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**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020
Commission File Number: 001-16715

FIRST CITIZENS BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

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

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

Securities Registered Pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, Par Value $1	FCNCA	Nasdaq Global Select Market
Depositary Shares, Each Representing a 1/40th Interest in a Share of 5.375% Non-Cumulative Perpetual Preferred Stock, Series A	FCNCP	Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Securities Exchange Act of 1934:
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 ☒ 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 ☒

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 ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the Registrant’s common equity held by non-affiliates 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 $2,346,993,887.

On February 22, 2021, there were 8,811,220 outstanding shares of the Registrant’s Class A Common Stock and 1,005,185 outstanding shares of the Registrant’s Class B Common Stock.

Portions of the Registrant’s definitive Proxy Statement for the 2021 Annual Meeting of Shareholders are incorporated in Part III of this report.

CROSS REFERENCE INDEX

* Information required by Item 10 is incorporated herein by reference to the information that appears under the headings or captions 'Proposal 1: Election of Directors,' 'Corporate Governance —Service on other Public Company Boards' and '-Code of Ethics;' 'Committees of our Boards—Audit Committee;' 'Executive Officers,' and 'Beneficial Ownership of Our Common Stock-Delinquent Section 16(a) Reports' from the Registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders ("2021 Proxy Statement").

Information required by Item 11 is incorporated herein by reference to the information that appears under the headings or captions 'Committees of our Board—Compensation Committee Report;' and '—Effect of Risk Management on Compensation;' 'Compensation Discussion and Analysis;' 'Executive Compensation;' and 'Director Compensation' of the 2021 Proxy Statement.

Information required by Item 12 is incorporated herein by reference to the information that appears under the captions 'Beneficial Ownership of Our Common Stock—Directors and Executive Officers,' '—Existing Pledge Arrangements,' and '—Principal Shareholders' of the 2021 Proxy Statement. The Registrant currently does not have any compensation plans under which equity securities of the Registrant are authorized for issuance to employees or directors.

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 2021 Proxy Statement.

Information required by Item 14 is incorporated by reference to the information that appears under the caption 'Proposal 3: Ratification of Appointment of Independent Accountants—Services and Fees During 2020 and 2019' of the 2021 Proxy Statement.

Part I

Item 1. Business

General

First Citizens BancShares, Inc. (“we,” “us,” “our,” “BancShares”) was incorporated under the laws of Delaware on August 7, 1986, to become the holding company of First-Citizens Bank & Trust Company (“FCB,” or “the Bank”), its banking subsidiary. FCB opened in 1898 as the Bank of Smithfield in Smithfield, North Carolina, and later changed its name to First-Citizens Bank & Trust Company. BancShares has expanded through de novo branching and acquisitions and now operates in 19 states, providing a broad range of financial services to individuals, businesses and professionals. At December 31, 2020, BancShares had total consolidated assets of $49.96 billion.

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 (the “Board”), as chief executive officers and in other executive management positions and, since BancShares’ formation in 1986, have remained shareholders owning a large percentage of its common stock.

The Chairman of the Board and Chief Executive Officer, Frank B. Holding, Jr., is the grandson of Robert P. Holding. Hope Holding Bryant, Vice Chairman of BancShares, is Robert P. Holding’s granddaughter. Peter M. Bristow, President of BancShares, is the brother-in-law of Frank B. Holding, Jr. and Hope Holding Bryant.

BancShares seeks to meet the financial needs of both individuals and commercial entities in its market areas through a wide range of retail and commercial banking services. Loan services include various types of commercial, business and consumer lending. Deposit services include checking, savings, money market and time deposit accounts. BancShares’ subsidiaries also provide mortgage lending, a full-service trust department, wealth management services for businesses and individuals, and other activities incidental to commercial banking. FCB’s wholly owned subsidiaries, First Citizens Investor Services, Inc. (“FCIS”) and First Citizens Asset Management, Inc. (“FCAM”), provide various investment products and services. As a registered broker/dealer, FCIS provides a full range of investment products, including annuities, discount brokerage services and third-party mutual funds. As registered investment advisors, FCIS and FCAM provide investment management services and advice.

BancShares’ subsidiaries deliver products and services to their customers through an extensive branch network as well as digital banking, telephone banking and various ATM networks. Services offered at most offices include the taking of deposits, the cashing of checks and providing for individual and commercial cash needs. Business customers may conduct banking transactions through the use of remote image technology.

Statistical information regarding our business activities is found in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Business Combinations

BancShares pursues growth through strategic acquisitions to enhance organizational value, strengthen its presence in existing markets, as well as expand its footprint in new markets. In 2020, BancShares completed the acquisition of Community Financial Holding Company, Inc. In 2019, BancShares completed the acquisitions of Entegra Financial Corp., First South Bancorp, Inc., and Biscayne Bancshares, Inc.

On October 15, 2020, BancShares and CIT Group Inc., a Delaware corporation (“CIT”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among BancShares, FCB, FC Merger Subsidiary IX, Inc., a direct, wholly owned subsidiary of FCB (“Merger Sub”), and CIT, the parent company of CIT Bank, N.A., a national banking association (“CIT Bank”). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into CIT, with CIT as the surviving entity (the “First-Step Merger”), and as soon as reasonably practicable following the effective time of the First-Step Merger, CIT will merge with and into FCB, with FCB as the surviving entity (together with the First-Step Merger, the “Mergers”). The Merger Agreement further provides that immediately following the consummation of the Mergers, CIT Bank will merge with and into FCB, with FCB as the surviving bank (together with the Mergers, the “Transaction”). On February 9, 2021, BancShares and CIT each held a special meeting of shareholders where they received the necessary shareholder approvals for the consummation of the Transaction from their respective shareholders.

The Transaction will create a bank with over $100 billion in assets and combines management teams with extensive experience integrating acquired institutions. Additionally, the Transaction brings together complementary strengths with CIT's national commercial lending franchise and our low-cost retail deposits and full suite of banking products. This also allows us to diversify our deposit strategy, combining our large branch network and CIT's rapidly growing homeowner association business, direct bank and Southern California branches. The combined bank expects to be well-positioned to leverage its product portfolio and technology across the franchises and make additional investments in technology to enhance the customer experience and increase shareholder value.

Additional information relating to business combinations is set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, under the caption "Business Combinations," and Item 8. Notes to Consolidated Financial Statements, Note B, Business Combinations, in this Annual Report on Form 10-K.

