FIRST CITIZENS BANCSHARES INC /DE/
Form 10-K
March 01, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission File Number 001-16715

FIRST CITIZENS BANCSHARES, INC.

(Exact name of Registrant as specified in the charter)

Delaware	**56-1528994**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4300 Six Forks Road

Raleigh, North Carolina 27609

(Address of Principal Executive Offices, Zip Code)

(919) 716-7000

(Registrant s Telephone Number, including Area Code)

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

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

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

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

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

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

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

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

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

The aggregate market value of the Registrant s common equity held by nonaffiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant s most recently completed second fiscal quarter was $1,051,192,401.

On February 28, 2011, there were 8,756,778 outstanding shares of the Registrant s Class A Common Stock and 1,677,675 outstanding shares of the Registrant s Class B Common Stock.

Portions of the Registrant s definitive Proxy Statement for the 2011 Annual Meeting of Shareholders are incorporated in Part III of this report.

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	(1)	Financial Statements (see Item 8 for reference)	
	(2)	All Financial Statement Schedules normally required on Form 10-K are omitted since they are not applicable, except as referred to in Item 8.	
	(3)	The Exhibits listed on the Exhibit Index contained in this Form 10-K are filed with or furnished to the Commission or incorporated by reference into this report and are available upon written request.	

* Information required by Item 10 is incorporated herein by reference to the information that appears under the headings or captions Proposal 1: Election of Directors, Code of Ethics, Committees of our Board General, and Audit and Compliance Committee , Executive Officers Section 16(a) Beneficial Ownership Reporting Compliance from the Registrant s Proxy Statement for the 2011 Annual Meeting of Shareholders (2011 Proxy Statement) .

Information required by Item 11 is incorporated herein by reference to the information that appears under the headings or captions Compensation Discussion and Analysis, Compensation Committee Report, Executive Compensation, and Director Compensation, of the 2011 Proxy Statement.

Information required by Item 12 is incorporated herein by reference to the information that appears under the heading Beneficial Ownership of Our Common Stock of the 2011 Proxy Statement.

Information required by Item 13 is incorporated herein by reference to the information that appears under the headings or captions Corporate Governance Director Independence and Transactions with Related Persons of the 2011 Proxy Statement.

Information required by Item 14 is incorporated by reference to the information that appears under the caption Services and Fees During 2010 and 2009 of the 2011 Proxy Statement.

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Business

General

First Citizens BancShares, Inc. (BancShares) was incorporated under the laws of Delaware on August 7, 1986, to become the holding company of First-Citizens Bank & Trust Company (FCB), its banking subsidiary. FCB opened in 1898 as the Bank of Smithfield, Smithfield, North Carolina, and later became First-Citizens Bank & Trust Company. As of December 31, 2010, FCB operated 377 offices in North Carolina, Virginia, West Virginia, Maryland, Tennessee, Washington, California, Florida and Washington, DC.

On April 28, 1997, BancShares launched IronStone Bank (ISB), a federally-chartered thrift institution that originally operated under the name Atlantic States Bank. Initially, ISB operated in the counties surrounding Atlanta, Georgia, but gradually expanded into other high-growth markets in urban areas throughout the United States. At December 31, 2010, ISB had 58 offices in Georgia, Florida, Texas, Arizona, New Mexico, California, Oregon, Washington, Colorado, Oklahoma, Kansas and Missouri. The financial results and trends of ISB reflect the impact of the de novo nature of its growth. Refer to Note T Segment Disclosures in the Notes to BancShares audited Consolidated Financial Statements for additional financial disclosures on FCB and ISB, including summary income statements and balance sheet information.

On January 7, 2011, ISB merged into FCB, and the combined entity now operates under the FCB charter. Branches of the former ISB continue to operate under the name IronStone Bank, which is now a division of FCB.

During 2010 FCB purchased substantially all the assets and assumed substantially all the liabilities of First Regional Bank (First Regional) and Sun American Bank (SAB) from the Federal Deposit Insurance Corporation (FDIC), as Receiver of those two banks, under agreements which included loss share arrangements which protect FCB from losses on covered loans and other real estate owned up to stated limits. First Regional operated eight banking branches in southern California. SAB operated 12 banking branches in Florida. Those branches now operate as banking branches of FCB. In connection with its acquisitions of First Regional and SAB, FCB measured all assets and liabilities at fair value, and recorded loans of $1.26 billion and $290.9 million, total assets of $1.76 billion and $499.3 million, deposits of $1.29 billion and $420.0 million, and total liabilities of $1.65 billion and $503.5 million, respectively. The two transactions resulted in bargain purchase gains in 2010 of $107.7 million and $27.8 million, respectively. Additional information regarding the two 2010 FDIC-assisted transactions is contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and Note B to BancShares audited consolidated financial statements.

During 2009 FCB purchased substantially all the assets and assumed substantially all the liabilities of Temecula Valley Bank (TVB) and Venture Bank (VB) from the FDIC, as Receiver of those two banks, under agreements which included loss share arrangements which protect FCB from losses on covered loans and other real estate owned up to stated limits. TVB operated 11 banking branches in California, primarily within the San Diego, California area and the Temecula Valley area east of San Diego. Venture operated 18 banking branches in the Seattle/Olympia, Washington area. In connection with its acquisitions of TVB and VB, FCB measured all assets and liabilities at fair value, and recorded loans of $855.6 million and $457.0 million, total assets of $1.11 billion and $795.2 million, deposits of $965.4 million and $709.1 million, and total liabilities of $1.05 billion and $766.5 million, respectively. The TVB and VB transactions resulted in bargain purchase gains in 2009 of $56.4 million and $48.0 million, respectively.

Prior to the 2011 merger of FCB and ISB, BancShares conducted its banking operations through its two separately chartered wholly-owned subsidiaries, FCB and ISB. Following the merger, all banking operations are conducted by FCB, including the branches that continue to operate

under the IronStone Bank name. With a diverse employment base in manufacturing, general services, agricultural, wholesale/retail trade, technology and financial services, BancShares believes its current market areas will support future growth in loans and deposits. BancShares maintains a community bank approach to providing customer service, a competitive advantage that strengthens our ability to effectively provide financial products and services to individuals and businesses in our markets. Although FCB provides products and services targeted to both business and retail customers, ISB has focused primary attention on business customers, providing retail banking services on a limited basis. No significant change in ISB s business banking focus is anticipated in the near future.

A substantial portion of BancShares revenue is derived from our operations throughout North Carolina, Virginia, and in the urban areas of Georgia, Florida, California and Texas in which we operate. The delivery of products and services to

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our customers is primarily accomplished through associates deployed throughout our extensive branch network. However, we also provide customers with access to our products and services through online banking, telephone banking and through various ATM networks. Business customers may also conduct banking transactions through use of remote image technology.

Prior to the 2011 merger of FCB and ISB, FCB was BancShares largest banking subsidiary with 88.0 percent of BancShares consolidated deposits as of December 31, 2010. FCB s primary deposit markets are North Carolina and Virginia. FCB s deposit market share in North Carolina was 5.7 percent as of June 30, 2010 based on the FDIC Deposit Market Share Report. Based on this ranking of deposits, FCB was the fourth largest bank in North Carolina. The three banks larger than FCB based on deposits in North Carolina as of June 30, 2010, controlled 63.3 percent of North Carolina deposits.

In Virginia, FCB was the 17th largest bank with a June 30, 2010 deposit market share of 0.6 percent. The sixteen larger banks represent 81.8 percent of total deposits in Virginia as of June 30, 2010. At December 31, 2010, FCB had 276 branches in North Carolina, 51 branches in Virginia, 16 branches in California, 14 branches in Washington, 7 branches in Florida, 6 branches in Tennessee, 5 branches in West Virginia, 1 branch in Maryland, and 1 branch in Washington, D.C.

ISB s deposits represent 12.2 percent of BancShares consolidated deposits as of December 31, 2010. Due to ISB s focus on urban areas with many financial service providers, ISB s market share in each of the states in which it operates is less than one percent. At December 31, 2010, ISB had 15 branches in Georgia, 13 branches in Florida, 9 branches in California, 7 branches in Texas, 3 branches in Colorado, 2 branches in each of Arizona, New Mexico, Oregon and Oklahoma, and 1 branch each in Kansas, Missouri and Washington.

FCB and ISB seek to meet the needs of both consumers and commercial entities in their respective market areas. Their services, offered at most offices, include taking of deposits, cashing of checks, and providing for individual and commercial cash needs; numerous checking and savings plans; commercial, business and consumer lending; a full-service trust department; and other activities incidental to commercial banking. BancShares wholly-owned subsidiary, First Citizens Investor Services, Inc. (FCIS), provides various investment products, including annuities, discount brokerage services and third-party mutual funds to customers. Other subsidiaries are not material to BancShares consolidated financial position or to consolidated net income.

The financial services industry is highly competitive and the ability of non-bank financial entities to provide services previously reserved for commercial banks has intensified competition. Traditional commercial banks are subject to significant competitive pressure from multiple types of financial institutions. This competitive pressure is perhaps most acute in the wealth management and payments arenas. Non-banks and other diversified financial conglomerates have developed powerful and focused franchises, which have eroded traditional commercial banks market share of both balance sheet and fee-based products. As the banking industry continues to consolidate, the degree of competition that exists in the banking market will be affected by the elimination of some regional and local institutions. Mergers, continued asset quality challenges, capital shortages, fallout of a global economic recession and resulting bank failures will also have a profound impact on the competitive environment.

