First Citizens BancShares, Inc.

PILLAR 3 REGULATORY CAPITAL DISCLOSURES

For the period ended September 30, 2022

TABLE OF CONTENTS

DISCLOSURE MAP

PILLAR 3 REQUIREMENT	DESCRIPTION	Q3 2022 FORM 10-Q	2021 FORM 10-K
OVERVIEW	Organization	16, 63	
	Capital Requirement	55	8
SCOPE OF APPLICATION	Basis of Consolidation	10	77
	Transfer of Funds or Capital Restrictions		9-10
	Regulated Subsidiaries' Capital	55	
CAPITAL STRUCTURE	Capital Instruments	55, 100	33
	Regulatory Capital Tiers	55, 100	
CAPITAL ADEQUACY	Capital Management	100	57
	Risk-Based Capital Ratios	55, 100	
CAPITAL CONSERVATION BUFFER	Required Ratios	56	58
CREDIT RISK	Risk Management		59
	Credit Risk		59
	Credit Risk Exposures	25-35	
COUNTERPARTY CREDIT RISK	Counterparty Risk Management	93-95	
	Credit Derivatives	12-13	
	Collateral	45	
CREDIT RISK MITIGATION	Credit Philosophy	90-91	59, 84
SECURITIZATION	Securitization Exposures	62	
EQUITY EXPOSURES	Evaluation of Investments		78
	Type of Investments	21-24	91
	Gains (Losses)	23	90
INTEREST RATE RISK	Risk Management	93-95	61

OVERVIEW

ORGANIZATION

First Citizens BancShares, Inc. (“BancShares”, “the Company” or “we”) is a bank holding company ("BHC") and Financial Holding Company (“FHC”). BancShares is regulated by the Board of Governors of the Federal Reserve System under the U.S. Bank Holding Company Act of 1956, as amended. BancShares is also registered under the bank holding company laws of North Carolina and is subject to supervision, regulation and examination by the North Carolina Commissioner of Banks (“NCCOB”). BancShares conducts its banking operations through its wholly-owned subsidiary First-Citizens Bank & Trust Company (“FCB”), a state-chartered bank organized under the laws of the state of North Carolina. FCB is regulated by the NCCOB. In addition, FCB, as an insured depository institution, is supervised by the Federal Deposit Insurance Corporation (“FDIC”). On January 3, 2022, BancShares completed its previously announced merger (the “CIT Merger”) with CIT Group Inc. (“CIT”), pursuant to an Agreement and Plan of Merger, dated as of October 15, 2020, as amended by Amendment No. 1, dated as of September 30, 2021 (as amended, the “Merger Agreement”).

BancShares’ earnings and cash flows are primarily derived from its commercial and retail banking activities. We expanded our products and services with the CIT Merger, and now have leased assets, primarily rail-related, and offer factoring services. We gather deposits from retail and commercial customers and also secure funding through various non-deposit sources. We invest the liquidity generated from these funding sources in interest-earning assets, including loans and leases, investment securities and interest-earning deposits at banks. We also invest in bank premises, hardware, software, furniture and equipment used to conduct our commercial and retail banking business. We provide treasury services products, cardholder and merchant services, wealth management services and various other products and services typically offered by banks. The fees and service charges generated from these products and services are primary sources of noninterest income, which is an essential component of our total revenue.

BancShares completed the CIT Merger on January 3, 2022 (the “Merger Date”). Pursuant to the Merger Agreement, each share of CIT common stock, par value $0.01 per share (“CIT Common Stock”), issued and outstanding, except for certain shares of CIT Common Stock owned by CIT or BancShares, was converted into the right to receive 0.062 shares of Class A Common Stock, par value $1.00 per share, plus, cash in lieu of fractional shares of Class A Common Stock. The Company issued approximately 6.1 million shares of its Class A Common Stock in connection with the consummation of the CIT Merger. The closing share price of Class A Common Stock on the Nasdaq Global Select Market was $859.76 on January 3, 2022. The purchase price consideration related to the issuance of Class A Common Stock was $5.3 billion. There were approximately 8,800 fractional shares for which the Parent Company paid cash of $7 million.

Pursuant to the terms of the Merger Agreement, each issued and outstanding share of fixed-to-floating rate non-cumulative perpetual preferred stock, series A, par value $0.01 per share, of CIT (“CIT Series A Preferred Stock”) and each issued and outstanding share of 5.625% non-cumulative perpetual preferred stock, series B, par value $0.01 per share, of CIT (“CIT Series B Preferred Stock” and together with CIT Series A Preferred Stock, “CIT Preferred Stock”), converted into the right to receive one share of a newly created series of preferred stock, series B, of the Parent Company (“BancShares Series B Preferred Stock”) and one share of a newly created series of preferred stock, series C, of the Parent Company (“BancShares Series C Preferred Stock” and together with the BancShares Series B Preferred Stock, the “New BancShares Preferred Stock”), respectively, having such rights, preferences, privileges and voting powers, and limitations and restrictions, taken as a whole, that are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions, taken as a whole, of the CIT Series A Preferred Stock and the CIT Series B Preferred Stock, respectively. The non-callable period for the New BancShares Preferred Stock is January 4, 2027, which is five years from the original issuance date of the New BancShares Preferred Stock. There are 325,000 shares of BancShares Series B Preferred Stock with a liquidation preference of $1,000 per share, resulting in a total liquidation preference of $325 million. There are 8 million shares of BancShares Series C Preferred Stock with a liquidation preference of $25 per share, resulting in a total liquidation preference of $200 million. The New BancShares Preferred Stock qualifies as Tier 1 capital. The purchase price consideration related to the fair value of the New BancShares Preferred Stock was $541 million.