Competition

The financial services industry is highly competitive. BancShares' subsidiaries compete with national, regional and local financial services providers. In recent years, the ability of non-bank financial entities to provide services has intensified competition. Non-bank financial service providers are not subject to the same significant regulatory restrictions as traditional commercial banks. More than ever, customers have the ability to select from a variety of traditional and nontraditional alternatives. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits and customer convenience.

FCB's primary deposit markets are North Carolina and South Carolina, which represent approximately 50.8% and 22.6%, respectively, of total FCB deposits. FCB's deposit market share in North Carolina and South Carolina was 4.2% and 9.1%, respectively, as of June 30, 2020, based on the Federal Deposit Insurance Corporation ("FDIC") Deposit Market Share Report, which makes FCB the fourth largest bank in both North Carolina and South Carolina. The three banks larger than FCB based on deposits in North Carolina and South Carolina as of June 30, 2020 include Bank of America, Truist Bank and Wells Fargo. These banks collectively controlled 78.8% and 46.3% of North Carolina and South Carolina deposits, respectively as of June 30, 2020.

Geographic Locations and Human Capital

As of December 31, 2020, BancShares operated 542 branches in Arizona, California, Colorado, Florida, Georgia, Kansas, Maryland, Missouri, North Carolina, New Mexico, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Virginia, Washington, Wisconsin and West Virginia. Following the planned merger with CIT, we will add approximately 90 branches, primarily located in Southern California, to our branch network.

BancShares and its subsidiaries employ approximately 6,451 full-time staff and approximately 271 part-time staff for a total of 6,722 employees. Women and ethnically diverse associates make up approximately 68% and 27% of total employees, respectively, and our Executive Leadership Team includes two women.

Our ability to attract, retain and develop associates who align with our purpose is key to our success. BancShares' human capital strategy is predicated on ensuring the organization has the right people with the right skills in the right places at the right time for the right cost to fulfill its mandate and strategic objectives. Our human resources team works to formalize the process of defining and deploying the mission-critical talent needed to align the Bank with the financial and strategic goals and objectives. Key human capital initiatives include scaling and developing talent, enhancing performance management and coaching, and accelerating inclusion, equity and diversity initiatives. The retention and integration of key CIT employees will be a significant initiative upon the expected completion of the merger. The Board monitors these initiatives and associated risks primarily through its Risk Committee.

To assist with these goals, we monitor and evaluate various metrics, specifically around attraction, retention and development of talent. Our annual voluntary turnover is relatively low compared to the industry. We believe this reflects our strong corporate culture, competitive compensation and benefit structures and commitment to career development.

Compensation and Benefits

We strive to provide robust compensation and benefits to our employees. In addition to salaries, compensation and benefit programs include a 401(k) plan with employer matching opportunities, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off and other employee assistance programs.

COVID-19 Pandemic

The health and wellness of our employees is also critical to our success. In an effort to keep our employees safe during the COVID-19 pandemic, we have implemented a number of new health-related measures, including protocols governing the use of face masks and hand sanitizer, a flexible work-from-home policy, enhanced cleaning procedures at our corporate and branch offices, social-distancing protocols and limitations on in-person meeting and other gatherings.

Regulatory Considerations

Various laws and regulations administered by regulatory agencies affect BancShares' and its subsidiaries' corporate practices, including the payment of dividends, the incurrence of debt, and the acquisition of financial institutions and other companies. They also affect business practices, such as the payment of interest on deposits, the charging of interest on loans, the types of business conducted and the location of offices.

Numerous statutes and regulations also apply to and restrict the activities of BancShares and its subsidiaries, including limitations on the ability to pay dividends, capital requirements, reserve requirements, deposit insurance requirements and restrictions on transactions with related persons and entities controlled by related persons. The impact of these statutes and regulations is discussed below and in the accompanying consolidated financial statements.

Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted in 2010, significantly restructured the financial services regulatory environment; imposed significant regulatory and compliance changes; increased capital, leverage and liquidity requirements; and expanded the scope of oversight responsibility of certain federal agencies through the creation of new oversight bodies. For example, the Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") with broad powers to supervise and enforce consumer protection laws.

Effective during 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA"), while largely preserving the fundamental elements of the post-Dodd-Frank Act regulatory framework, modified certain requirements of the Dodd-Frank Act as they applied to regional and community banking organizations. Certain of the significant requirements of the Dodd-Frank Act are listed below with information regarding how they apply to BancShares following the enactment of the EGRRCPA.

- *Capital Planning and Stress Testing*. The Dodd-Frank Act mandated stress tests be developed and performed to ensure financial institutions have sufficient capital to absorb losses and support operations during multiple economic and bank scenarios. The EGRRCPA gave immediate relief from stress testing for applicable bank holding companies and therefore, BancShares is no longer required to submit company-run annual stress tests. Notwithstanding these amendments to the stress testing requirements, the federal banking agencies indicated, through inter-agency guidance, the capital planning and risk management practices of institutions with total assets less than $100 billion would continue to be reviewed through the regular supervisory process. BancShares will continue to monitor its capital consistent with the safety and soundness expectations of the federal regulators through the use of internal, customized stress testing in order to support the business and its capital planning process, as well as prudent risk mitigation. In preparation for crossing the $100 billion threshold following the expected closing of the merger with CIT, BancShares is reviewing the applicable regulatory guidance in order to ensure all requirements are met in a timely manner.

- *The Volcker Rule*. The Volcker Rule was promulgated to implement provisions of the Dodd-Frank Act. It prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The EGRRCPA exempted many financial institutions with total consolidated assets of less than $10 billion from the Volcker Rule, but it continues to apply to BancShares and its subsidiaries. However, the Volcker Rule does not significantly impact our operations as we do not have any significant engagement in the businesses it prohibits.

- *Ability-to-Repay and Qualified Mortgage Rule*. Creditors are required to comply with mortgage reform provisions prohibiting the origination of any residential mortgages that do not meet rigorous Qualified Mortgage standards or Ability-to-Repay standards. All mortgage loans originated by FCB meet Ability-to-Repay standards and a substantial majority also meet Qualified Mortgage standards. The EGRRCPA impact on the original Ability-to-Repay and Qualified Mortgage standards is only applicable to banks with less than $10 billion in total consolidated assets.

BancShares

General. As a financial holding company registered under the Bank Holding Company Act ("BHCA") of 1956, as amended, BancShares is subject to supervision, regulation and examination by the Federal Reserve Board ("Federal Reserve," or "FRB"). BancShares is also registered under the bank holding company laws of North Carolina and is subject to supervision, regulation and examination by the North Carolina Commissioner of Banks ("NCCOB").

Permitted Activities. A bank holding company is limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities the Federal Reserve determines by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies, such as BancShares, may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve), without prior approval of the Federal Reserve. Activities financial in nature include securities underwriting and dealing, serving as an insurance agent and underwriter and engaging in merchant banking.