At December 31, 2010, BancShares and its subsidiaries employed a full-time staff of 4,421 and a part-time staff of 714 for a total of 5,135 employees.

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

Our Chairman of the Board and Chief Executive Officer, Frank B. Holding, Jr., is the grandson of Robert P. Holding. Hope H. Connell, the President of ISB, Executive Vice President of FCB, and, since January 2011, Vice Chairman of BancShares and FCB, is Robert P. Holding s granddaughter. Frank B. Holding, son of Robert P. Holding and father of Frank B. Holding, Jr. and Hope H. Connell, is our Executive Vice Chairman. Carmen Holding Ames, another granddaughter of Robert P. Holding, is a member of our board of directors.

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

Members of the Holding family, including those who serve as members of our board of directors and in various management positions, and including certain of their related parties, own, in the aggregate, approximately 37.4 percent of the outstanding shares of our Class A common stock and approximately 49.5 percent of the outstanding shares of our Class B common stock, together representing approximately 46.2 percent of the voting control of BancShares. Additionally, a trust for the benefit of a family member holds additional shares over which the family member does not have voting or investment control. Those shares amount to approximately three percent and 29.7 percent, respectively, of the outstanding shares of our Class A and Class B common stock and together represent approximately 23.2 percent of the voting control of BancShares.

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

Regulatory Considerations

The business and operations of BancShares, FCB and, prior to the January 7, 2011 merger, ISB are subject to significant federal and state governmental regulation and supervision. BancShares is a financial holding company registered with the Federal Reserve Board (FRB) under the Bank Holding Company Act of 1956, as amended. It is subject to supervision and examination by, and the regulations and reporting requirements of, the FRB.

FCB is a state-chartered bank, subject to supervision and examination by, and the regulations and reporting requirements of, the FDIC and the North Carolina Commissioner of Banks. Prior to the merger, ISB operated as a federally-chartered thrift institution supervised by the Office of Thrift Supervision (OTS). Deposit obligations are insured by the FDIC to the maximum legal limits.

The various regulatory authorities supervise all areas of FCB and, prior to the merger, ISB, including reserves, loans, mergers, the payment of dividends, various compliance matters and other aspects of their operations. The regulators conduct regular examinations, and the banking subsidiaries must furnish periodic reports to their regulators containing detailed financial and other information regarding their affairs.

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

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

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

BancShares is required to comply with the capital adequacy standards established by the FRB, and FCB is subject to capital adequacy standards established by the FDIC. The FRB and FDIC have promulgated risk-based capital and leverage capital guidelines for determining the adequacy of the capital of a bank holding company or a bank, and all applicable capital standards must be satisfied for a bank holding company or a bank to be considered in compliance with these capital requirements.

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

Under the FDIC s rules implementing the prompt corrective action provisions, an insured, state-chartered bank that has a total capital ratio of 10.0 percent or greater, a tier 1 capital ratio of 6.0 percent or greater, a leverage ratio of 5.0 percent or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC, is considered to be well-capitalized. As of December 31, 2010, FCB is well-capitalized, and FCB will remain well capitalized following its merger with ISB.

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

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

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

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

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

The USA Patriot Act of 2001 (Patriot Act) is intended to strengthen the ability of United States law enforcement and the intelligence community to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws which required various new regulations, including standards for verifying customer identification at account opening, and

rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The Patriot Act has required financial institutions to adopt new policies and procedures to combat money laundering, and it grants the Secretary of the Treasury broad authority to establish regulations and impose requirements and restrictions on financial institutions operations.

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

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

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

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

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

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

Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital;

Eliminated the ceiling on the size of the DIF and increased the floor on the size of the DIF;

Required large, publicly traded bank holding companies to create a board-level risk committee responsible for the oversight of enterprise risk management;

Required implementation of corporate governance revisions, affecting areas such as executive compensation and proxy access by shareholders;

Established a permanent $250,000 limit for federal deposit insurance protection, increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provided unlimited federal deposit insurance protection until December 31, 2012 for noninterest-bearing demand transaction accounts at all insured depository institutions;

Repealed the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

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

Increased the authority of the Federal Reserve to examine financial institutions including non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to financial institutions and consumers. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Provisions within the Dodd-Frank Act related to the disallowance of our ability to include trust preferred securities as tier 1 capital will affect our capital ratios beginning in 2013. At December 31, 2010, BancShares had $265.0 million of trust preferred securities outstanding. Beginning in 2013 and continuing in each of the following two years, one-third or $88.3 million of the trust preferred securities will be disallowed from tier 1 capital. Elimination of the full $265.0 million of trust preferred securities from the December 31, 2010 capital structure would result in a proforma tier 1 leverage ratio of 7.93 percent, a proforma tier 1 risk-based ratio of 12.83 percent and a proforma total risk-based ratio of 14.91 percent. Although these are significant decreases from the amounts reported as of December 31, 2010, BancShares would continue to remain well-capitalized under current regulatory guidelines.

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

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

Available Information

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

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Risk Factors

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

Unfavorable economic conditions could adversely affect our business

Our business is highly affected by national, regional and local economic conditions. These conditions cannot be predicted or controlled, and may have a material impact on our operations and financial condition. Unfavorable economic developments including increases in unemployment rates, decreases in real estate values, rapid changes in interest rates, higher loan default and bankruptcy rates, and various other factors could weaken the national economy as well as the economies of specific communities that we serve. Weakness in our market areas, continuation or deepening of current weak economic conditions, or a prolonged recovery could depress our earnings and financial condition because borrowers may not be able to repay their loans, collateral values may fall, and loans that are currently performing may become impaired.

Instability in real estate markets may create significant credit costs

Disruption in residential housing markets including reduced sales activity and falling market prices have adversely affected collateral values and customer demand, particularly with respect to our operations in southern California, Atlanta, Georgia and southwest Florida. With a significant percentage of total loans secured by real estate, instability in residential and commercial real estate markets could result in higher credit losses if customers default on loans that, as a result of lower property values, are no longer adequately collateralized. The weak real estate markets could also affect our ability to sell real estate acquired through foreclosure.

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

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

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

Reimbursements under loss share agreements are subject to FDIC oversight

With respect to the 2010 and 2009 acquisitions, the exposures to prospective losses on certain assets are covered under loss share agreements with the FDIC. These loss share agreements impose certain obligations on us that, in the event of noncompliance, could result in the delay or disallowance of some or all of our rights under those agreements. Requests for reimbursement are subject to FDIC review and may be delayed or disallowed for noncompliance.

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

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

The Dodd-Frank Act instituted significant changes to the overall regulatory framework for financial institutions including BancShares and FCB. Many of the specific provisions of the bill have yet to be fully implemented, and the impact on us cannot be accurately predicted until regulations are enacted. The bill will likely cause a decline in certain revenues that are significant to our overall financial performance, create additional compliance costs that we will incur, and eliminate a portion of our tier 1 capital beginning January 1, 2013.

We encounter significant competition

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

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

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to numerous financial service providers, including banks, brokers and dealers in securities and other institutional clients. Transactions with other financial institutions expose us to credit risk in the event of default of the counterparty. In addition, our credit risk may be exacerbated when collateral held by us cannot be realized or is liquidated at a price insufficient to recover the full amount of the credit. These types of losses could materially and adversely affect our results of operations.

Natural disasters and other catastrophes could affect our ability to operate

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

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

We are subject to interest rate risk

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

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

Our current high level of balance sheet liquidity may come under pressure

Our deposit base represents our primary source of liquidity, and we normally have the ability to stimulate deposit growth through our reasonable and effective pricing strategies. However, in circumstances where our ability to generate

needed liquidity is impaired, we would need access to alternative liquidity sources such as overnight and other short-term borrowings. While we maintain access to alternative funding sources, we are dependent on the availability of collateral, the counterparty s willingness to lend to us, and their liquidity capacity.

Operational risks continue to increase

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

We continue to encounter technological change

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

We rely on external vendors

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

We are subject to litigation risks

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

We use accounting estimates in the preparation of our financial statements

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. Significant estimates include the allowance for loan and lease losses and the receivable from the FDIC for loss share agreements. Due to the uncertainty of the circumstances relating to these estimates, we may experience more adverse outcomes than originally estimated. The allowance for loan and lease losses may need to be significantly increased. The actual losses or expenses on loans or the losses or expenses not covered under the FDIC agreements may differ from the recorded amounts resulting in charges that could materially affect our results of operations.

Accounting standards may change

The Financial Accounting Standards Board and the Securities and Exchange Commission periodically modify the standards that govern the preparation of our financial statements. The nature of these changes is not predictable, and

could impact how we record transactions in our financial statements, which could lead to material changes in assets, liabilities, shareholders equity, revenues, expenses and net income. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results or a cumulative adjustment to retained earnings. The application of new accounting rules or standards could require us to implement costly technology changes.