CIT RSUs and PSUs converted to BancShares RSUs and CIT Director Awards and immediately vested upon completion of the CIT Merger as further described in the “Stock-Based Compensation” discussion in Note 1 — Accounting Policies and Basis of Presentation. The aggregate purchase price consideration related to these compensation awards was $81 million.

The CIT Merger has been accounted for as a business combination under the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values based on initial valuations as of January 3, 2022. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions at the time of the merger and other future events that are highly subjective in nature and may require adjustments.

As of September 30, 2022, the fair value measurements remain preliminary. The purchase price allocation is considered preliminary related to loan and lease portfolios, operating lease equipment, and deposits, as we identify and assess information regarding the nature of these assets and liabilities and review the associated valuation assumptions and methodologies. The amounts recorded for current and deferred tax assets and liabilities are considered provisional as we continue to evaluate the nature and extent of permanent and temporary differences between the book and tax bases of the acquired assets and liabilities assumed.

CAPITAL REQUIREMENTS

BancShares and FCB are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the BancShares’ Consolidated Financial Statements. Certain activities, such as the ability to undertake new business initiatives, including acquisitions, the access to and cost of funding for new business initiatives, the ability to pay dividends, the ability to repurchase shares or other capital instruments, the level of deposit insurance costs, and the level and nature of regulatory oversight, largely depend on a financial institution’s capital strength.

Federal banking agencies approved regulatory capital guidelines (“Basel III”) aimed at strengthening previous capital requirements for banking organizations. Basel III became effective for BancShares on January 1, 2015 and the associated capital conservation buffers of 2.5% were fully phased in by January 1, 2019.

The Federal Reserve imposes certain capital requirements on bank holding companies under the BHCA, including a minimum leverage ratio and a minimum ratio of “qualifying” capital to risk-weighted assets. As of September 30, 2022, the total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios exceeded the applicable Basel III minimums. Subject to its capital requirements and certain other restrictions, the Parent Company is able to borrow money to make capital contributions to FCB and such loans may be repaid from dividends paid by FCB to the Parent Company. As a result of the CIT Merger, BancShares is a Category IV banking organization and is required to submit an annual capital plan to the Federal Reserve in accordance with the applicable transition provisions. BancShares will also be subject to biennial supervisory stress testing under the Federal Reserve’s CCAR process, and the stress capital buffer calculated by the Federal Reserve under CCAR will replace the static 2.5% percent component of our capital conservation buffer.

For further information on capital requirements, refer to *Item 1. Business – First Citizens BancShares, Inc.: Capital Requirements* section in the 2021 Form 10-K for the year ended December 31, 2021 and *Note 18 – Regulatory Capital* in the 2022 Form 10-Q for the period ended September 30, 2022.

PILLAR 3 REPORTING

This document presents the Pillar 3 Disclosures in compliance with Basel III as described in Subpart D – Risk-weighted Assets – Standardized Approach of the Basel III Rule. These Pillar 3 Disclosures should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 and the 2022 Form 10-Q for the period ended September 30, 2022.

SCOPE OF APPLICATION

BASIS OF CONSOLIDATION

The consolidated financial statements and notes thereto in the Quarterly Report on Form 10-Q 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 the Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in BancShares' Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K").

The consolidated financial statements of BancShares include the accounts of BancShares and its subsidiaries, certain partnership interests and variable interest entities ("VIEs") where BancShares is the primary beneficiary ("PB"), if applicable. Assets held in agency or fiduciary capacity are not included in the consolidated financial statements.

For further information, refer to *Note A – Accounting Policies and Basis of Presentation* in our 2021 Form 10-K.

TRANSFER OF FUNDS OR CAPITAL RESTRICTIONS

The Parent Company is a legal entity, separate and distinct from its subsidiaries. Revenues of the Parent Company primarily result from dividends received from FCB. There are various legal limitations applicable to the payment of dividends by FCB to the Parent Company and to the payment of dividends by the Parent Company to its shareholders. The payment of dividends by FCB or the Parent Company may be limited by certain factors, such as requirements to maintain capital above regulatory guidelines. Bank regulatory agencies have the authority to prohibit FCB or the Parent Company from engaging in an unsafe or unsound practice in conducting their business. The payment of dividends, depending on the financial condition of FCB or the Parent Company, could be deemed to constitute such an unsafe or unsound practice. BancShares expects to be a Category IV banking organization and expects to be required to submit a capital plan annually to the Federal Reserve in accordance with the applicable transition provisions. The annual capital plan will include planned capital distributions over a specified forecasting horizon. BancShares expects to be subject to biennial supervisory capital stress testing under the Federal Reserve's CCAR process. The stress capital buffer would replace the static 2.5% component of the capital conservation buffer with a capital buffer that is based on supervisory stress test results and the Parent Company's planned capital distributions. BancShares' supervisory stress testing results under CCAR could impact the ability of the Parent Company to declare dividends or make other capital distributions, including common share repurchases.

Additionally, under the FDI Act, insured depository institutions, such as FCB, are prohibited from making capital distributions, including the payment of dividends, if, after making such distributions, the institution would become "undercapitalized" as such term is used in the statute. Additionally, under Basel III capital guidelines, banking institutions with a Regulatory Capital Ratio above the Basel III minimum, but below the Basel III requirement will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Based on FCB's current financial condition, the Parent Company currently does not expect these provisions to have any material impact on its ability to receive dividends from FCB. The Parent Company's non-bank subsidiaries pay dividends to the Parent Company periodically on a non-regulated basis.