Acquisitions. A bank holding company ("BHC") must obtain approval from the Federal Reserve prior to directly or indirectly acquiring ownership or control of 5% of the voting shares or substantially all of the assets of another BHC or bank or prior to merging or consolidating with another BHC.

Status Requirements. To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be well-capitalized and well-managed. A depository institution subsidiary is considered to be well-capitalized if it satisfies the requirements for this status under applicable Federal Reserve capital requirements. A depository institution subsidiary is considered well managed if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. If a financial holding company ceases to meet these capital and management requirements, the Federal Reserve may impose limitations or conditions on the conduct of its activities.

Capital Requirements. The Federal Reserve imposes certain capital requirements on bank holding companies under the BHCA, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are described below under "Subsidiary Bank - FCB." As of December 31, 2020, the total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 and Tier 1 leverage capital ratios of BancShares were 10.61%, 13.81%, 11.63% and 7.86%, respectively, and each capital ratio listed above exceeded the applicable minimum requirements as well as the well-capitalized standards. Subject to its capital requirements and certain other restrictions, BancShares is able to borrow money to make capital contributions to FCB and such loans may be repaid from dividends paid by FCB to BancShares.

Source of Strength. Under the Dodd-Frank Act, bank holding companies are required to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, BancShares is expected to commit resources to support FCB, including times when BancShares may not be in a financial position to provide such resources. Any capital loans made by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Safety and Soundness. The federal bank regulatory agencies have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. There are a number of obligations and restrictions imposed on bank holding companies and their subsidiary banks by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and to the FDIC insurance fund in the event of a depository institution default.

Limits on Dividends and Other Payments. BancShares is a legal entity, separate and distinct from its subsidiaries. Revenues of BancShares primarily result from dividends received from FCB. There are various legal limitations applicable to the payment of dividends by FCB to BancShares and to the payment of dividends by BancShares to its shareholders. The payment of dividends by FCB or BancShares may be limited by certain factors, such as requirements to maintain capital above regulatory guidelines. Bank regulatory agencies have the authority to prohibit FCB or BancShares from engaging in an unsafe or unsound practice in conducting their business. The payment of dividends, depending on the financial condition of FCB or BancShares, could be deemed to constitute such an unsafe or unsound practice.

Under the Federal Deposit Insurance Act, insured depository institutions, such as FCB, are prohibited from making capital distributions, including the payment of dividends, if, after making such distributions, the institution would become "undercapitalized" as such term is used in the statute. Additionally, under Basel III capital requirements, banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Based on FCB's current financial condition, BancShares currently does not expect these provisions to have any material impact on its ability to receive dividends from FCB. BancShares' non-bank subsidiaries pay dividends to BancShares periodically on a non-regulated basis.

Subsidiary Bank - FCB

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

Capital Requirements. Bank regulatory agencies approved Basel III regulatory capital guidelines aimed at strengthening existing capital requirements through a combination of higher minimum capital requirements, new capital conservation buffers and more conservative definitions of capital and balance sheet exposure. BancShares and FCB implemented the requirements of Basel III effective January 1, 2015, subject to a transition period for several aspects of the rule. The table below describes the minimum and well-capitalized requirements and conservation buffer.

	Basel III minimum requirement	Basel III conservation buffer	Basel III well-capitalized
Total risk-based capital ratio	8.00%	2.50%	10.00%
Tier 1 risk-based capital ratio	6.00	2.50	8.00
Common equity Tier 1	4.50	2.50	6.50
Tier 1 leverage ratio	4.00	N/A	5.00

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with ratios above the minimum, but below the conservation buffer, will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Failure to meet minimum capital requirements may result in certain actions by regulators that could have a direct material effect on FCB's consolidated financial statements. As of December 31, 2020, FCB exceeded the applicable minimum requirements as well as the well-capitalized standards.

Although FCB is unable to control the external factors influencing its business, by maintaining high levels of balance sheet liquidity, prudently managing interest rate exposures, ensuring capital positions remain strong and actively monitoring asset quality, FCB seeks to minimize the potentially adverse risks of unforeseen and unfavorable economic trends and to take advantage of favorable economic conditions and opportunities when appropriate.

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

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

Community Reinvestment Act. FCB is subject to the requirements of the Community Reinvestment Act of 1977 ("CRA"). The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of the local communities, including low-and-moderate-income neighborhoods. If FCB receives a rating from the Federal Reserve of less than "satisfactory" under the CRA, restrictions would be imposed on our operating activities. In addition, in order for a financial holding company, like BancShares, to commence any new activity permitted by the BHCA or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. FCB currently has a "satisfactory" CRA rating.

Anti-Money Laundering and the United States Department of the Treasury's Office of Foreign Asset Control ("OFAC") Regulation. Governmental policy in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act of 1970 ("BSA") and subsequent laws and regulations require financial institutions to take steps to prevent the use of their systems to facilitate the flow of illegal or illicit money or terrorist funds. The USA Patriot Act of 2001 ("Patriot Act") significantly expanded anti-money laundering ("AML") and financial transparency laws and regulations by imposing new compliance and due diligence obligations, including standards for verifying customer identification at account opening and maintaining expanded records, as well as rules promoting cooperation among financial institutions, regulators and law enforcement entities in identifying persons who may be involved in terrorism or money laundering. These rules were expanded to require new customer due diligence and beneficial ownership requirements in 2018. An institution subject to the BSA, such as FCB, must additionally provide AML training to employees, designate an AML compliance officer and annually audit the AML program to assess its effectiveness. The United States has imposed economic sanctions on transactions with certain designated foreign countries, nationals and others. As these rules are administrated by OFAC, these are generally known as the OFAC rules. Failure of a financial institution to maintain and implement adequate BSA, AML and OFAC programs, or to comply with all the relevant laws and regulations, could have serious legal and reputational consequences, including material fines and sanctions. FCB has implemented a program designed to facilitate compliance with the full extent of the applicable BSA and OFAC related laws, regulations and related sanctions.

Consumer Laws and Regulations. FCB is also subject to certain laws and regulations designed to protect consumers in transactions with banks. These laws include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, Real Estate Settlement Procedures Act, Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Fair Housing Act and the Servicemembers Civil Relief Act. The laws and related regulations mandate certain disclosures and regulate the manner in which financial institutions transact business with certain customers. FCB must comply with these consumer protection laws and regulations in its relevant lines of business.