Deposit insurance premiums could increase further causing added pressure on our earnings

During 2009, due to a higher level of bank failures, the FDIC increased recurring deposit insurance premiums and imposed a special assessment on insured financial institutions. In addition, the FDIC received approval to require prepayment of the ensuing three years premiums by December 31, 2009. We remitted $69.6 million to prepay our premiums for 2010, 2011 and 2012. Due to the continuing volume of bank failures, it is possible that higher deposit insurance rates or additional special assessments will be required to restore the FDIC s Deposit Insurance Fund to the legislatively established target.

Integration of our 2010 and 2009 acquisitions may be disruptive, and we have no assurance that future acquisitions will be approved

We must receive federal and state regulatory approvals before we can acquire a bank or bank holding company or acquire assets and assume liabilities of failed banks from the FDIC. Prior to granting approval, bank regulators consider, among other factors, the effect of the acquisition on competition, financial condition and future prospects including current and projected capital ratios, the competence, experience and integrity of management, compliance with laws, regulations, contracts and agreements and the convenience and needs of the communities to be served, including the record of compliance under the Community Reinvestment Act. We cannot be certain when or if any required regulatory approvals will be granted or what conditions may be imposed by the approving authority.

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

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

The acquisition gains recorded during 2010 are preliminary and subject to revision for a period of one year following the respective acquisition dates. Adjustments to the gains may be recorded based on additional information received after the acquisition date that affected the acquisition date fair values of assets acquired and liabilities assumed. Further downward adjustments in values of assets acquired or increases in values of liabilities assumed on the date of acquisition would lower the acquisition gains.

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

Based on existing capital levels, BancShares and its subsidiary banks maintain well-capitalized ratios under current leverage and risk-based capital standards including the impact of the acquisitions in 2010 and 2009. Historically, our primary capital sources have been retained earnings and debt issued through both private and public markets including trust preferred securities and subordinated debt. The Dodd-Frank Act contains provisions that will eliminate our ability to include $265 million of trust preferred securities in tier 1 risk-based capital beginning January 1, 2013 with total elimination on January 1, 2015. The inability to include the trust preferred securities in tier 1 risk-based capital may lead us to redeem a portion or all of the securities prior to their scheduled maturity dates. Since we have not historically raised capital through new issues of our common stock, replacement of the tier 1 capital will be difficult. A lack of access to tier 1 capital could limit our ability to consummate additional acquisitions, make new loans, meet our existing lending commitments, and could potentially affect our liquidity and capital adequacy.

The major rating agencies regularly evaluate our creditworthiness and assign credit ratings to our debt and the debt of our bank subsidiary. The ratings of the agencies are based on a number of factors, some of which are outside of our control. In addition to factors specific to our financial strength and performance, the rating agencies also consider

conditions generally affecting the financial services industry. In light of the difficulties currently confronting the financial services industry, there can be no assurance that we will maintain our current credit ratings. Rating reductions could adversely affect our access to funding sources and the cost of obtaining funding. Long-term debt ratings also factor into the calculation of deposit insurance premiums, and a reduction in our subsidiary bank s ratings would increase premiums and expense.

The market price of our stock may be volatile

Although publicly traded, our common stock has substantially less liquidity than other large publicly traded financial services companies as well as average companies listed on the NASDAQ National Market System. A relatively small percentage of our common stock is actively traded with average daily volume during 2010 of approximately 12,000 shares. This low liquidity increases the price volatility of our stock which may make it difficult for our shareholders to sell or buy our common stock when they deem a transaction is warranted at a price that they believe is attractive.

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

BancShares relies on dividends from FCB

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

The value of our goodwill may decline

As of December 31, 2010, we had $102.6 million of goodwill recorded as an asset on our balance sheet. We test goodwill for impairment at least annually, and the impairment test compares the estimated fair value of a reporting unit with its net book value. A significant decline in our expected future cash flows, a significant adverse change in the business climate, or a sustained decline in the price of our common stock may result in a write-off of impaired goodwill. Such write-off could have a significant impact on our results of operations, but would not impact our capital ratios as such ratios are calculated using tangible capital amounts.

Properties

As of December 31, 2010, BancShares subsidiary financial institutions operated branch offices at 435 locations in North Carolina, Virginia, West Virginia, Maryland, Tennessee, Florida, Georgia, Texas, Arizona, California, New Mexico, Colorado, Oregon, Washington, Oklahoma, Kansas, Missouri and Washington, DC. BancShares owns many of the buildings and leases other facilities from third parties.

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

Legal Proceedings

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

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

BancShares has two classes of common stock Class A common and Class B common. Shares of Class A common have one vote per share, while shares of Class B common have 16 votes per share. BancShares Class A common stock is listed on the NASDAQ Global Select Market under the symbol FCNCA. The Class B common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol FCNCB. As of December 31, 2010, there were 1,853 holders of record of the Class A common stock and 345 holders of record of the Class B common stock. The market for Class B common stock is extremely limited. On many days, there is no trading and, to the extent there is trading, it is generally low in volume.

The average monthly trading volume for the Class A common stock was 166,000 shares for the fourth quarter of 2010 and 278,650 shares for the year ended December 31, 2010. The Class B common stock monthly trading volume averaged 2,467 shares in the fourth quarter of 2009 and 2,383 shares for the year ended December 31, 2010.

The per share cash dividends declared by BancShares on both the Class A and Class B common stock and the high and low sales prices for each quarterly period during 2010 and 2009 are set forth in the following table.

	2010				2009			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cash dividends	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30
Class A sales price								
High	198.06	199.79	213.99	213.48	167.70	164.00	145.16	154.16
Low	173.89	165.36	186.40	164.26	148.20	125.67	115.58	73.48
Class B sales price								
High	199.99	205.00	211.09	212.99	200.00	156.00	139.00	152.00
Low	178.10	177.10	195.00	165.00	155.00	138.00	110.00	91.00

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

A cash dividend of 30.0 cents per share was declared by the Board of Directors on January 24, 2011, payable April 4, 2011, to holders of record as of March 14, 2011. Payment of dividends is made at the discretion of the Board of Directors and is contingent upon satisfactory earnings as well as projected future capital needs. BancShares principal source of liquidity for payment of shareholder dividends is the dividend it receives from FCB. FCB is subject to various requirements under federal and state banking laws that restrict the payment of dividends and its ability to lend to BancShares. Subject to the foregoing, it is currently management s expectation that comparable cash dividends will continue to be paid in the future.

During 2010, our Board of Directors authorized the purchase of up to 100,000 shares of our Class A common stock and 25,000 shares of our Class B common stock. The shares may be purchased from time to time through April 30, 2011. The Board s action approving share repurchases does not obligate us to acquire any particular amount of shares, and purchases may be suspended or discontinued at any time. Any shares of stock that are repurchased will be cancelled. BancShares did not issue, sell or repurchase any Class A or Class B common stock during 2010.

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The following graph compares the cumulative total shareholder return (CTSR) of our Class A common stock during the previous five years with the CTSR over the same measurement period of the Nasdaq-Banks Index and the Nasdaq-U.S. Index. Each trend line assumes that $100 was invested on December 31, 2005, and that dividends were reinvested for additional shares.

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Table 1

FINANCIAL SUMMARY AND SELECTED AVERAGE BALANCES AND RATIOS

	2010	2009	2008	2007	2006
	(thousands, except share data and ratios)				
SUMMARY OF OPERATIONS					
Interest income	$ 969,368	$ 738,159	$ 813,351	$ 902,181	$ 828,508
Interest expense	195,125	227,644	314,945	423,714	353,737
Net interest income	774,243	510,515	498,406	478,467	474,771
Provision for loan and lease losses	143,519	79,364	65,926	32,939	21,203
Net interest income after provision for loan and lease losses	630,724	431,151	432,480	445,528	453,568
Gain on acquisitions	136,000	104,434			
Other noninterest income	270,214	299,017	307,506	291,832	267,910
Noninterest expense	733,376	651,503	600,382	569,806	525,532
Income before income taxes	303,562	183,099	139,604	167,554	195,946
Income taxes	110,518	66,768	48,546	58,937	69,455
Net income	$ 193,044	$ 116,331	$ 91,058	$ 108,617	$ 126,491
Net interest income, taxable equivalent	$ 778,382	$ 515,446	$ 505,151	$ 486,144	$ 481,120
PER SHARE DATA					
Net income	$ 18.50	$ 11.15	$ 8.73	$ 10.41	$ 12.12
Cash dividends	1.20	1.20	1.10	1.10	1.10
Market price at December 31 (Class A)	189.05	164.01	152.80	145.85	202.64
Book value at December 31	166.08	149.42	138.33	138.12	125.62
Tangible book value at December 31	155.30	138.98	128.13	127.72	115.02
SELECTED AVERAGE BALANCES					
Total assets	$ 20,841,180	$ 17,557,484	$ 16,403,717	$ 15,919,222	$ 15,240,327
Investment securities	3,641,093	3,412,620	3,112,717	3,112,172	2,996,427
Loans and leases	13,865,815	12,062,954	11,306,900	10,513,599	9,989,757
Interest-earning assets	18,458,160	15,846,514	14,870,501	14,260,442	13,605,431
Deposits	17,542,318	14,578,868	13,108,246	12,659,236	12,452,955
Interest-bearing liabilities	15,235,253	13,013,237	12,312,499	11,883,421	11,262,423
Long-term obligations	885,145	753,242	607,463	405,758	450,272
Shareholders equity	$ 1,672,238	$ 1,465,953	$ 1,484,605	$ 1,370,617	$ 1,241,254
Shares outstanding	10,434,453	10,434,453	10,434,453	10,434,453	10,434,453
SELECTED PERIOD-END BALANCES					
Total assets	$ 20,806,659	$ 18,466,063	$ 16,745,662	$ 16,212,107	$ 15,729,697
Investment securities	4,512,608	2,932,765	3,225,194	3,236,835	3,221,048
Loans and leases:					
Covered under loss share agreements	2,007,452	1,173,020			
Not covered under loss share agreements	11,480,577	11,644,999	11,649,886	10,888,083	10,060,234
Interest-earning assets	18,487,960	16,541,425	15,119,095	14,466,948	13,842,688
Deposits	17,635,266	15,337,567	13,713,763	12,928,544	12,743,324
Interest-bearing liabilities	15,015,446	13,561,924	12,441,025	12,118,967	11,612,372
Long-term obligations	809,949	797,366	733,132	404,392	401,198