Transactions with Affiliates. Pursuant to Sections 23A and 23B of the Federal Reserve Act, Regulation W and Regulation O, the authority of FCB to engage in transactions with related parties or "affiliates" or to make loans to insiders is limited. Loan transactions with an affiliate generally must be collateralized and certain transactions between FCB and its affiliates, including the sale of assets, the payment of money or the provision of services, must be on terms and conditions that are substantially the same, or at least as favorable to FCB, as those prevailing for comparable nonaffiliated transactions. In addition, FCB generally may not purchase securities issued or underwritten by affiliates.

FCB receives management fees from its subsidiaries and the Parent Company for expenses incurred for performing various functions on their behalf. These fees are charged to each company based upon the estimated cost for usage of services by that company. The fees are eliminated from the consolidated financial statements.

For further information on Transfer of Funds or Capital Restrictions, refer to the *Item 1. Business Overview – First Citizens BancShares, Inc.: Limits on Dividends and Other Payments* section in our 2021 Form 10-K.

REGULATED SUBSIDIARIES' CAPITAL

As of September 30, 2022, total capital, as defined by the applicable regulations, for the Company's regulated banking subsidiary was $12 billion and for the Company's Edge and Agreement Corporation, regulated insurance and broker dealer subsidiaries were $382 million, $24 million and $15 million, respectively. All of these entities were in compliance with their respective minimum total capital requirements as of September 30, 2022.

CAPITAL STRUCTURE

CAPITAL INSTRUMENTS

The Company's qualifying common equity tier 1 capital instruments consists of common stock. The Parent Company has Class A Common Stock and Class B Common Stock. In connection with the consummation of the CIT Merger, the Parent Company issued approximately 6.1 million shares of Class A Common Stock as further discussed in Note 2 — Business Combinations in our Q3 2022 Form 10-Q.

For additional information regarding BancShares common stock, refer to *Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities* in our 2021 Form 10-K.

As of September 30, 2022, BancShares's qualifying additional Tier 1 capital instrument is non-cumulative perpetual preferred stock of $881 million, and its qualifying Tier 2 capital instrument is subordinated notes of $1,055 million. For additional information on the Tier 1 and Tier 2 capital instruments refer to Note 12 – Borrowings and Note 16 – Stockholders' Equity, respectively, in our 2022 Form 10-Q for the period ended September 30, 2022.

REGULATORY CAPITAL TIERS

The components of capital including Common Equity Tier 1, Tier 1 and Total Capital are as follows:

Regulatory Capital Tiers (dollars in millions)

	September 30, 2022
Common Equity Tier 1 ("CET1") Capital	
Common stock, $0.01 par value	$ 15
Paid in capital	4,506
Retained earnings	5,160
Accumulated other comprehensive loss ("AOCI")	(729)
Total common stockholders' equity	**8,952**
Effect of certain items in AOCI excluded from CET1 Capital	729
Adjusted total equity	9,681
Less: Goodwill, net of associated deferred tax liabilities ("DTLs")	(346)
Less: Intangible assets, net of associated DTLs	(139)
Less: Other CET1 deductions	(11)
Total CET1 Capital	**9,185**
Preferred stock	881
Less: Other Additional Tier 1 Capital deductions	-
Total Additional Tier 1 Capital	881
Total Tier 1 Capital	**10,066**
Qualifying Tier 2 Capital instruments	1,055
Qualifying adjusted allowance for credit losses ("AACL")[1]	806
Total Tier 2 Capital	1,861
Total Capital	**$ 11,927**

[1] AACL includes credit loss allowances related to loans, excluding purchased credit deteriorated ("PCD") assets, and includes the allowance for off-balance sheet credit exposures recorded in Other Liabilities.

CAPITAL ADEQUACY

CAPITAL MANAGEMENT

BancShares maintains a comprehensive capital adequacy process. The Company establishes internal capital risk limits and warning thresholds, which utilize Risk-Based and Leverage-Based Capital calculations, internal and external early warning indicators, its capital planning process, and stress testing to evaluate BancShares' capital adequacy for multiple types of risk in both normal and stressed environments. The capital management framework requires contingency plans be defined and may be employed at management's discretion.

We are committed to effectively managing our capital to protect our depositors, creditors and shareholders. We continually monitor the capital levels and ratios for BancShares and FCB to ensure they exceed the minimum requirements imposed by regulatory authorities and to ensure they are appropriate given growth projections, risk profile and potential changes in the regulatory or external environment. Failure to meet certain capital requirements may result in actions by regulatory agencies that could have a material impact on our consolidated financial statements.

For additional information regarding capital management, refer to the *Item 1. Business – Regulation: Regulatory Considerations*, the *MD&A – Shareholders' Equity and Capital Adaquacy* section, and *Note L – Regulatory Requirements, Dividends from Subsidiaries* section in our 2021 Form 10-K for period ended December 31, 2021.

RISK-BASED CAPITAL RATIOS

The following tables present information on the Company's Standardized Approach RWA components included within the regulatory capital ratios at September 30, 2022. The regulatory capital rules applicable to the Company were the Basel III Rule and the Simplification Final Rule.