Available Information

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

Item 1A. Risk Factors

We are subject to a number of risks and uncertainties that could have a material impact on our business, financial condition and results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in our transactions and operations and are present in the business decisions we make. We encounter risk as part of the normal course of our business, and we design risk management processes to help manage these risks. Our success is dependent on our ability to identify, understand and manage the risks presented by our business activities. We categorize risk into the following areas:

- **Strategic Risk:** The risk to earnings or capital arising from business decisions or improper implementation of those decisions.
- **Operational Risk:** The risk of loss resulting from inadequate or failed processes, people and systems or from external events.
- **Credit Risk:** The risk a borrower will fail to perform on an obligation.
- **Market Risk:** The risk to BancShares' financial condition resulting from adverse movements in market rates or prices, including, but not limited to, interest rates, foreign exchange rates or equity prices.
- **Liquidity Risk:** The risk that BancShares will be unable to meet its obligations as they come due because of an inability to (i) liquidate assets or obtain adequate funding (referred to as "Funding Liquidity Risk"), or (ii) unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("Market Liquidity Risk").
- **Capital Adequacy Risk:** The risk that capital levels are inadequate to preserve the safety and soundness of BancShares, support ongoing business operations and strategies and provide support against unexpected or sudden changes in the business/economic environment.
- **Compliance Risk:** The risk of loss or reputational harm resulting from regulatory sanctions, fines, penalties or losses due to the failure to comply with laws, rules, regulations or other supervisory requirements applicable to a financial institution.
- **Financial Reporting Risk:** The risk that financial information is reported incorrectly, including incorrect or incomplete financial information, errors and omissions, or improper application of accounting standards.

The risks and uncertainties management believes are material are described below. The risks listed are not the only risks BancShares faces. Additional risks and uncertainties that are not currently known or that management does not currently deem material could also have a material adverse impact on our financial condition and/or the results of our operations or our business. If such risks and uncertainties were to materialize or the likelihoods of the risks were to increase, the market price of our common stock could significantly decline.

Strategic Risks

We may be adversely affected by risks associated with completed, pending or any potential future acquisitions.

We plan to continue to grow our business organically. However, we have pursued and expect to continue to pursue acquisition opportunities that we believe support our business strategies and may enhance our profitability. We must generally satisfy a number of material conditions prior to consummating any acquisition including, in many cases, federal and state regulatory approval. We may fail to complete strategic and competitively significant business opportunities as a result of our inability to obtain required regulatory approvals in a timely manner or at all.

Acquisitions of financial institutions, assets of financial institutions, or other operating entities involve operational risks and uncertainties, and acquired companies or assets may have unknown or contingent liabilities, exposure to unexpected asset quality problems that require write downs or write-offs, or difficulty retaining key employees and customers. Additionally, acquired companies may have product lines, regulatory requirements, or operational challenges with which we are not familiar, or for which we lack management experience to expertise. These, among other issues, could negatively affect our results of operations and financial condition.

We may not be able to realize projected cost savings, synergies or other benefits associated with any such acquisition. Failure to efficiently integrate any acquired entities or assets into our existing operations could significantly increase our operating costs and have material adverse effects on our financial condition and results of operations. There can be no assurance that we will be successful in identifying, consummating, or integrating any potential acquisitions.

Specifically, on October 15, 2020, BancShares and CIT, entered into the Merger Agreement by and among BancShares, FCB, Merger Sub, and CIT, the parent company of CIT Bank. Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into CIT, with CIT as the surviving entity, and as soon as reasonably practicable following the effective time of the First-Step Merger, CIT will merge with and into FCB, with FCB as the surviving entity. The Merger Agreement further provides that immediately following the consummation of the Mergers, CIT Bank will merge with and into FCB, with FCB as the surviving bank. On February 9, 2021, BancShares and CIT each held a special meeting of shareholders where they received the necessary shareholder approvals for the consummation of the Transaction from their respective shareholders. Subject to certain customary closing conditions, the Transaction is expected to close during the first half of 2021, and certain new risk factors have been identified as a result. These risks and the other risks associated with the Transaction have been more fully discussed in the joint proxy statement/prospectus included in the registration statement on Form S-4 filed with the SEC on December 23, 2020 in connection with the Transaction.

The consummation of the Transaction is contingent upon the satisfaction of a number of conditions, including regulatory approvals, that may be outside of our or CIT's control and that we and CIT may be unable to satisfy or obtain or which may delay the consummation of the Transaction or result in the imposition of conditions that could reduce the anticipated benefits from the Transaction or cause the parties to abandon the Transaction.

Consummation of the Transaction is contingent upon the satisfaction of a number of conditions, some of which are beyond our and CIT's control, including, among others:

- authorization for listing on Nasdaq of the shares of our capital stock to be issued in the First-Step Merger, subject to official notice of issuance;
- the receipt of required domestic and foreign regulatory approvals, including, among others, the approval of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the North Carolina Commissioner of Banks; and
- the absence of any order, injunction, decree or other legal restraint preventing the completion of the Mergers or making the completion of the Transaction illegal.

Each party's obligation to complete the Transaction is also subject to certain additional customary conditions, including, among others:

- subject to certain exceptions, the accuracy of the representations and warranties of the other party;

- performance in all material respects by the other party of its obligations under the Merger Agreement; and
- receipt by each party of an opinion from its counsel to the effect that the Mergers will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

These conditions to the closing of the Transaction may not be fulfilled in a timely manner or at all, and, accordingly, the Transaction may be delayed substantially or may not be completed. In addition, the parties can mutually decide to terminate the Merger Agreement at any time, or we or CIT may elect to terminate the Merger Agreement in certain other circumstances.

As a condition to granting required regulatory approvals, governmental entities may impose conditions, limitations or costs, require divestitures or place restrictions on our conduct after the closing of the Transaction. Such conditions or changes and the process of obtaining regulatory approvals could, among other things, have the effect of delaying completion of the Transaction or of imposing additional costs or limitations on us following the Transaction, any of which may have an adverse effect on us following the Transaction.

We and CIT are subject to lawsuits challenging the Transaction, and adverse rulings in these lawsuits may delay or prevent the Transaction from being completed or require us or CIT to incur significant costs to defend or settle these lawsuits. Any delay in completing the Transaction could cause us not to realize, or to be delayed in realizing, some or all of the benefits that we expect to achieve if the Transaction is successfully completed within its expected time frame. We have not yet incurred significant expense related to litigation, but may as litigation proceeds.

We may fail to realize all of the anticipated benefits of the Transaction, or those benefits may take longer to realize than expected. We may also encounter significant difficulties in integrating with CIT.