Shareholders equity	$ 1,732,962	$ 1,559,115	$ 1,443,375	$ 1,441,208	$ 1,310,819
Shares outstanding	10,434,453	10,434,453	10,434,453	10,434,453	10,434,453
SELECTED RATIOS AND OTHER DATA					
Rate of return on average assets	0.93%	0.66%	0.56%	0.68%	0.83%
Rate of return on average shareholders equity	11.54	7.94	6.13	7.92	10.19
Net yield on interest-earning assets (taxable equivalent)	4.22	3.25	3.40	3.41	3.54
Allowance for loan and lease losses on noncovered loans to noncovered loans and leases at year-end	1.54	1.45	1.35	1.25	1.28
Nonperforming assets to total loans and leases plus other real estate at year-end:					
Covered under loss share agreements	17.14	17.39			
Not covered under loss share agreements	1.71	1.32	0.61	0.18	0.21
Tier 1 risk-based capital ratio	14.86	13.34	13.20	13.02	12.93
Total risk-based capital ratio	16.95	15.59	15.49	15.36	15.37
Leverage capital ratio	9.18	9.54	9.88	9.63	9.39
Dividend payout ratio	6.49	10.76	12.60	10.57	9.08
Average loans and leases to average deposits	79.04	82.74	86.26	83.05	80.22

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

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

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

RECLASSIFICATIONS

Although certain amounts for prior years have been reclassified to conform to statement presentations for 2010, the reclassifications have no effect on shareholders equity or net income as previously reported. Unless otherwise noted, the terms we, us and BancShares refer to the consolidated financial position and consolidated results of operations for BancShares.

CRITICAL ACCOUNTING POLICIES

Information included in our audited financial statements and management s discussion and analysis is derived from our accounting records, which are maintained in accordance with accounting principles generally accepted in the United States of America (US GAAP) and general practices within the banking industry. While much of the information is definitive, certain accounting issues are highly dependent upon estimates and assumptions made by management. An understanding of these estimates and assumptions is vital to understanding BancShares financial statements. Critical accounting policies are those policies that are most important to the determination of our financial condition and results of operations or that require management to make assumptions and estimates that are subjective or complex.

We periodically evaluate our critical accounting policies, including those related to the allowance for loan and lease losses, fair value estimates, the receivable from the Federal Deposit Insurance Corporation (FDIC) for loss share agreements, pension plan assumptions and income taxes. While we base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, actual results may differ from these estimates under different assumptions or outcomes.

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

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

Management considers the established allowance adequate to absorb losses that relate to loans and leases outstanding at December 31, 2010, although future additions may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan and lease losses. These agencies may require the recognition of additions to the allowance based on

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their judgments of information available to them at the time of their examination. If the financial condition of our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, our estimates would be updated, and additions to the allowance may be required.

Fair value estimates. BancShares reports investment securities available for sale and interest rate swaps accounted for as cash flow hedges at fair value. At December 31, 2010, the percentage of total assets and total liabilities measured at fair value on a recurring basis was 21.7 percent and less than 1.0 percent, respectively. The majority of assets and liabilities reported at fair value are based on quoted market prices or market prices for similar instruments. At December 31, 2010, less than 1 percent of assets measured at fair value were based on significant nonobservable inputs. Other financial assets are reported at fair value on a nonrecurring basis, including loans held for sale and impaired loans. See Note K Estimated Fair Values in the Notes to Consolidated Financial Statements for additional disclosures regarding the fair value of financial instruments.

US GAAP requires assets acquired and liabilities assumed in a business combination be recognized at fair value at acquisition date. The assets acquired and liabilities assumed from Temecula Valley Bank (TVB), Venture Bank (VB), First Regional Bank (First Regional) and Sun American Bank (SAB) were recognized at their fair values using valuation methods and assumptions established by management. Use of different assumptions and methods could yield significantly different fair values. Fair value estimates for loans and leases and other real estate owned (OREO) were based on judgments regarding future expected loss experience, which included the use of commercial loan credit grades, collateral valuations and current economic conditions.

FDIC receivable for loss share agreements. The FDIC receivable for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable should the assets be sold. Fair value was initially calculated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages. The FDIC receivable is reviewed and updated quarterly as loss estimates and timing of estimated cash flows related to covered loans and OREO change. Subsequent decreases in the amount of loan-related cash flows expected to be collected result in a provision for loan and lease losses, an increase in the allowance for loan and lease losses and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected result in the reversal of any previously-recorded provision for loan and lease losses and related allowance for loan and lease losses and adjustments to the FDIC receivable, or prospective adjustment to the accretable yield if no provision for loan and lease losses had been recorded. Subsequent changes to the fair value estimates of OREO also result in a proportional adjustment to the FDIC receivable. Projected cash flows are discounted to reflect the estimated timing of receipt of funds from the FDIC.

Pension plan assumptions. BancShares offers a defined benefit pension plan to qualifying employees. The calculation of the benefit obligation, the future value of plan assets, funded status and related pension expense under the pension plan requires the use of actuarial valuation methods and assumptions. The valuations and assumptions used to determine the future value of plan assets and liabilities are subject to management judgment and may differ significantly depending upon the assumptions used. The discount rate used to estimate the present value of the benefits to be paid under the pension plan reflects the interest rate that could be obtained for a suitable investment used to fund the benefit obligation. The assumed discount rate equaled 5.50 percent at December 31, 2010, compared to 6.00 percent at December 31, 2009. A reduction in the assumed discount rate would increase the calculated benefit obligations, which would result in higher pension expense subsequent to adoption of the lower discount rate. Conversely, an increase in the assumed discount rate would cause a reduction in obligations, thereby resulting in lower pension expense following the increase in the discount rate.

We also estimate a long-term rate of return on pension plan assets that is used to estimate the future value of plan assets. We consider such factors as the actual return earned on plan assets, historical returns on the various asset classes in the plan and projections of future returns on various asset classes. The calculation of pension expense during 2010 and 2009 was based on an assumed expected long-term return on plan assets of 8.00 percent. The assumed expected long-term return on plan assets for 2011 will be adjusted downward to 7.75 percent. A reduction in the long-term rate of return on plan assets increases pension expense for periods following the decrease in the assumed rate of return.

The assumed rate of future compensation increases is reviewed annually based on actual experience and future salary expectations. We used an assumed rate of compensation increase of 4.50 percent to calculate pension expense during 2010

and 2009. Assuming other variables remain unchanged, an increase in the rate of future compensation increases results in higher pension expense for periods following the increase in the assumed rate of future compensation increases.

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

We evaluate on a quarterly basis our effective tax rate based upon the current estimate of net income, the favorable impact of various credits, statutory tax rates expected for the year, and the amount of tax liability in each jurisdiction in which we operate. Annually, we file tax returns with each jurisdiction where we have tax nexus and settle our return liabilities.

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

EXECUTIVE OVERVIEW

During 2010, the banking industry continued to work through historic asset quality challenges, capital shortages and a sustained global economic recession. During this time of industry-wide turmoil that began in 2008, BancShares has continued its long-standing attention to prudent banking practices.

While our growth has historically been primarily through de novo activities, since mid-2009 BancShares has elected to participate in FDIC-assisted transactions involving distressed financial institutions. During 2010, FCB acquired selected assets and assumed selected liabilities of two failed banks. Two additional FDIC-assisted transactions were consummated during the third quarter of 2009.

Participation in FDIC-assisted transactions creates opportunities to significantly increase our business volumes in markets in which we presently operate, and to expand our banking presence to geographically adjacent markets which we deem demographically attractive. For each of the four FDIC-assisted transactions we have completed as of December 31, 2010, loss share agreements protect us from a substantial portion of the asset quality risk we would otherwise incur. Additionally, purchase discounts and fair value adjustments on acquired assets and assumed liabilities have resulted in significant acquisition gains that have resulted in the creation of a substantial portion of the equity required to fund the transactions.