Standardized Approach Risk-Weighted Assets (dollars in millions)

	September 30, 2022	
	Exposure Amount	**Risk-Weighted Asset Amount**
Loans and Leases:		
Residential mortgages exposures	$ 15,010	$ 8,859
HVCRE loans	319	467
Past due and non-accrual loans	363	456
All other loans and leases	54,117	53,355
Total loans and leases	69,809	63,137
Less: Allowance for credit losses	(882)	-
Operating lease equipment	7,987	7,987
Sovereign/Supranational exposures	14,767	-
Securitization exposures	36	129
Other assets	17,593	8,346
Total on-balance sheet assets	109,310	79,599
Rail purchase commitments	548	548
Loan commitments with original maturity within 1 year[1]	3,084	617
Loan commitments with original maturity over 1 year[1]	9,807	4,882
Unconditionally cancellable commitments	10,282	-
Letters of credit	2,610	2,582
Other off-balance sheet items[2]	955	357
Total off-balance sheet items	27,286	8,986
Less: Excess of AACL	-	-
Total	**$ 136,596**	**$ 88,585**

[1] For regulatory reporting purposes, asset-based lending unused commitments should be measured as the contractual borrowing base less outstanding loans and letters of credit under the commitment.
[2] The exposure amount includes notional amount for reverse repos and other off-balance sheet items, as well as the credit equivalent amount for derivative transactions.

Regulatory Capital Ratios (dollars in millions)

	September 30, 2022	
	BancShares	**FCB**
Common equity tier 1 capital	10.37%	11.67%
Tier 1 capital	11.36%	11.67%
Total capital	13.46%	13.26%
Risk-Weighted Assets	$ 88,585	$ 88,472

CAPITAL CONSERVATION BUFFER

REQUIRED RATIOS

Federal banking agencies approved regulatory capital guidelines ("Basel III") aimed at strengthening previous capital requirements for banking organizations. Basel III became effective for BancShares on January 1, 2015 and the associated capital conservation buffers of 2.5% were fully phased in by January 1, 2019. The following table includes the Basel III requirements for regulatory capital ratios.

BancShares is required to maintain risk-based capital ratios as follows:

	Basel III Minimum	Basel III Conservation Buffers	Basel III Requirements
Total Risk-based capital	8.0%	2.5%	10.5%
Tier 1 risk-based capital	6.0%	2.5%	8.5%
Common equity Tier 1	4.5%	2.5%	7.0%
Tier 1 Leverage	4.0%	---	4.0%

As of September 30, 2022, BancShares has met the effective minimum ratios, with CET1 Capital, Tier 1 Capital and Total Capital ratios of 10.37%, 11.36% and 13.46%, respectively.

At September 30, 2022, BancShares had a Tier 1 risk-based capital ratio conservation buffer of 5.36%, which is in excess of the fully phased in Basel III conservation buffer of 2.50%. The capital ratio conservation buffers represent the excess of the regulatory capital ratio as of September 30, 2022 over the Basel III minimum.

CREDIT RISK

RISK MANAGEMENT

Risk is inherent in any business. BancShares has a moderate risk appetite, a balanced approach to risk taking, with a philosophy which does not preclude higher risk business activities balanced with acceptable returns while meeting regulatory objectives. Through the comprehensive Risk Management Framework and Risk Appetite Framework, senior management has primary responsibility for day-to-day management of the risks we face with accountability of and support from all associates. Senior management applies various strategies to reduce the risks to which BancShares may be exposed, with effective challenge and oversight by management committees. In addition, our Board of Directors (the "Board") strives to ensure the business culture is integrated with the Risk Management program and policies, procedures and metrics for identifying, assessing, monitoring and managing risk are part of the decision-making process. The Board's role in risk oversight is an integral part of our overall Risk Management Framework and Risk Appetite Framework. The Board administers its risk oversight function primarily through the Board Risk Committee.

The Board Risk Committee structure is designed to allow for information flow, effective challenge and timely escalation of risk-related issues. The Board Risk Committee is directed to monitor and advise the full Board regarding risk exposures, including Credit, Market, Capital, Liquidity, Operational, Compliance, Asset, Strategic and Reputational risks; review, approve, and monitor adherence to the Risk Appetite Statement and supporting risk tolerance levels via a series of established metrics; and evaluate, monitor and oversee the adequacy and effectiveness of the Risk Management Framework and Risk Appetite Framework. The Board Risk Committee also reviews: reports of examination by and communications from regulatory agencies; the results of internal and third party testing and qualitative and quantitative assessments related to risk management; and any other matters within the scope of the Board Risk Committee's oversight responsibilities. The Board Risk Committee monitors management's response to certain risk-related regulatory and audit issues. In addition, the Board Risk Committee may coordinate with the Audit Committee and the Compensation, Nominations and Governance Committee for the review of financial statements and related risks, compensation risk management and other areas of joint responsibility.

In combination with other risk management and monitoring practices, enterprise-wide stress testing activities are part of the Risk Management Framework and conducted within a defined framework. Stress tests are performed for various risks to ensure the financial institution can support continued operations during stressed periods.

CREDIT RISK

Credit risk is the risk of not collecting payments pursuant to the contractual terms of loans, leases and certain investment securities. Loans and leases we originate are underwritten in accordance with our credit policies and procedures and are subject to periodic ongoing reviews. Acquired loans, regardless of whether PCD or non-PCD, are recorded at fair value as of the acquisition date and are subject to periodic reviews to identify any further credit deterioration. Our independent credit review function conducts risk reviews and analyses of both originated and acquired loans to ensure compliance with credit policies and to monitor asset quality trends and borrower financial strength. These reviews include portfolio analysis by geographic location, industry, collateral type and product. We strive to identify potential problem loans as early as possible, to record charge-offs or write-downs as appropriate and to maintain an appropriate Allowance for Credit Losses ("ACL") that accounts for expected credit losses in the loan and lease portfolio.