We and CIT have operated and, until the completion of the Transaction, will continue to operate, independently. The success of the Transaction, including anticipated benefits and cost savings, will depend, in part, on our ability to successfully integrate CIT's operations in a manner that results in various benefits and that does not materially disrupt existing customer relationships or result in decreased revenues due to loss of customers. The process of integrating operations could result in a loss of key personnel or cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses. Inconsistencies in standards, controls, procedures and policies could adversely affect the combined company. The diversion of management's attention and any delays or difficulties encountered in connection with the Transaction and the integration of CIT's operations could have an adverse effect on the business, financial condition, operating results and prospects of the combined company.

If we experience difficulties in the integration process, including those listed above, we may fail to realize the anticipated benefits of the Transaction in a timely manner or at all.

While the Transaction is pending, we will be subject to business uncertainties and contractual restrictions that could adversely affect our business and operations.

Uncertainty about the effect of the Transaction on employees, customers and other persons with whom we or CIT have a business relationship may have an adverse effect on our business, operations and stock price. Our existing customers or existing customers of CIT could decide to no longer do business with us, CIT or the combined company, reducing the anticipated benefits of the Transaction. We and CIT are also subject to certain restrictions on the conduct of our respective businesses while the Transaction is pending. As a result, certain other projects may be delayed or abandoned, and business decisions could be deferred. Employee retention at BancShares and CIT may be challenging before or after completion of the Transaction, as certain employees may experience uncertainty about their future roles with the combined company, and these retention challenges may require us to incur additional expenses in order to retain or replace key employees. If key officers or employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us, CIT or the combined company, the benefits of the Transaction could be materially diminished and we could encounter difficulties in replacing them and successfully managing new lines of business with which we do not have management experience or expertise.

We expect to incur substantial expenses related to the Transaction and the integration with CIT.

We and CIT will incur substantial expenses in connection with the Transaction and integration. There are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated. While we have assumed that a certain level of expenses would be incurred, there are many factors beyond our control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale. The amount and timing of any charges to earnings as a result of Transaction or integration expenses are uncertain at present.

Our future results will suffer if we do not effectively manage our expanded operations following the Transaction.

Following the Transaction, the size and geographic and operational scope of our business will increase significantly beyond its current size and scope. The Transaction will more than double our asset size and will increase the breadth and complexity of our business with the addition of new business lines in which we have not previously engaged, and new geographic areas in which we currently have no operations and with which we lack familiarity. Our future success depends, in part, upon the ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that we will be successful in this regard or that we will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the Transaction.

We encounter significant competition that may reduce our market share and profitability.

We compete with other banks and specialized financial services providers in our market areas. Our primary competitors include local, regional and national banks; credit unions; commercial finance companies; various wealth management providers; independent and captive insurance agencies; mortgage companies; and non-bank providers of financial services. Some of our larger competitors, including certain banks with a significant presence in our market areas, have the capacity to offer products and services we do not offer. Some of our non-bank competitors operate in less stringent regulatory environments, and certain competitors are not subject to federal and/or state income taxes. The fierce competitive pressures that we face adversely affect pricing for many of our products and services.

Certain provisions in our Certificate of Incorporation and Bylaws may prevent a change in management or a takeover attempt a shareholder might consider to be in their best interests.

Certain provisions contained in our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws could delay or prevent the removal of directors and other management. The provisions could also delay or make more difficult a tender offer, merger or proxy contest a shareholder might consider to be in their best interests. For example, our Certificate of Incorporation and/or Bylaws:

- allow the Board to issue and set the terms of preferred shares without further shareholder approval;
- limit who can call a special meeting of shareholders; and
- establish advance notice requirements for nominations for election to the Board and proposals of other business to be considered at annual meetings of shareholders.

These provisions, as well as provisions of the BHCA and other relevant statutes and regulations that require advance notice and/or applications for regulatory approval of changes in control of banks and bank holding companies, may discourage bids for our common stock at a premium over market price, adversely affecting its market price. Additionally, the fact that the Holding family holds or controls shares representing a majority of the voting power of our common stock may discourage potential takeover attempts and/or bids for our common stock at a premium over market price.

Our Bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees or agents.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, other employees or shareholder to us or our shareholders; (iii) any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware or as to which the General Corporation Law of the State of Delaware confers jurisdiction on the Court of Chancery of the State of Delaware; or (iv) any action asserting a claim against us governed by the internal affairs doctrine. These choice of forum provisions do not preclude or contract the scope of exclusive federal or concurrent jurisdiction for any actions brought under the Securities Act or the Exchange Act. Accordingly, our choice of forum provisions will not relieve us of our duties to comply with the federal securities laws and the rules and regulations thereunder, and our shareholders will not be deemed to have waived our compliance with these laws, rules and regulations.

These choice of forum provisions may limit a shareholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers or other employees or agents, which may discourage lawsuits against us and our directors, officers and other employees or agents.

If a court were to find the choice of forum provision contained in our bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management and other employees.

We rely on dividends from FCB.

As a financial holding company, we are a separate legal entity from FCB. We derive most of our revenue and cash flow from dividends paid by FCB. These dividends are the primary source from which we pay dividends on our common stock and interest and principal on our debt obligations. State and federal laws impose restrictions on the dividends that FCB may pay to us. In the event FCB is unable to pay dividends to us for an extended period of time, we may not be able to service our debt obligations or pay dividends on our common stock, and the inability to receive dividends from FCB could have a material adverse effect on our business, financial condition and results of operations.

Our financial performance depends upon our ability to attract and retain clients for our products and services, which may be adversely impacted by weakened consumer and/or business confidence, and by any inability on our part to predict and satisfy customers' needs and demands.

Our financial performance is subject to risks associated with the loss of client confidence and demand. A fragile or weakening economy, or ambiguity surrounding the economic future, may lessen the demand for our products and services. Our performance may also be negatively impacted if we fail to attract and retain customers because we are not able to successfully anticipate, develop and market products and services that satisfy market demands. Such events could impact our performance through fewer loans, reduced fee income and fewer deposits, each of which could result in reduced net income. The pandemic caused by a novel strain of coronavirus ("COVID-19"), while disruptive to our customers and the economy, has not led to a significant decline in our products and services to date, but it could if its impact on us and our customers continues or increases in the future.

New technologies, and our ability to efficiently and effectively develop, market and deliver new products and services to our customers present competitive risks.