During January 2011, FCB announced it had acquired substantially all of the assets and assumed a majority of the liabilities of United Western Bank (United Western), headquartered in Denver, Colorado, in an FDIC-assisted transaction. Based on the proforma statement provided by the FDIC, United Western had loans totaling $993.1 million that were acquired by FCB and deposits totaling $1.6 billion that were assumed by FCB. Assets acquired and liabilities assumed will be recorded at fair value, although those valuations were incomplete as of the date of filing this Form 10-K. During February 2011, United Western s parent company, United Western and directors of the parent company filed a complaint

in the United States District Court for the District of Columbia against the FDIC, the OTS and others, claiming that the seizure of United Western by the OTS and the subsequent appointment of the FDIC as receiver was illegal. The complaint requests the court to direct the OTS to remove the FDIC as receiver, return control of United Western to the plaintiffs, reimburse the plaintiffs for their costs and attorney fees and to award plaintiffs other relief as may be just and equitable. Neither BancShares nor FCB were named in the complaint. It is unclear what impact, if any, the litigation will have on FCB or the assets acquired in the United Western transaction.

Management believes that further opportunities will be available during 2011 to participate in FDIC-assisted transactions. These transactions provide an unprecedented opportunity to materially grow our balance sheet and customer base without the need for incremental external capital, and create material amounts of nonrecurring earnings with limited risk. The ability to maintain an adequate leverage capital ratio is the primary financial limitation to our continuing to execute FDIC-assisted transactions.

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

Corporate Strengths

The breadth of our multi-state delivery network, serving both major metropolitan markets and rural communities

Our strategic focus on narrow business customer segments that utilize mainstream banking services

Balance sheet liquidity

Conservative credit philosophies

Our commitment to focus on the long-term impact of strategic, financial and operational decisions

The closely held nature of a majority of common equity

Our dedicated associates and experienced executive leadership

Our reputation as a personal banking company both as relates to lending and deposit products

Market Opportunities

Expansion of our branch network and asset base primarily as a result of FDIC-assisted bank acquisitions

Our presence in diverse and growing geographic locales

Potential to attract customers of super-regional banks who have ceased providing an acceptable level of customer service, or have experienced financial and reputational challenges

Potential to attract former customers of banks that either have merged or will likely merge with super-regional banks or with one another

Potential to attract customers of community banks that lack our level of financial expertise and breadth of products and services, or have experienced financial and reputational challenges

Potential for increased volumes of fee income in certain business lines including wealth management, merchant processing, credit card interchange, treasury services, and insurance.

Potential for customer attraction, enhanced customer experience and incremental sales as a result of the growing desire of customers to acquire financial services over the Internet

Bank earnings faced multiple challenges during 2010, with particular pressure on net interest income, credit costs and noninterest income. The slow recovery from the global recession has caused the Federal Reserve to maintain interest rates at unprecedented low levels, and to use various forms of monetary policy in an attempt to hold down long-term interest rates. The low interest rate environment has created pressure on net interest income. In addition, credit costs remain high due to elevated nonperforming asset levels and the continuing efforts by banks to resolve asset quality issues. During the third quarter of 2010, revisions to Regulation E became effective which had a significant adverse impact on fees collected for insufficient fund and overdraft items. Income derived from debit cards is likely to decline materially in 2011 upon the issuance of final regulations from the Dodd-Frank Act.

Various external factors influence customer demand for our loan, lease and deposit products and ultimately affect asset quality and profitability. Recessionary economic conditions, high rates of unemployment and a growing inability for some businesses and consumers to meet their debt service obligations continue to exert pressure on our core earnings and profitability. Other customers continue to repay existing debt or defer new borrowings due to lingering economic uncertainty.

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Real estate demand in many of our markets continues to be weak, resulting in depressed real estate prices that have adversely affected collateral values for many borrowers. In particular, the stressed residential real estate markets in Georgia and Florida adversely impacted the asset quality and profitability of ISB during 2009 and, to a lesser extent in 2010. In an effort to assist customers who are experiencing financial difficulty, we have selectively agreed to modify existing loan terms to provide relief to customers who are experiencing liquidity challenges or other circumstances that could affect their ability to meet their debt obligations. These modifications are typically executed only if a customer s payment is current and we believe the modification will result in the avoidance of default.

We experienced significant deposit growth in our legacy markets during 2010, but demand for our treasury services products has been weak as a result of extraordinarily low interest rates. Our balance sheet liquidity position remains very strong, but our continuing participation in FDIC-assisted transactions creates pressure on liquidity management due to the generally unattractive structure and mix of assumed deposits.

We operate in diverse geographic markets and can increase our business volumes and profitability by offering competitive products and superior customer service. In addition to our focus on retaining customers of the four banks involved in the FDIC-assisted transactions, we continue to concentrate our marketing efforts on business owners, medical and other professionals and financially active individuals. We seek to increase fee income in areas such as wealth management, cardholder and merchant services, and insurance and treasury services. Leveraging on our investments in technology, we also focus on opportunities to generate income by providing various processing services to other banks.

We have identified challenges and threats that are most relevant and likely to have an impact on the achievement of organizational strategies as:

- Continuation of a weak domestic economy driving high unemployment, elevated credit costs and low interest rates
- The domestic economy gains significant momentum causing the Federal Reserve to initiate interest rate increases, leading to inflationary expectations and increases in long-term interest rates
- Increased competition from non-bank financial service providers
- Continued decline in the role of traditional commercial banks in the large loan credit market
- Effective management of human resources in order to attract and retain qualified associates
- Increased competition from global financial service providers that operate with tighter margins on loan and deposit products
- The need to make significant investments in our information technology infrastructure
- Overcapacity in noninterest expense structure that reduces our ability to effectively compete with global financial service providers
- Additional regulation causing further deterioration in revenues, earnings and capital formation to support lending and customer services

Incremental capital required by BASEL III

Proper management of assets acquired from FDIC failed institutions

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

Weak economic conditions in our principal market areas throughout 2010 have had an adverse impact on our financial condition and results of operations through soft demand for our loan products, reductions in certain categories of

noninterest income and elevated provisions for credit losses. In many of our markets, unfavorable trends such as increased unemployment, falling real estate prices and increased loan default and bankruptcy rates demonstrate the difficult business conditions which are affecting the general economy and therefore our operating results.

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

When economic conditions improve, we will be well positioned to resume favorable organic growth and profitability trends.

FDIC-ASSISTED TRANSACTIONS

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

Issues affecting comparability of financial statements. As estimated exposures for acquired assets covered by the loss share agreements change based on post-acquisition events, our adherence to US GAAP and accounting policy elections that we have made create various complexities which affect the comparability of our current results of operations between periods. Adjustments affecting assets covered by loss share agreements are recorded on a gross basis. Consequential adjustments to the carrying value of the FDIC receivable that reflect the change in the estimated loss of the covered assets are recorded with an offset to noninterest income. Several of the key issues affecting comparability are as follows:

- When post-acquisition events suggest that the amount of cash flows we will ultimately receive for a loan covered by a loss share agreement is less than originally expected:
  - An allowance for loan and lease losses is established for the post-acquisition exposure that has emerged with a corresponding debit to provision for loan and lease losses
  - The receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to noninterest income
- When post-acquisition events suggest that the amount of cash flows we will ultimately receive for a loan covered by a loss share agreement is greater than originally expected:
  - Any allowance for loan and lease losses that was previously established for post-acquisition exposure is reversed with a corresponding credit to provision for loan and lease losses; if no allowance was established in earlier periods, the amount of the improvement in the cash flow projection results in a reclassification from the nonaccretable difference created at the acquisition

date to an accretable yield; the newly-identified accretable yield is accreted into income in future periods over the remaining life of the loan as a credit to interest income

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

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

Balance sheet impact. The 2010 transactions involving First Regional and SAB represented our third and fourth FDIC-assisted transactions since July 17, 2009. Table 2 provides information regarding the four entities from which we have acquired assets and assumed liabilities in FDIC-assisted transactions during 2010 and 2009. Adjustments to acquisition date fair values are subject to change for one year following the closing date of each respective acquisition.

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Table 2

FDIC-ASSISTED TRANSACTIONS

Entity	Date of transaction	# branches	Loans acquired	Fair value of Deposits assumed (thousands)	Short-term borrowings assumed	Long-term obligations assumed
Sun American Bank	March 5, 2010	12	$ 290,891	$ 420,012	$ 42,533	$ 40,082
First Regional Bank	January 29, 2010	8	1,260,249	1,287,719	361,876	
Venture Bank	September 11, 2009	18	456,995	709,091		55,618
Temecula Valley Bank	July 17, 2009	11	855,583	965,431	79,096	
Total		49	$ 2,863,718	$ 3,382,253	$ 483,505	$ 95,700

Although US GAAP allows for acquired loans to be accounted for in designated pools, we elected to account for our acquired loans on a non-pooled basis. We made that election based on the average loan size and the lack of large numbers of homogenous loans. The non-pool election could potentially accentuate volatility in net interest income.

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

As previously discussed, post-acquisition changes that affect the amount of expected cash flows can result in recognition of provision for loan and lease losses or the reversal of previously-recognized provision for loan and lease losses. During the year ended December 31, 2010, total provision for loan and lease losses related to acquired loans, exclusive of the impact of adjustments to the FDIC receivable, equaled $86.9 million. Provision expense for acquired loans amounted to $3.5 million in 2009.