For further information on Lending and Lease Risk, refer to the *Item 7A. Quantitative and Qualitative Disclosure about Market Risk - Credit Risk Management* section in our 2021 Form 10-K.

For further information on Counterparty Credit Risk, refer to the next section in this document.

The general policies for Lending and Leasing Risk conform to U.S. GAAP, as well as bank regulatory authorities where applicable. Below is a summary of three of the credit risk related policies.

Past Due and Non-Accrual Loans
All loans are classified as past due when the payment of principal and interest based upon contractual terms is 30 days or greater delinquent. Loans are generally placed on nonaccrual when principal or interest becomes 90 days past due or when it is probable the principal or interest is not fully collectible.
When loans are placed on nonaccrual, all previously uncollected accrued interest is reversed from interest income and the ongoing accrual of interest is discontinued. All payments received thereafter are applied as a reduction of the remaining principal balance as long as doubt exists as to the ultimate collection of the principal. Loans and leases are generally removed from nonaccrual status when they become current for a sustained period of time and there is no longer concern as to the collectability of principal and interest.

The Company requires the borrower to demonstrate a sustained period of repayment performance of six months prior to returning to accrual status. In addition, there must be supportable evidence that the repayment is indicative of long-term performance and hasn't been spurred by a temporary influx of cash to the borrower.

Individually Reviewed Loans
Loans within the various reporting classes are segregated into pools with similar risk characteristics and models are built to estimate the ACL under Current Expected Credit Losses ("CECL"). When loans do not share risk characteristics similar to others in the pool, the ACL is evaluated on an individual basis. Given that BancShares' CECL models are loan level models, the population of loans evaluated individually is minimal and consists of loans greater than $500 thousand that are either 90 days past due or nonaccrual and determined to be collateral-dependent.

The fair value of the collateral is estimated using appraised and market values (appropriately adjusted for an assessment of the sales and marketing costs when applicable). A specific allowance is established, or partial charge-off is recorded, for the difference between the excess amortized cost of loan and the collateral's estimated fair value.

Charge-Offs on Loans
Retail loans are subject to mandatory charge-off at a specified delinquency date consistent with regulatory guidelines. Charge-offs on the Company's loans result in a decline in the ACL. Recoveries of amounts previously charged-off are generally credited to the ACL. Loans on which a partial charge-off has been taken may be returned to accrual status if the loan was formally restructured so as to be reasonably assured of repayment (of principal and interest) and is performing according to its modified terms.

For acquired PCD loans where all or a portion of the loan balance had been charged off prior to acquisition and active collection efforts are still underway, the CECL allowance included the charged-off balance as part of the loan balance; however, these charge-offs were immediately recognized resulting in a net zero financial impact. This treatment allows the bank to recognize future recoveries through provision as required by ASU 2016-13.

In addition to the policies above, refer to *Note 1 – Accounting Policies and Basis of Presentation* in our 2021 Form 10-K for the items noted below.

- Nonperforming Assets and Troubled Debt Restructuring
- Allowance for Credit Losses

CREDIT RISK EXPOSURES

In the following tables, loans includes loans and leases held for investment. Loans held for sale of $18 million are not included in the tables below unless otherwise noted.

Loans Composition (dollars in millions)

		September 30, 2022
Commercial		
Commercial construction	$	2,752
Owner occupied commercial mortgage		14,053
Non-owner occupied commercial mortgage		9,683
Commercial and industrial		24,288
Leases		2,184
Total commercial		52,960
Consumer		
Residential mortgage		12,910
Revolving mortgage		1,923
Consumer auto		1,385
Consumer other		612
Total consumer		16,830
Total loans and leases	$	69,790

Loans by Obligor - Geographic Region (dollars in millions)

		September 30, 2022
United States	$	68,338
Asia / Pacific		457
Europe		518
Canada		222
Latin America		229
All other countries		26
Total	$	69,790

Loans by Obligor - Industry (dollars in millions)

	September 30, 2022
Corporate	$ 49,843
Non-bank financial institution	3,256
Bank	48
Public[1]	286
Household[2]	16,357
Total	$ 69,790

[1] Includes governments, their departments and their agencies.

[2] Includes individuals and families.

Loans on Non-Accrual Status (dollars in millions)

	September 30, 2022
United States	$ 454
Europe	-
Asia / Pacific	-
Canada	-
Total	$ 454

	September 30, 2022
Corporate	$ 335
Non-bank financial institution	9
Bank	-
Public[1]	17
Household[2]	93
Total	$ 454

[1] Includes governments, their departments and their agencies.

[2] Includes individuals and families.

Loans Delinquency Status[1] (dollars in millions)

	September 30, 2022		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
United States	$ 289	$ 51	$ 340
Asia / Pacific	-	-	-
Canada	3	-	3
Latin America	2	-	2
Europe	1	-	1
Total	$ 295	$ 51	$ 346

	September 30, 2022		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
Corporate	$ 186	$ 36	$ 222
Non-bank financial institution	2	-	2
Bank	1	-	1
Public[2]	6	3	9
Household[3]	100	12	112
Total	$ 295	$ 51	$ 346

[1] Includes past due loans held for sale, but excludes past due loans that are in nonaccrual status.
[2] Includes governments, their departments and their agencies.
[3] Includes individuals and families.