The rapid growth of new digital technologies, including internet services, smart phones and other mobile devices, requires us to continuously evaluate our product and service offerings to ensure they remain competitive. Our success depends in part on our ability to adapt and deliver our products and services in a manner responsive to evolving industry standards and consumer preferences. New technologies by banks and non-bank service providers may create risks if our products and services are no longer competitive with then-current standards, and could negatively affect our ability to attract or maintain a loyal customer base. These risks may affect our ability to grow and could reduce our revenue streams from certain products and services, while increasing expenses associated with developing more competitive solutions. Our results of operations and financial condition could be adversely affected.

Operational Risks

We face significant operational risks in our businesses.

Safely conducting and growing our business requires that we create and maintain an appropriate operational and organizational control infrastructure. Operational risk can arise in numerous ways, including employee fraud, customer fraud and control lapses in bank operations and information technology. Our dependence on our employees and internal and third party automated systems to record and process transactions may further increase the risk that technical failures or system-tampering will result in losses that are difficult to detect. We may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control. Failure to maintain appropriate operational infrastructure and oversight can lead to loss of service to customers, legal actions and noncompliance with various laws and regulations. We have implemented internal controls that are designed to safeguard and maintain our operational and organizational infrastructure and information. However, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The continued economic impacts of a COVID-19 outbreak could affect BancShares' business, financial condition and results of operations.

Beginning in early 2020, COVID-19 spread across most of the world, including the United States (the “U.S.”). It has caused severe disruptions to the U.S. economy, regional quarantines, business shutdowns, high unemployment, disruptions to supply chains, and overall economic instability that has adversely impacted the operations, activities and business of BancShares and its customers. Effects have generally been felt across all industries, including financial services.

In response to the national public health crisis, Federal, State and Local governments continue to impose an array of restrictions on the way all businesses conduct their operations and on our customers, business partners, vendors and employees. These restrictions, along with other economic factors including inflation risks, oil price volatility, and changes in interest rates have and may continue to destabilize financial markets and negatively impact our customers’ business activities and operations, making it difficult for them to satisfy existing debt obligations. They also have led to elevated unemployment and slower consumer spending which in turn will increase our collection risk as deteriorating economic conditions correlate with lower credit quality metrics and higher customer defaults on loans. Economic pressures and uncertainty have and may continue to change consumer and business behaviors, which, in the short and long term, could affect borrowers’ creditworthiness and the demand for loans and other products and services we offer. BancShares is actively monitoring the loan portfolio to identify changes in credit risk within a specific geography, loan class, or within a particular industry concentration. Therefore, provision expense could increase as we incorporate these changes into our estimate on the allowance for credit losses.

Additionally, our operations have experienced disruptions as we operate in a remote working environment for most corporate employees and we have adjusted branch operations and corporate processes. With continued uncertainty around outbreak severity within impacted areas, there may be increased absenteeism, and lost productivity as a result of the remote workforce. We may see an increased incidence of cybersecurity threats or fraud as cyber-criminals look to profit from the disruption and potential strain on information technology and the fear of the general public. There may be disruption in critical third party services as they operate in the current environment. BancShares has a comprehensive business continuity and data security plan in place along with third party risk management, but may not be able to mitigate all of the issues identified above.

Market volatility and general uncertainty in the capital markets may also impact our business. Our access to capital and liquidity could be limited by market disruptions which could be exacerbated by delays in customer payments or significant withdrawals from customer deposit accounts. In addition, the fair value of our assets and liabilities will be impacted by the changing market environment. This could also increase liquidity and capital adequacy risks, as well as long-lived asset impairment risk.

As the government and its regulatory bodies respond to the crisis, it increases the burden on our associates to quickly respond to changing regulatory guidance. This could increase the risk of noncompliance.

The effects of the COVID-19 pandemic will heighten specific risk factors and could impact substantially all risk factors described herein. Those effects will adversely affect our business operations and results at least until the outbreak has subsided, and the negative effects on the economy, our customers and our business and results likely will continue to be felt for some time afterwards. The full extent of the impact will depend on future developments that are highly uncertain including the duration and spread of the outbreak, its severity, governmental actions to contain the virus, and the long term economic impact, both globally, as well as in our banking markets, which includes a potential recession.

A cyber attack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct our business, manage our exposure to risk, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, liquidity and financial condition, as well as cause legal or reputational harm.

Our businesses are highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact or on whom we rely. Our businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks.

We, our customers, regulators and other third parties have been subject to, and are likely to continue to be the target of, cyber attacks. These cyber attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees, our customers or of third parties, damages to systems, or other material disruption to our or our customers' or other third parties' network access or business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to protect the integrity of our systems and implement controls, processes, policies and other protective measures, we may not be able to anticipate all security breaches, nor may we be able to implement guaranteed preventive measures against such security breaches.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the Internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications. In addition, cybersecurity risks have significantly increased in recent years in part due to the increased sophistication and activities of organized crime groups, hackers, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage. Even the most advanced internal control environment may be vulnerable to compromise. Additionally, the existence of cyber attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner.

Although to date we have not experienced any material losses or other material consequences relating to technology failure, cyber attacks or other information or security breaches, whether directed at us or third parties, there can be no assurance that we will not suffer such losses or other consequences in the future. Risks are also heightened as a result of the increased remote workforce in response to the COVID-19 pandemic. Cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority.

We also face indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including financial counterparties; financial intermediaries such as clearing agents, exchanges and clearing houses; vendors; regulators; providers of critical infrastructure such as internet access and electrical power. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation interconnectivity and complexity increases the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyber attack or other information or security breach, termination or constraint could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses.

Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business. A successful penetration or circumvention of system security could cause us negative consequences, including loss of customers and business opportunities, disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition.

We are exposed to losses related to fraud.

As technology continues to evolve, criminals are using increasingly more sophisticated techniques to commit and hide fraudulent activity. Fraudulent activity can come in many forms, including debit card/credit card fraud, check fraud, wire fraud, electronic scanning devices attached to ATM machines, social engineering, digital fraud and phishing attacks to obtain personal information and fraudulent impersonation of our clients through the use of falsified or stolen credentials. To counter the increased sophistication of these fraudulent activities, we have increased our investment in systems, technologies and controls to detect and prevent such fraud. Combating fraudulent activities as they evolve will result in continued ongoing investments in the future as significant fraud could adversely impact our reputation or results of operation.

We depend on key personnel for our success.

Our success depends to a great extent on our ability to attract and retain key personnel. We have an experienced management team the Board believes is capable of managing and growing our business. Losses of, or changes in, our current executive officers or other key personnel and their expertise and services may disrupt our business and could adversely affect our financial condition, results of operations and liquidity. We have developed an Executive Officer succession plan, but we cannot be certain of its transition or implementation success. There also can be no assurance we will be successful in retaining our current executive officers or other key personnel, or hiring additional key personnel to assist in executing our growth, expansion and acquisition strategies.