When loan payments are received prior to the assumed repayment dates, the accretion of discounts recorded on loan balances is accelerated. During the year ended December 31, 2010, discount accretion primarily related to payoffs and unscheduled payment of loans for which a fair value discount had been recorded equaled $145.4 million. No discount for unscheduled loan payments was accreted during 2009. Unscheduled payment of loan balances and post-acquisition deterioration of covered loans and OREO also result in adjustments to the FDIC receivable for changes in the estimated amount that would be covered by the respective loss share agreement. These adjustments resulted in a $42.1 million net reduction in the FDIC receivable during 2010, with a corresponding debit to noninterest income.

First Regional Bank. On January 29, 2010, FCB entered into an agreement with the FDIC to purchase substantially all the assets and assume the majority of the liabilities of First Regional of Los Angeles, California. Immediately prior to the effectiveness of the transaction, the FDIC had been appointed Receiver of First Regional by the California Department of Financial Institutions.

Table 3 identifies the assets acquired, liabilities assumed, fair value adjustments, the resulting amounts recorded by FCB and the calculation of the gain recognized for the First Regional FDIC-assisted transaction.

Table 3

FIRST REGIONAL BANK

Acquisition date: January 29, 2010

	As recorded by First Regional	Fair value adjustments at acquisition date	Subsequent acquisition-date adjustments	As recorded by FCB
		(thousands)		
Assets				
Cash and due from banks	$ 37,508	$	$	$ 37,508
Investment securities available for sale	3,250			3,250
Loans covered by loss share agreements	1,853,325	(576,171)	(16,905)	1,260,249
Other real estate owned covered by loss share agreements	61,488	(20,353)	791	41,926
Income earned not collected	6,048			6,048
Receivable from FDIC for loss share agreements		365,170	13,525	378,695
Intangible assets		9,110		9,110
Other assets	23,782	(500)		23,282
Total assets acquired	$ 1,985,401	$ (222,744)	$ (2,589)	$ 1,760,068
Liabilities				
Deposits:				
Noninterest-bearing	$ 528,235	$	$	$ 528,235
Interest-bearing	759,484			759,484
Total deposits	1,287,719			1,287,719
Short-term borrowings	361,876			361,876
Other liabilities	1,188	1,547		2,735
Total liabilities assumed	1,650,783	1,547		1,652,330
Excess of assets acquired over liabilities assumed	$ 334,618			
Aggregate fair value adjustments		$ (224,291)	$ (2,589)	
Gain on acquisition of First Regional				$ 107,738

The loans and other real estate acquired through foreclosure are covered by loss share agreements that provide for the FDIC to absorb 80 percent of losses incurred on covered loans and other real estate in excess of $41.8 million. The 80 percent coverage ratio applies to losses up to $1.0 billion with losses in excess of $1.0 billion covered by the FDIC at a rate of 95 percent. FCB initially recorded a receivable from the FDIC equal to $365.2 million as an estimate of the fair value of the amount that will be reimbursed by the FDIC from the loss share agreements. The Purchase and Assumption Agreement between FCB and the FDIC includes a true-up payment at the end of year 10. On March 17, 2020, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of (i) 20 percent of the stated threshold, or $203.4 million, less (ii) the sum of (a) 25 percent of the asset discount, or $74.9 million, plus (b) 25 percent of the cumulative loss share payments plus (c) the cumulative servicing amount. The cumulative servicing amount is 1 percent of the average covered assets for each year during the terms of the loss share agreements. Current projections suggest a true-up payment of $67.2 million will be payable under the First Regional loss share agreements. The present value of this estimate is netted against the FDIC receivable and is subject to change over the term of the agreements.

First quarter 2010 noninterest income included a bargain purchase gain of $110.3 million that resulted from the FDIC-assisted acquisition of First Regional. During the second and third quarters of 2010, adjustments were made to the initial gain based on additional information regarding the respective acquisition date fair values, which reduced the gain by $2.6 million. These adjustments were made retroactive to the first quarter of 2010 resulting in an adjusted gain of $107.7 million. Our operating results for the period ended December 31, 2010 include the results of the acquired assets and liabilities for the period from January 29, 2010 through December 31, 2010. Accretion and amortization of various purchase accounting discounts and premiums were recorded during 2010.

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Sun American Bank. On March 5, 2010, FCB entered into an agreement with the FDIC to purchase substantially all the assets and assume the majority of the liabilities of SAB of Boca Raton, Florida. Immediately prior to the effectiveness of the acquisition, the FDIC had been appointed Receiver of SAB by the Florida Office of Financial Regulation.

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

Table 4

SUN AMERICAN BANK

Acquisition date: March 5, 2010

	As recorded by SAB	Fair value adjustments at acquisition date	Subsequent acquisition-date adjustments	As recorded by FCB
		(thousands)		
Assets				
Cash and due from banks	$ 37,016	$	$	$ 37,016
Investment securities available for sale	66,968			66,968
Loans covered by loss share agreements	411,315	(123,707)	3,283	290,891
Other real estate owned covered by loss share agreements	15,220	(7,200)		8,020
Income earned not collected	1,612			1,612
Receivable from FDIC for loss share agreements		92,360	(2,626)	89,734
Intangible assets		629		629
Other assets	4,473			4,473
Total assets acquired	$ 536,604	$ (37,918)	$ 657	$ 499,343
Liabilities				
Deposits:				
Noninterest-bearing	$ 39,435	$	$	$ 39,435
Interest-bearing	380,577			380,577
Total deposits	420,012			420,012
Short-term borrowings	42,485	48		42,533
Long-term obligations	37,000	3,082		40,082
Other liabilities	853	51		904
Total liabilities assumed	500,350	3,181		503,531
Excess of assets acquired over liabilities assumed	$ 36,254			
Aggregate fair value adjustments		$ (41,099)	$ 657	
Cash received from the FDIC				31,965
Gain on acquisition of Sun American				$ 27,777

The loans and other real estate acquired through foreclosure are covered by loss share agreements that provide for the FDIC to absorb 80 percent of all losses incurred on covered loans and other real estate up to $99.0 million. Losses in excess of $99.0 million are covered by the FDIC at a rate of 95 percent. FCB initially recorded a receivable from the FDIC equal to $92.4 million as an estimate of the fair value of the amount that will be reimbursed by the FDIC from the loss share agreements. The Purchase and Assumption Agreement between FCB and the FDIC includes a true-up payment at the end of year 10. On May 15, 2020, the true-up measurement date, FCB is required to make a true-up payment to the FDIC equal to 50 percent of the excess, if any, of (i) 20 percent of the stated threshold, or $19.8 million, less (ii) the sum of (a) 25 percent of the asset discount, or $17.5 million, plus (b) 25 percent of the cumulative loss share payments plus (c) the cumulative servicing amount. The cumulative servicing amount is 1 percent of the average covered assets for each year during the terms of the loss share agreements. Although no true-up payment is currently projected under the SAB loss share agreements, those projections are subject to change.

First quarter 2010 noninterest income included a bargain purchase gain of $27.1 million that resulted from the FDIC-assisted acquisition of SAB. During the second quarter of 2010, adjustments were made to the initial gain based on additional information regarding the respective acquisition date fair values, which increased the gain by $657,000. These adjustments were made retroactive to the first quarter of 2010 resulting in an adjusted gain of $27.8 million. Our operating results for the period ended December 31, 2010 include the results of the acquired assets and liabilities for the period from March 5, 2010 through December 31, 2010. Accretion and amortization of various purchase accounting discounts and premiums were recorded during 2010.

During 2009 FCB purchased substantially all the assets and assumed the majority of the liabilities of TVB and VB from the FDIC. FCB measured all assets and liabilities at fair value and recorded loans of $855.6 million and $457.0 million, total assets of $1.11 billion and $795.2 million, deposits of $965.4 million and $709.1 million and total liabilities of $1.05 billion and $766.5 million, respectively. The two transactions resulted in bargain purchase gains in 2009 of $56.4 million and $48.0 million, respectively.

PERFORMANCE SUMMARY

First Citizens BancShares reported earnings for 2010 of $193.0 million, or $18.50 per share, compared to $116.3 million, or $11.15 per share during 2009. Net income as a percentage of average assets equaled 0.93 percent during 2010, compared to 0.66 percent during 2009. The return on average equity was 11.54 percent for 2010, compared to 7.94 percent for 2009. The $76.7 million, or 65.9 percent, increase in net income reflects improved net interest income, partially offset by higher provision for loan and lease losses and noninterest expense. Noninterest income increased modestly excluding the impact of acquisition gains and entries arising from post-acquisition adjustments to the receivable from the FDIC.