Charge-Offs (dollars in millions)

	Nine months ended September 30, 2022		
	Gross Charge-offs	Recoveries	Net Charge-offs
Corporate	$ 223	$ 34	$ 189
Household[1]	142	18	124
Non-bank financial institution	1	-	1
Total	$ 366	$ 52	$ 314

[1] Includes individuals and families.

Changes in Allowance for Credit Losses (dollars in millions)

	Nine months ended September 30, 2022		
	Commercial Banking	Consumer Banking	Total
Balance - December 31, 2021	$ 80	$ 98	$ 178
Initial PCD ACL	258	14	272
Initial Non-PCD Provision	432	22	454
Provision (benefit) for credit losses - loans and leases	53	(20)	33
Total provision (benefit) for credit losses- loans and leases	485	2	487
Gross charge-offs	(92)	(15)	(107)
Recoveries	35	17	52
Other	0	0	0
Balance - September 30, 2022	$ 766	$ 116	$ 882

Loan Maturity Distribution (dollars in millions)

	September 30, 2022				
	Within 1 Year	1 to 5 Years	5 to 15 Years	After 15 Years	Total
Commercial					
Commercial construction	$ 578	$ 1,316	$ 753	$ 105	$ 2,752
Owner occupied commercial mortgage	630	3,903	9,068	452	14,053
Non-owner occupied commercial mortgage	2,005	5,370	2,059	249	9,683
Commercial and industrial	7,136	13,359	3,618	175	24,288
Leases	759	1,370	55	-	2,184
Total commercial	11,108	25,318	15,553	981	52,960
Consumer					
Residential mortgage	268	1,088	3,599	7,955	12,910
Revolving mortgage	89	164	77	1,593	1,923
Consumer auto	10	673	702	-	1,385
Consumer other	302	157	115	38	612
Total consumer	669	2,082	4,493	9,586	16,830
Total loans and leases	$ 11,777	$ 27,400	$ 20,046	$ 10,567	$ 69,790

COUNTERPARTY CREDIT RISK

COUNTERPARTY RISK MANAGEMENT

We enter into interest rate derivatives and foreign exchange forward contracts as part of our overall risk management practices and also on behalf of our clients. We establish risk metrics and evaluate and manage the counterparty risk associated with these derivative instruments in accordance with the comprehensive Risk Management Framework and Risk Appetite Framework.

Counterparty credit exposure or counterparty risk is a primary risk of derivative instruments, relating to the ability of a counterparty to perform its financial obligations under the derivative contract. We seek to control credit risk of derivative agreements through counterparty credit approvals, pre-established exposure limits and monitoring procedures, which are integrated with our cash and issuer related credit processes.

The Chief Credit Officer, or delegate, approves each counterparty and establishes exposure limits based on credit analysis of each counterparty. Derivative agreements for BancShares' risk management purposes and for the hedging of client transactions are executed with major financial institutions and are settled through the major clearing exchanges, which are rated investment grade by nationally recognized statistical rating agencies. Credit exposure is mitigated via the exchange of collateral between the counterparties covering mark-to-market valuations. Client related derivative transactions, which are primarily related to lending activities, are incorporated into our loan underwriting and reporting processes

CREDIT DERIVATIVES

BancShares is exposed to credit risk to the extent that the counterparty fails to perform under the terms of a derivative agreement. Losses related to credit risk are reflected in other noninterest income. BancShares manages this credit risk by requiring that all derivative transactions entered into as hedges be conducted with counterparties rated investment grade at the initial transaction by nationally recognized rating agencies, and by setting limits on the exposure with any individual counterparty. In addition, pursuant to the terms of the Credit Support Annexes between BancShares and its counterparties, BancShares may be required to post collateral or may be entitled to receive collateral in the form of cash or highly liquid securities depending on the valuation of the derivative instruments as measured on a daily basis.

For further information on credit derivatives, refer to *Note 13 – Derivative Financial Instruments* in our 2022 Form 10-Q for the period ended September 30, 2022.

COLLATERAL

In conjunction with ISDA agreements, BancShares has entered into collateral arrangements with its counterparties, which provide for the exchange of cash depending on change in the market valuation of the derivative contracts outstanding. Such collateral is available to be applied in settlement of the net balances upon an event of default of one of the counterparties. Collateral pledged or received is included in other assets or other liabilities, respectively.

The following table presents notional amount and fair value of derivative financial instruments on a gross basis.

Derivative Financial Instruments (dollars in millions)

	September 30, 2022		
	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives not designated as hedging instruments (Non-qualifying hedges)			
Interest rate contracts	$ 18,604	$ 143	$ (500)
Foreign exchange contracts	145	6	-
Other contracts	769	-	-
Total derivatives not designated as hedging instruments	19,518	149	(500)
Gross derivative fair values presented in the Consolidated Balance Sheets	19,518	149	(500)
Less: Gross amounts offset in the Consolidated Balance Sheets		-	-
Net amount presented in the Consolidated Balance Sheet		149	(500)
Less: Amounts subject to master netting agreements		(6)	6
Less: Cash collateral (received) pledged subject to master netting agreements		(129)	-
Total net derivative fair value		$ 14	$ (494)

CREDIT RISK MITIGATION

CREDIT PHILOSOPHY

Credit risk is the risk of not collecting payments pursuant to the contractual terms of loans, leases and certain investment securities. Loans and leases we originate are underwritten in accordance with our credit policies and procedures and are subject to periodic ongoing reviews. Acquired loans, regardless of whether PCD or non-PCD, are recorded at fair value as of the acquisition date and are subject to periodic reviews to identify any further credit deterioration. Our independent credit review function conducts risk reviews and analyses of both originated and acquired loans to ensure compliance with credit policies and to monitor asset quality trends and borrower financial strength. These reviews include portfolio analysis by geographic location, industry, collateral type and product. We strive to identify potential problem loans as early as possible, to record charge-offs or write-downs as appropriate and to maintain an appropriate ACL that accounts for losses inherent in the loan and lease portfolio.