We are subject to litigation risks, and our expenses related to litigation may adversely affect our results.

We are subject to litigation risks in the ordinary course of our business. Claims and legal actions, including supervisory actions by our regulators, that may be initiated against us from time to time could involve large monetary sums and significant defense costs. During the last credit crisis, we saw the number of cases and our expenses related to those cases increase. The outcomes of such cases are always uncertain until finally adjudicated or resolved.

We establish reserves for legal claims when payments associated with the claims become probable and our liability can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual amount paid in resolution of a legal claim may be substantially higher than any amounts reserved for the matter. The ultimate resolution of a legal proceeding, depending on the remedy sought and any relief granted, could materially adversely affect our results of operations and financial condition.

Substantial legal claims or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured legal liabilities and/or regulatory actions which could adversely affect our results of operations and financial condition. For additional information, see the Notes to the Consolidated Financial Statements, Note T, Commitments and Contingencies, in this Annual Report on Form 10-K.

Our business and financial performance could be impacted by natural disasters, acts of war or terrorist activities.

Natural disasters (including but not limited to earthquakes, hurricanes, tornadoes, floods, fires, and explosions), acts of war and terrorist activities could hurt our performance (i) directly through damage to our facilities or other impacts to our ability to conduct business in the ordinary course, and (ii) indirectly through such damage or impacts to our customers, suppliers or other counterparties. In particular, a significant amount of our business is concentrated in North Carolina and South Carolina, including coastal areas where our retail and commercial customers have been and in the future could be impacted by hurricanes and flooding. We could also suffer adverse results to the extent that disasters, wars, terrorist activities, riots or civil unrest affect the broader markets or economy. Our ability to minimize the consequences of such events is in significant measure reliant on the quality of our disaster recovery planning and our ability, if any, to forecast the events.

We rely on third parties.

Third party vendors provide key components of our business infrastructure, including certain data processing and information services. Their services could be difficult to quickly replace in the event of failure or other interruption in service. Failures of certain vendors to provide services could adversely affect our ability to deliver products and services to our customers. External vendors also present information security risks. We monitor significant vendor risks, including the financial stability of critical vendors. The failure of a critical external vendor could disrupt our business and cause us to incur significant expense.

The quality of our data could deteriorate and cause financial or reputational harm to the Bank.

While we have a Data Governance program, it is reliant on the execution of procedures, process controls and system functionality and there is no guarantee errors will not occur. Incomplete, inconsistent, or inaccurate data could lead to non-compliance with regulatory statutes and result in fines. Additionally, customer impact could result in reputational harm and customer attrition. Inaccurate or incomplete data presents the risk that business decisions relying on such data will prove inefficient or ineffective. Additionally, information we provide to our investors and regulators may be negatively impacted by inaccurate or incomplete data.

Malicious action by an employee could result in harm to our customers or the Bank.

Several high-profile cases of misconduct have occurred at other financial institutions. Such an event may lead to large regulatory fines, as well as an erosion in customer confidence, which could impact our financial position. BancShares' employees are subject to a code of ethics which requires annual review. We also have policies governing our compensation, conduct and sales practices designed to deter and respond to potential employee misconduct.

Credit Risks

If we fail to effectively manage credit risk, our business and financial condition will suffer.

We must effectively manage credit risk. There are risks inherent in making any loan, including risks of repayment, risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. There is no assurance that our loan approval procedures and our credit risk monitoring are or will be adequate to or will reduce the inherent risks associated with lending. Our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or other conditions affecting customers and the quality of our loan portfolio. Any failure to manage such credit risks may materially adversely affect our business, and our consolidated results of operations and financial condition.

Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio.

We maintain an allowance for credit losses ("ACL") that is designed to cover credit losses on loans that borrowers may not repay in their entirety. An ACL is also recorded over expected losses in investment securities and unfunded commitments, though these are not significant compared to losses within the loan portfolio. We believe that we maintain an ACL at a level adequate to absorb the expected credit losses over the life of the loan portfolio, adjusted for expected contractual payments and the impact of prepayments, in compliance with applicable accounting and regulatory guidance. However, the ACL may not be sufficient to cover actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. Accounting measurements related to asset impairment and the ACL require significant estimates that are subject to uncertainty and revisions driven by new information and changing circumstances. The significant uncertainties surrounding our borrowers' abilities to conduct their businesses successfully through changing economic environments, competitive challenges and other factors complicate our estimates of the risk and/or amount of loss on any loan. Due to the degree of uncertainty and the susceptibility to change, the actual losses may vary from current estimates. We also expect fluctuations in the ACL due to economic changes nationally as well as locally within the states in which we conduct business. This is especially true as the economy reacts to the continuation of and potential recovery from the COVID-19 pandemic.

As an integral part of their examination process, our banking regulators periodically review the ACL and may require us to increase it by recognizing additional provisions for credit losses charged to expense or to decrease the allowance by recognizing loan charge-offs, net of recoveries. Any such required additional credit loss provisions or loan charge-offs could have a material adverse effect on our financial condition and results of operations.

Our concentration of loans to borrowers within the medical and dental industries could impair our earnings if those industries experience economic difficulties.

Statutory or regulatory changes, or economic conditions in the market generally, could negatively impact borrowers' businesses and their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations. Additionally, smaller practices such as those in the dental industry generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, and generally have a heightened vulnerability to negative economic conditions. Consequently, we could be required to increase our ACL through additional provisions on our income statement, which would reduce reported net income. While medical and dental practices were initially impacted by the coronavirus pandemic, there have not been significant credit deterioration or increased provisions for these borrowers to date. See Note D, Loans and Leases, in the Notes to the Consolidated Financial Statements for additional discussion.

Economic conditions in real estate markets and our reliance on junior liens may adversely impact our business and our results of operations.

Real property collateral values may be impacted by economic conditions in the real estate market and may result in losses on loans that, while adequately collateralized at the time of origination, become inadequately collateralized. Our reliance on junior liens is concentrated in our consumer revolving mortgage loan portfolio. Approximately two-thirds of the consumer revolving mortgage portfolio is secured by junior lien positions, and lower real estate values for collateral underlying these loans may cause the outstanding balance of the senior lien to exceed the value of the collateral, resulting in a junior lien loan becoming effectively unsecured. Inadequate collateral values, rising interest rates and unfavorable economic conditions could result in greater delinquencies, write-downs or charge-offs in future periods, which could have a material adverse impact on our results of operations and capital adequacy.

