisition provided FCB with value enhancement from expanded banking relationships.

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

The fair value of the assets acquired was $53.6 million, including $36.9 million in loans and $240 thousand of identifiable intangible assets. Liabilities assumed were $60.9 million of which $59.2 million were deposits. During the second quarter of 2016, adjustments were made to the acquisition fair values primarily based upon updated collateral valuations resulting in an increase of $1.2 million to the gain on acquisition reflected in the three months ended June 30, 2016. These adjustments brought the total gain on the transaction to $2.9 million which is included in noninterest income in the Consolidated Statements of Income.

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

(Dollars in thousands)	As recorded by FCB
Assets	
Cash and cash equivalents	$ 4,545
Overnight investments	2,274
Investment securities	9,425
Loans	36,914
Intangible assets	240
Other assets	216
Total assets acquired	53,614
Liabilities	
Deposits	59,206
Short-term borrowings	1,662
Other liabilities	74
Total liabilities assumed	60,942
Fair value of net liabilities assumed	(7,328)
Cash received from FDIC	10,200
Gain on acquisition of NMSB	$ 2,872

Merger-related expenses of $438 thousand and $476 thousand from the NMSB transaction were recorded in the Consolidated Statements of Income for the three and six months ended June 30, 2016, respectively. Loan-related interest income generated from NMSB was approximately $676 thousand for the second quarter of 2016 and $799 thousand since the acquisition date.

All loans resulting from the NMSB transaction were recorded at the acquisition date with a discount attributable, at least in part, to credit quality, and are therefore accounted for as PCI loans under ASC 310-30.

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NOTE C - INVESTMENTS

The amortized cost and fair value of investment securities classified as available for sale and held to maturity at June 30, 2016 and December 31, 2015, are as follows:

	June 30, 2016			
(Dollars in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury	$1,538,211	$ 3,268	$ —	$1,541,479
Government agency	355,014	531	—	355,545
Mortgage-backed securities	4,489,218	48,888	2,275	4,535,831
Equity securities	81,114	2,062	1,786	81,390
Corporate bonds	41,360	25	—	41,385
Other	2,115	—	165	1,950
Total investment securities available for sale	$6,507,032	$ 54,774	$ 4,226	$6,557,580

	December 31, 2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	$1,675,996	$ 4	$ 1,118	$1,674,882
Government agency	498,804	230	374	498,660
Mortgage-backed securities	4,692,447	5,120	29,369	4,668,198
Equity securities	7,935	968	10	8,893
Corporate bonds	8,500	—	—	8,500
Other	2,115	45	—	2,160
Total investment securities available for sale	$6,885,797	$ 6,367	$ 30,871	$6,861,293

	June 30, 2016			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities held to maturity				
Mortgage-backed securities	$156	$ 9	$ —	$165

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

Investments in mortgage-backed securities primarily represent securities issued by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.
Investments in equity securities and corporate bonds represent positions in securities of other financial institutions.
The following table provides the amortized cost and fair value by contractual maturity. Expected maturities will differ from contractual maturities on certain securities because borrowers and issuers may have the right to call or prepay obligations with or without prepayment penalties. Repayments of mortgage-backed securities are dependent on the repayments of the underlying loan balances. Equity securities do not have a stated maturity date.

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(Dollars in thousands)	June 30, 2016 Cost	Fair value	December 31, 2015 Cost	Fair value
Investment securities available for sale				
Non-amortizing securities maturing in:				
One year or less	$1,653,165	$1,655,553	$1,255,714	$1,255,094
One through five years	240,060	241,471	919,086	918,448
Five through 10 years	41,360	41,385	8,500	8,500
Over 10 years	2,115	1,950	2,115	2,160
Mortgage-backed securities	4,489,218	4,535,831	4,692,447	4,668,198
Equity securities	81,114	81,390	7,935	8,893
Total investment securities available for sale	$6,507,032	$6,557,580	$6,885,797	$6,861,293
Investment securities held to maturity				
Mortgage-backed securities held to maturity	$156	$165	$255	$265

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

	Three months ended June 30		Six months ended June 30	
(Dollars in thousands)	2016	2015	2016	2015
Gross gains on sales of investment securities available for sale	$12,555	$151	$17,488	$5,286
Gross losses on sales of investment securities available for sale	(26)	(4)	(331)	(13)
Total securities gains	$12,529	$147	$17,157	$5,273

The following table provides information regarding securities with unrealized losses as of June 30, 2016 and December 31, 2015.

	June 30, 2016					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
Mortgage-backed securities	$364,840	$ 1,236	$197,332	$ 1,039	$562,172	$ 2,275
Equity securities	44,489	1,786	—	—	44,489	1,786
Other	1,950	165	—	—	1,950	165
Total	$411,279	$ 3,187	$197,332	$ 1,039	$608,611	$ 4,226

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
U.S. Treasury	$1,539,637	$ 1,118	$—	$ —	$1,539,637	$ 1,118
Government agency	229,436	374	—	—	229,436	374
Mortgage-backed securities	3,570,470	23,275	280,126	6,094	3,850,596	29,369
Equity securities	728	10	—	—	728	10
Total	$5,340,271	$ 24,777	$280,126	$ 6,094	$5,620,397	$ 30,871

Investment securities with an aggregate fair value of $197.3 million and $280.1 million had continuous unrealized losses for more than 12 months with a corresponding aggregate unrealized loss of $1.0 million and $6.1 million as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, all 36 of these investments are government sponsored enterprise-issued mortgage-backed securities. None of the unrealized losses identified as of June 30, 2016 or December 31, 2015 relate to the marketability of the securities or the issuer's ability to honor redemption obligations. Rather, the unrealized losses relate to changes in interest rates relative to when the investment securities were purchased. For all periods presented, BancShares had the ability and intent to retain these securities for a period of time sufficient to recover all unrealized losses. Therefore, none of the securities were deemed to be other than temporarily impaired.

Investment securities having an aggregate carrying value of $4.77 billion at June 30, 2016 and $4.73 billion at December 31, 2015 were pledged as collateral to secure public funds on deposit and certain short-term borrowings, and for other purposes as required by law.

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NOTE D - LOANS AND LEASES

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

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

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

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

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

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

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

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