Commercial Lending and Leasing
Commercial loans and leases are graded according to a rating system with respect to probability of obligor default ("PD") and loss given default (severity) based on various risk factors. The PD and severity are derived through historical observations of default and subsequent losses within each risk grading. When these loans and leases were graded at underwriting, or when updated periodically, a model is run to generate a preliminary risk rating. The model incorporates both internal and external historical default and loss data to develop loss rates for each risk rating. The preliminary risk rating assigned by the model can be adjusted as a result of borrower specific facts that in management's judgment warrant a modification of the modeled risk rating to arrive at the final approved risk ratings.

For small-ticket lending and leasing portfolio, automated credit scoring models for origination (scorecards) and re-grading (auto re-grade algorithms) are also employed. These are supplemented by business rules and expert judgment. Adjustments to credit scorecards, auto re-grading algorithms, business rules and lending programs may be made periodically based on these evaluations. A credit approval hierarchy is enforced to ensure that an underwriter with the appropriate level of authority reviews applications.

Consumer Lending
Consumer lending begins with an evaluation of a consumer borrower's credit profile against published standards. Credit decisions are made after analyzing quantitative and qualitative factors, including borrower's ability to repay the loan, collateral values, and considering the transaction from a judgmental perspective.

Consumer products use traditional and measurable standards to document and assess the creditworthiness of a loan applicant. Credit standards follow industry standard documentation requirements. Performance is largely evaluated based on an acceptable pay history along with a quarterly assessment which incorporates current market conditions. Non-traditional loans may also be monitored by way of a quarterly review of the borrower's refreshed credit score. Loans are placed on non-accrual status at 90 days past due or more, except for government guaranteed loans. When warranted an additional review of the underlying collateral's loan-to-value may be conducted.

SECURITIZATION

SECURITIZATION EXPOSURES

Securitization exposure is an on- or off-balance sheet credit exposure (including credit-enhancing representations and warranties) that arises from a traditional or synthetic securitization (including a resecuritization), or an exposure that directly or indirectly references a securitization exposure.

The Company has equity investments in joint ventures which are qualified as traditional securitization exposures. For the regulatory capital treatment on these securitization exposures, BancShares applies the Simplified Supervisory Formula Approach ("SSFA").

The Company reports credit-enhancing representations for mortgage assets sold, which subject to 1250% risk weighting.

For further information on equity investments, refer to *Note 24 – Certain Relationships and Related Transactions* in our 2022 Form 10-Q for the period ended September 30, 2022.

Securitization Risk-Weighted Assets (dollars in millions)

	September 30, 2022		
Exposure Type:	**Exposure Amount**	**Effective Risk-Weight %**	**Risk-Weighted Asset Amount**
Equity investment	$ 61	319%	$ 195
Credit Enhancement	$ 12	1250%	$ 150

EQUITY EXPOSURES

EVALUATION OF INVESTMENTS

Investments in equity securities having readily determinable fair values are stated at fair value. Realized and unrealized gains and losses on these securities are determined by specific identification and are included in noninterest income. Non-marketable equity securities are securities with no readily determinable fair values and are measured at cost. BancShares evaluates its non-marketable equity securities for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of the issuer, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in noninterest expense.

TYPE OF INVESTMENTS

Certain investments held by BancShares were recorded in other assets. BancShares held FHLB stock, recorded at cost, non-marketable securities without readily determinable fair values, measured under the measurement exception, and investments held in qualified affordable housing projects, measured under the proportional amortization method.

The Company applies the Simple Risk-Weight Approach for its individual equity securities, under which the RWA is calculated by multiplying the carrying value of the equity exposures by the applicable risk weight.

GAINS (LOSSES)

Net realized investment losses totaled $5 million for the nine months ended September 30, 2022, and exclude losses from other than temporary impairment.

For further information on investment securities, refer to *Note 3 – Investment Securities* in our 2022 Form 10-Q for the period ended September 30, 2022.

Risk Weighting Approaches of Equity Exposures (dollars in millions)

	September 30, 2022		
	Risk Weight Category	**Exposure Amount**	**Risk-Weighted Asset Amount**
Federal Reserve Bank Stock	0%	$ -	$ -
Federal Home Loan Bank Stock	20%	234	47
Investments in Unconsolidated Subsidiaries[(1)(2)]	100%	79	79
Non-Marketable Equity Securities [(2)(3)]	400%	662	662
Total		$ 975	$ 788

[(1)] Excludes investment that is risk-weighted as a securitization exposure.

[(2)] Risk-Weighted at 100% as the aggregate carrying value of all equity investments does not exceed 25% of CET1 Capital.

[(3)] Excludes Volcker covered funds as they are fully deducted from capital.