Net interest income during 2010 increased $263.7 million, or 51.7 percent, versus 2009. Average interest-earning assets grew $2.61 billion, or 16.5 percent, during 2010 due primarily to the 2010 FDIC-assisted transactions. The taxable-equivalent net yield on interest-earning assets increased 97 basis points to 4.22 percent in 2010 due to balance sheet growth and $145.4 million of accretion of fair value discounts principally caused by large unscheduled loan payments, many of which were payoffs. This unscheduled accretion triggered a reduction in the FDIC receivable and reduction of noninterest income of $116.3 million. The impact of accreted loan discounts resulting from large unscheduled loan payments on acquired loans significantly increased the taxable-equivalent net yield on interest-earning assets during 2010. No similar adjustments were recorded in prior periods. Since such large unscheduled payments are unpredictable, the yield on interest-earning assets will likely experience volatility in future periods. Additionally, improvements in expected cash flows on acquired loans identified in the third and fourth quarters of 2010 that were recognized as impaired at the acquisition dates resulted in the reclassification of $97.0 million classified as nonaccretable difference to accretable yield. This reclassification will increase the amount of accretable yield recognized in future periods.

The provision for loan and lease losses increased $64.2 million, to $143.5 million for 2010, compared to $79.4 million for 2009. Provision expense for 2010 reflects an $83.4 million increase resulting from post-acquisition deterioration of acquired loans covered by loss share agreements, partially offset by a $22.2 million reduction for noncovered loans. The provision expense on acquired loans triggered a corresponding increase in the indemnification asset, resulting in $66.7 million of noninterest income.

Net loan and lease charge-offs for 2010 totaled $88.7 million, compared to $64.7 million recorded during the same period of 2009. Net charge-offs of noncovered loans totaled $49.6 million in 2010, down $15.1 million from 2009. This improvement is the result of declining loan losses in residential construction, EquityLine, and indirect automobile loans during 2010. The ratio of net charge-offs to average loans and leases not covered by FDIC loss share agreements in 2010 equaled 0.43 percent, compared to 0.56 percent for the prior year. Net charge-offs on covered loans during 2010 equaled $39.1 million, or 1.76 percent, of average covered loans. No covered loan losses were incurred during 2009.

BancShares had $2.12 billion and $1.27 billion of covered assets at December 31, 2010 and December 31, 2009, respectively. The amount of covered assets identified as nonperforming at December 31, 2010 equaled $363.5 million, up $143.3 million from the prior year due to nonperforming assets resulting from the 2010 FDIC-assisted transactions and additional nonperforming assets arising from the 2009 FDIC-assisted transactions. Nonperforming assets not covered

by FDIC loss share agreements totaled $196.7 million at December 31, 2010, compared to $154.0 million at December 31, 2009. Nonperforming assets not covered by FDIC loss share agreements represent 1.71 percent of noncovered loans, leases and OREO as of December 31, 2010, compared to 1.32 percent of December 31, 2009.

Noninterest income increased $2.8 million, or 0.7 percent, during 2010. The net impact of the acquisition gains and entries arising from post-acquisition adjustments to the receivable from the FDIC equaled $89.2 million in 2010 compared to $107.2 million in 2009. Excluding these amounts, noninterest income increased $20.8 million, or 7.0 percent during 2010. Cardholder and merchant services income increased $12.2 million, or 12.8 percent during 2010 as payment transactions continue to migrate toward debit cards, while income from wealth management services grew $5.3 million. Deposit service charges declined $4.3 million, or 5.5 percent, the net impact of lower fees from overdrafts and commercial service charges offset partly by incremental service charges for deposit accounts resulting from FDIC-assisted transactions. Due primarily to the implementation of revised Regulation E during the third quarter of 2010, insufficient fund and overdraft fees declined $2.6 million. The Dodd-Frank Act is projected to cause a significant reduction in income derived from debit card transactions in 2011.

Noninterest expense increased $81.9 million, or 12.6 percent, during 2010, primarily due to acquisition related activities, including operating costs for acquired branches and expenses for the operation and disposition of other real estate. Of the increase in total noninterest expenses, $61.9 million relates to costs incurred in the new locations resulting from the FDIC-assisted transactions. Salaries and wages increased $33.6 million, or 12.7 percent, occupancy costs grew $6.5 million, or 9.8 percent, and equipment expenses increased $6.6 million or 10.9 percent during 2010. Collection expenses increased $18.4 million due to costs incurred for loans acquired in the FDIC-assisted transactions.

INTEREST-EARNING ASSETS

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

We have historically focused on maintaining high asset quality, which results in a loan and lease portfolio subjected to strenuous underwriting and monitoring procedures. That focus on asset quality also influences the composition of our investment securities portfolio. At December 31, 2010, United States Treasury and government agency securities represented 85.5 percent of our investment securities portfolio. Mortgage-backed securities comprise only 3.2 percent of the total portfolio while corporate bonds insured under the TLGP represent 10.8 percent. Overnight investments are selectively made with the Federal Reserve Bank and other financial institutions that are within our risk tolerance.

During 2010, changes in interest-earning assets primarily reflect the impact of assets acquired in the FDIC-assisted transactions. Changes in the investment securities portfolio result from trends among loans and leases, deposits and short-term borrowings. When inflows arising from deposit and treasury services products exceed loan and lease demand, we invest excess funds in the securities portfolio. Conversely, when loan demand exceeds growth in deposits and short-term borrowings, we allow overnight investments to decline and use proceeds from maturing securities to fund loan demand.

Loans and Leases

Loans and leases totaled $13.5 billion at December 31, 2010, an increase of $670.0 million or 5.2 percent over December 31, 2009. Loans covered under loss share agreements totaled $2.01 billion at December 31, 2010 or 14.9 percent of total loans, compared to $1.17 billion at December 31, 2009, representing 9.2 percent of loans outstanding. Table 5 details the composition of loans and leases for the past five years.

Loans not covered by loss share agreements secured by commercial mortgages totaled $4.74 billion at December 31, 2010, a $185.8 million or 4.1 percent increase from December 31, 2009. In 2009 commercial mortgage loans increased 4.8 percent over 2008. The sustained growth reflects our continued focus on small business customers, particularly among medical-related and other professional customers. As a percentage of total loans and leases not covered by loss share agreements, noncovered commercial mortgage loans represent 41.3 percent at December 31, 2010 and 39.1 percent at

December 31, 2009. The majority of our commercial mortgage portfolio not covered by loss share agreements is secured by owner-occupied facilities rather than investment property. These loans are underwritten based primarily upon the cash flow from the operation of the business rather than the value of the real estate collateral.

At December 31, 2010, there were $1.09 billion of commercial mortgage loans covered by loss share agreements, 54.3 percent of the $2.01 billion of covered loans. Including the commercial mortgage loans covered by loss share agreements, total commercial mortgage loans as of December 31, 2010 total $5.83 billion or 43.2 percent of total loans and leases.

Table 5

LOANS AND LEASES

			December 31		
	2010	2009	2008 (thousands)	2007	2006
Covered loans	$ 2,007,452	$ 1,173,020	$	$	$
Noncovered loans and leases :					
Commercial:					
Construction and land development	338,929	541,110	548,095	608,114	611,271
Commercial mortgage	4,737,862	4,552,078	4,343,809	3,982,496	3,725,752
Other commercial real estate	149,710	158,187	149,478	145,552	165,223
Commercial and industrial	1,805,935	1,832,670	1,885,358	1,707,394	1,526,818
Leases	301,289	330,713	353,933	340,601	294,366
Other	182,015	195,084	99,264	85,354	65,042
Total commercial loans	7,515,740	7,609,842	7,379,937	6,869,511	6,388,472
Non-commercial:					
Residential mortgage	878,792	864,704	894,802	953,209	812,426
Revolving mortgage	2,233,853	2,147,223	1,911,852	1,494,431	1,326,403
Construction and land development	192,954	81,244	230,220	202,704	172,409
Consumer	659,238	941,986	1,233,075	1,368,228	1,360,524
Total non-commercial loans	3,964,837	4,035,157	4,269,949	4,018,572	3,671,762
Total noncovered loans and leases	11,480,577	11,644,999	11,649,886	10,888,083	10,060,234
Total loans and leases	13,488,029	12,818,019	11,649,886	10,888,083	10,060,234
Less allowance for loan and lease losses	227,765	172,282	157,569	136,974	132,004
Net loans and leases	$ 13,260,264	$ 12,645,737	$ 11,492,317	$ 10,751,109	$ 9,928,230

	December 31, 2010			December 31, 2009		
	Impaired at acquisition date	All other acquired loans	Total	Impaired at acquisition date	All other acquired loans	Total
			(thousands)			
Covered loans:						
Commercial:						
Construction and land development	$ 102,988	$ 265,432	$ 368,420	$ 10,317	$ 213,170	$ 223,487

Commercial mortgage	120,240	968,824	1,089,064	36,820	553,579	590,399
Other commercial real estate	34,704	175,957	210,661	331	21,307	21,638
Commercial and industrial	9,087	123,390	132,477	5,958	89,273	95,231
Other		1,510	1,510	476	2,411	2,887
Total commercial loans	267,019	1,535,113	1,802,132	53,902	879,740	933,642
Non-commercial:						
Residential mortgage	11,026	63,469	74,495	8,828	143,481	152,309
Revolving mortgage	8,400	9,466	17,866			
Construction and land development	44,260	61,545	105,805	12,383	70,172	82,555
Consumer		7,154	7,154	255	4,259	4,514
Total non-commercial loans	63,686	141,634	205,320	21,466	217,912	239,378
Total covered loans	$ 330,705	$ 1,676,747	$ 2,007,452	$ 75,368	$ 1,097,652	$ 1,173,020

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

At December 31, 2010, revolving mortgage loans secured by real estate totaled $2.23 billion, compared to $2.15 billion at December 31, 2009. Of the $2.23 billion at December 31, 2010, $17.9 million are covered by loss share agreements. There were no revolving mortgage loans covered by loss share agreements at December 31, 2009. The 2010 increase in total revolving mortgage loans results principally from changes to accounting for QSPE s and controlling financial interests that became effective on January 1, 2010. As a result of the accounting change, $97.3 million of revolving mortgage loans that were previously securitized, sold and removed from the consolidated balance sheet were returned to the balance sheet in the first quarter of 2010 upon adoption of the new accounting guidance. At December 31, 2010, revolving mortgage loans represented 16.7 percent of total loans and leases, compared to 16.8 percent at December 31, 2009.