INTEREST RATE RISK

RISK MANAGEMENT

BancShares is exposed to the risk that changes in market conditions or government policy may affect interest rates and negatively impact earnings. The risk arises from the nature of BancShares' business activities, the composition of BancShares' balance sheet, and changes in the level or shape of the yield curve. BancShares manages this inherent risk strategically based on prescribed guidelines and approved limits.

Interest rate risk can arise from many of the BancShares' business activities, such as lending, leasing, investing, deposit taking, derivatives, and funding activities. We evaluate and monitor interest rate risk primarily through two metrics.

- *Net Interest Income Sensitivity* ("NII Sensitivity") measures the net impact of hypothetical changes in interest rates on forecasted NII; and
- *Economic Value of Equity* ("EVE Sensitivity") measures the net impact of these hypothetical changes on the value of equity by assessing the economic value of assets, liabilities and off-balance sheet instruments.

BancShares uses a holistic process to measure and monitor both short term and long term risks which includes, but is not limited to, gradual and immediate parallel rate shocks, changes in the shape of the yield curve, and changes in the relationship of various yield curves. NII Sensitivity generally focuses on shorter term earnings risk, while EVE Sensitivity assesses the longer-term risk of the existing balance sheet.

Our exposure to NII Sensitivity is guided by BancShares risk appetite framework and a range of risk metrics and BancShares may utilize tools across the balance sheet to adjust its interest rate risk exposures, including through business line actions and actions within the investment, funding and derivative activities.

The composition of our interest rate sensitive assets and liabilities generally results in a net asset-sensitive position for NII Sensitivity, whereby our assets will reprice faster than our liabilities, which is generally concentrated at the short end of the yield curve.

Our funding sources consist primarily of non-maturity deposits and time deposits. We also support our funding needs through wholesale funding sources (including unsecured and secured borrowings).

The deposit rates we offer are influenced by market conditions and competitive factors. Market rates are the key drivers of deposit costs and we continue to optimize deposit costs by improving our deposit mix. Changes in interest rates, expected funding needs, as well as actions by competitors, can affect our deposit taking activities and deposit pricing. We believe our targeted non-maturity deposit customer retention is strong and we remain focused on optimizing our mix of deposits. We regularly assess the effect of deposit rate changes on our balances and seek to achieve optimal alignment between assets and liabilities.

The table below summarizes the results of 12-month NII Sensitivity simulations produced our asset/liability management system and the EVE profile. These simulations assume static balance sheet replacement with like products and implied forward market rates, but also incorporates additional assumptions, such as, but not limited to prepayment estimates, pricing estimates and deposit behaviors. The below simulations assume an immediate 25, 100 and 200 bps parallel increase and 25 and 100 bps decrease from the market-based forward curve for September 30, 2022.

Change to NII Sensitivity and EVE Sensitivity

	September 30, 2022				
	-100 bps	-25 bps	+25 bps	+100 bps	+200 bps
NII Sensitivity	-3.63%	-0.80%	0.91%	3.44%	6.81%
EVE Sensitivity	-5.39%	-1.21%	-	4.29%	3.54%

NII Sensitivity metrics at September 30, 2022 were affected by a reduction in cash as well as liability management actions which included borrowing FHLB advances to support loan growth and to offset deposit

runoff. BancShares continues to have an asset sensitive interest rate risk profile and the potential exposure to forecasted earnings is largely driven by the composition of the balance sheet (primarily due to floating rate commercial loans and cash), as well as estimates of modest future deposit betas. Approximately 45% of our loans have floating contractual reference rates, indexed primarily to 1-month London Inter-Bank Offered Rate ("LIBOR"), 3-month LIBOR, Prime and Secured Overnight Financing Rate ("SOFR"). Deposit betas for the combined company are modeled and have a portfolio average of approximately 20%-25% over the forecast horizon. Impacts to NII Sensitivity may change due to actual results differing from modeled expectations.

As noted above, EVE Sensitivity supplements NII simulations as it estimates risk exposures beyond a twelve-month horizon. EVE Sensitivity measures the change in value of the economic value of equity driven by changes in assets, liabilities, and off-balance sheet instruments in response to a change in interest rates. EVE Sensitivity is calculated by estimating the change in the net present value of assets, liabilities, and off balance sheet items under various rate movements.

The economic value of equity metrics at September 30, 2022, were affected by balance sheet composition changes as well as increasing market interest rates.

In addition to the above reported sensitivities, a wide variety of potential interest rate scenarios are simulated within our asset/liability management system. Scenarios that impact management volumes, specific risk events, or the sensitivity to key assumptions are also evaluated.

We use results of our various interest rate risk analyses to formulate and implement asset and liability management strategies, in coordination with the Asset Liability Committee, to achieve the desired risk profile, while managing our objectives for market risk and other strategic objectives. Specifically, we may manage our interest rate risk position through certain pricing strategies and product design for loans and deposits, our investment portfolio, funding portfolio, or by using off balance sheet derivatives to mitigate earnings volatility.

The above sensitivities provide an estimate of our interest rate sensitivity; however, they do not account for potential changes in credit quality, size, mix, or changes in the competition for business in the industries we serve. They also do not account for other business developments and other actions. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, the range of such simulations is not intended to represent our current view of the expected range of future interest rate movements.

For further information on interest rate risk, including sensitivity analysis, refer to the *MD&A – Market Risk: Interest Rate Risk Management* section in our 2021 Form 10-K and our 2022 Form 10-Q for the period ended September 30, 2022.