Commercial and industrial loans not covered by loss share agreements equaled $1.81 billion at December 31, 2010, compared to $1.83 billion at December 31, 2009, a decline of $26.7 million or 1.5 percent. This decrease follows a decline of $52.7 million or 2.8 percent from 2008 to 2009. Weak economic conditions have limited our ability to find loans that meet our underwriting standards, especially within the commercial and industrial portfolio. Commercial and industrial loans not covered by loss share agreements represent 15.7 percent and 15.7 percent of total loans and leases not covered by loss share agreements, respectively, as of December 31, 2010 and 2009.

Commercial and industrial loans covered by loss share agreements totaled $132.5 million which is 6.6 percent of total covered loans. Including covered loans, total commercial and industrial loans as of December 31, 2010 equal $1.94 billion, or 13.8 percent of total loans and leases.

Consumer loans not covered by loss share agreements amounted to $659.2 million at December 31, 2010, a decrease of $282.7 million, or 30.0 percent, from the prior year. This decline results from our decision during 2008 to discontinue originations of automobile sales finance loans through our dealer network. At December 31, 2010 and 2009, consumer loans not covered by loss share agreements represent 5.7 percent and 8.1 percent of total noncovered loans, respectively.

There were $878.8 million of residential mortgage loans not covered by loss share agreements and an additional $74.5 million covered for a total of $953.3 million of residential mortgage loans as of December 31, 2010, representing 7.1 percent of total loans and leases. Customer interest in closed-end residential mortgage loans remains modest with most customers choosing a loan with a revolving structure.

Construction and land development loans not covered by loss share agreements equaled $531.9 million at December 31, 2010, a decrease of $90.5 million, or 14.5 percent from December 31, 2009. Of the total amount outstanding, only $35.7 million was in the Atlanta, Georgia and southwest Florida markets, a decrease of $32.1 million from December 31, 2009. Both of these market areas experienced significant reductions in real estate values during the past three years. Most of the remaining noncovered construction and land development loans are in North Carolina and Virginia, and generally are not comprised of loans to builders to acquire, develop or construct homes in large tracts of real estate.

Construction and land development loans covered by loss share agreements at December 31, 2010 totaled $474.2 million, 23.6 percent of total loans covered by loss share agreements. Total construction and land development loans equal $1.01 billion, which is 7.5 percent of total loans and leases.

We expect non-acquisition loan growth to be modest in 2011 due to the weak demand for loans and widespread customer efforts to deleverage. All growth projections are subject to change due to further economic deterioration or improvement and other external factors.

Investment Securities

Investment securities available for sale at December 31, 2010 and 2009 totaled $4.51 billion and $2.93 billion, respectively, a $1.58 billion or 54.0 percent increase. Growth in investment securities during 2010 resulted from an increase in liquidity due to weak loan demand, organic deposit growth and the FDIC-assisted transactions. Additionally, we decided to reduce the overall level of overnight investments in late-2010 and placed a portion of this liquidity in the

available for sale investment securities portfolio. Substantially all investment securities consist of U.S Treasury and government agency securities with final maturities of three years or less. The agency securities generally are callable by the agency at periodic intervals prior to the final maturity date. Available for sale securities are reported at their aggregate fair value, and unrealized gains and losses on available for sale securities are included as a component of other comprehensive income, net of deferred taxes.

Table 6 presents detailed information relating to the investment securities portfolio.

Income on interest-earning assets.

Interest income amounted to $969.4 million during 2010, a $231.2 million or 31.3 percent increase from 2009, compared to a $75.2 million or 9.2 percent decrease from 2008 to 2009. The increase in interest income during 2010 is primarily the result of higher average balances and the accretion of discounts and recognition of accretable yield on acquired loans. During 2010, interest-earning assets averaged $18.46 billion, an increase of $2.6 billion from 2009. This increase results from loans acquired in FDIC-assisted transactions and investment security purchases resulting from deposit growth within our legacy branch network in excess of loan and lease demand.

Table 7 analyzes taxable-equivalent yields and rates on interest-earning assets and interest-bearing liabilities for the five years ending December 31, 2010. The taxable-equivalent yield on interest-earning assets was 5.27 percent during 2010, a 58 basis point increase from the 4.69 percent reported in 2009, the result of the accretion during 2010 of fair value discounts on acquired loans. The taxable-equivalent yield on interest-earning assets equaled 5.51 percent in 2008.

The taxable-equivalent yield on the loan and lease portfolio increased from 5.49 percent in 2009 to 6.61 percent in 2010. The 112 basis point yield increase coupled with the $1.80 billion, or 14.9 percent growth in average loans and leases contributed to an increase in loan interest income of $255.0 million or 38.7 percent over 2009. The increased yield resulted from $145.4 million of accretion of fair value discounts during 2010 primarily related to payoffs and large unscheduled loan payments on acquired loans. Management had initially concluded that these payments would not be received during 2010. Loan interest income decreased in 2009 from 2008 by $22.3 million or 3.3 percent, driven by a 56 basis point yield decrease, partially offset by incremental interest from a $756.1 million, or 6.7 percent increase in average loans and leases.

Interest income earned on the investment securities portfolio amounted to $52.5 million and $77.9 million during 2010 and 2009, respectively, with a taxable-equivalent yield of 1.48 percent and 2.36 percent. The $25.4 million decrease in investment interest income during 2010 reflected the 88 basis points decrease in the taxable-equivalent yield. The $44.9 million decrease in interest income earned on investment securities during 2009 resulted in a 173 basis point decrease in the taxable-equivalent yield. Higher average balances of investment securities during 2010 and 2009 offset a portion of the yield reduction. The yield reductions in 2010 and 2009 reflect the extraordinarily low interest rates on investment securities. We anticipate the yield on investment securities will remain depressed until the Federal Open Market Committee begins to raise the benchmark fed funds rates, an action that would likely lead to higher asset yields.

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Table 6

INVESTMENT SECURITIES

	2010				2009		2008	
	Cost	Fair Value	Average Maturity (Yrs./Mos.)	Taxable Equivalent Yield	Cost	Fair Value	Cost	Fair Value
Investment securities available for sale:								
U. S. Government:								
Within one year	$ 3,212,786	$ 3,206,015	0/5	0.98%	$ 1,543,760	$ 1,554,353	$ 1,349,114	$ 1,374,022
One to five years	653,349	653,371	1/4	0.46	730,324	733,070	1,704,326	1,738,406
Total	3,866,135	3,859,386	0/7	0.90	2,274,084	2,287,423	3,053,440	3,112,428
Residential mortgage-backed securities:								
Within one year	6	3	0/8	5.31	0	0	0	0
One to five years	10,755	11,061	3/8	1.23	13,430	13,729	32	30
Five to ten years	1,673	1,700	7/9	3.59	917	914	789	791
Over ten years	126,857	130,781	26/10	4.81	112,254	115,695	80,288	82,131
Total	139,291	143,545	24/10	4.52	126,601	130,338	81,109	82,952
Corporate bonds:								
Within one year	227,636	230,043	0/9	1.69	0	0		
One to five years	251,524	256,615	1/6	1.95	481,341	485,667	0	0
Total	479,160	486,658	1/2	1.83	481,341	485,667	0	0
State, county and municipal:								
Within one year	757	757	0/8	4.67	303	304	1,682	1,687
One to five years	473	489	2/2	4.90	1,107	1,138	1,416	1,356
Five to ten years	10	10	9/11	4.97	0	0	0	0
Over ten years	0	0			5,643	5,371	10	10
Total	1,240	1,256	1/4	4.76	7,053	6,813	3,108	3,053
Other:								
Five to ten years	0	0			1,026	1,287	0	0
Over ten years	0	0			911	1,012	3,691	5,427
Total	0	0			1,937	2,299	3,691	5,427
Equity securities	1,055	19,231			2,377	16,622	3,291	15,461
Total investment securities available for sale	4,486,881	4,510,076			2,893,393	2,929,162	3,144,639	3,219,321
Investment securities held to maturity:								
Residential mortgage-backed securities:								
Five to ten years	2,404	2,570	6/3	5.55	3,306	3,497	4,117	4,289
Over ten years	128	171	17/3	6.53	146	185	165	198
Total	2,532	2,741	6/10	5.60	3,452	3,682	4,282	4,487
State, county and municipal:								
Within one year	0	0			0	0	151	151

One to five years	0	0		151	152	0	0
Five to ten years	0	0					