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 and/or other relationships. We have exposure to numerous financial services providers, including banks, securities brokers and dealers and other financial services providers. Although we monitor the financial conditions of financial institutions with which we have credit exposure, transactions with those institutions expose us to credit risk through the possibility of counterparty default.

Market Risks

Unfavorable economic conditions could adversely affect our business.

Our business is subject to periodic fluctuations based on national, regional and local economic conditions. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition. Our banking operations are located within several states but are locally oriented and community-based. Our retail and commercial banking activities are primarily concentrated within the same geographic footprint. Our markets include the Southeast, Mid-Atlantic, Midwest and Western United States, with our greatest presence in North Carolina and South Carolina. Worsening economic conditions within our markets, particularly within North Carolina and South Carolina, could have a material adverse effect on our financial condition, results of operations and cash flows. Accordingly, we expect to continue to be dependent upon local business conditions as well as conditions in the local residential and commercial real estate markets we serve. Unfavorable changes in unemployment, real estate values, interest rates and other factors could weaken the economies of the communities we serve. The COVID-19 pandemic has created volatility and uncertainty in the economy, which has and will continue to impact our business. Thus far, this includes declines in fee income and impacts on the fair value of our equity securities, but could create additional negative impacts to provision for credit losses and declines in demand for our products and services.

In addition, the political environment, the level of U.S. debt and global economic conditions can have a destabilizing effect on financial markets. Weakness in any of our market areas could have an adverse impact on our earnings, and consequently, our financial condition and capital adequacy.

Accounting for acquired assets may result in earnings volatility.

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 U.S. (“GAAP”). The rate at which those discounts are accreted is unpredictable and the result of various factors including prepayments and estimated credit losses. Post-acquisition credit deterioration results in the recognition of provision expense. Additionally, the income statement impact of adjustments to the indemnification asset recorded in certain FDIC-assisted transactions may occur over a shorter period of time than the adjustments to the covered assets.

Fair value discount accretion, post-acquisition impairment and adjustments to the indemnification asset may result in significant volatility in our earnings. Volatility in earnings could unfavorably influence investor interest in our common stock, thereby depressing the market value of our stock and the market capitalization of our company.

The performance of equity securities and corporate bonds in the investment portfolio could be adversely impacted by the soundness and fluctuations in the market values of other financial institutions.

Our investment securities portfolio contains certain equity securities and corporate bonds of other financial institutions. As a result, a portion of our investment securities portfolio is subject to fluctuation due to changes in the financial stability and market value of other financial institutions, as well as interest rate sensitivity to economic and market conditions. Such fluctuations could have an adverse effect on our results of operations. We have seen volatile earnings impacts related to the fair value of equity securities throughout 2020.

Failure to effectively manage our interest rate risk could adversely affect us.

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

As interest rates rise, our interest expense will increase and our net interest margins may decrease, negatively impacting our performance and, potentially, our financial condition. To the extent banks and other financial services providers compete for interest-bearing deposit accounts through higher interest rates, our deposit base could be reduced if we are unwilling to pay those higher rates. If we decide to compete with those higher interest rates, our cost of funds could increase and our net interest margins could be reduced. Additionally, higher interest rates will impact our ability to originate new loans. Increases in interest rates could adversely affect the ability of our borrowers to meet higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and net charge-offs, which could adversely affect our business and financial condition.

Although we maintain an interest rate risk monitoring system, the forecasts of future net interest income are estimates and may be inaccurate. Actual interest rate movements may differ from our forecasts, and unexpected actions by the FOMC may have a direct impact on market interest rates.

We may be adversely impacted by the transition from LIBOR as a reference rate

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). Subsequent announcements have delayed the potential date for certain LIBOR tenors until June 30, 2023. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, there is still uncertainty around how quickly different alternative rates will develop sufficient liquidity and industry-wide usage, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We have loans, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create additional costs and risks. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, systems, contracts, valuation tools, and product design. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation and potentially introduce additional legal risks. Although our current LIBOR exposure on loans is limited to less than $5 billion, and we are currently taking steps to transition to alternative reference rates, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

The value of our goodwill may decline in the future.

At December 31, 2020, we had $350.3 million of goodwill recorded as an asset on our balance sheet. We test goodwill for impairment at least annually, comparing the estimated fair value of a reporting unit with its net book value. We also test goodwill for impairment when certain events occur, such as 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. These tests may result in a write-off of goodwill deemed to be impaired, which could have a significant impact on our financial results; however, any such write-off would not impact our regulatory capital ratios, given that regulatory capital ratios are calculated using tangible capital amounts.

The market price of our stock may be volatile.

Although publicly traded, our common stock, particularly our Class B common stock, has less liquidity and public float than many other large, publicly traded financial services companies. Lower liquidity increases the price volatility of our stock and could make it difficult for our shareholders to sell or buy our common stock at specific prices.

Excluding the impact of liquidity, the market price of our common stock can fluctuate widely in response to other factors, including expectations of financial and 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. For example, the closing price per share of our Class A Common stock on the Nasdaq Global Select Market ranged from a low of $282.90 to a high of $613.22 during the year ended December 31, 2020.

Liquidity Risks

If our current level of balance sheet liquidity were to experience pressure, it could affect our ability to pay deposits and fund our operations.

Our deposit base represents our primary source of core funding and balance sheet liquidity. We normally have the ability to stimulate core deposit growth through reasonable and effective pricing strategies. However, in circumstances where our ability to generate needed liquidity is impaired, we need access to non-core funding such as borrowings from the Federal Home Loan Bank ("FHLB") and the Federal Reserve, Federal Funds purchased lines and brokered deposits. While we maintain access to these non-core funding sources, some sources are dependent on the availability of collateral as well as the counterparty's willingness and ability to lend.

Capital Adequacy Risks

Our ability to grow is contingent upon access to capital.

Our primary capital sources have been retained earnings and debt issued through both private and public markets. Rating agencies regularly evaluate our creditworthiness and assign credit ratings to BancShares and FCB. The ratings of the agencies are based on a number of factors, some of which are outside 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. 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.

Based on existing capital levels, BancShares and FCB are well-capitalized under current leverage and risk-based capital standards. Our ability to grow is contingent on our ability to generate sufficient capital to remain well-capitalized under current and future capital adequacy guidelines.

We are subject to capital adequacy and liquidity guidelines and, if we fail to meet these guidelines, our financial condition would be adversely affected.

Under regulatory capital adequacy guidelines and other regulatory requirements, BancShares, together with FCB, must meet certain capital and liquidity guidelines, subject to qualitative judgments by regulators about components, risk weightings and other factors.

We are subject to capital rules issued by the Federal Reserve including required minimum capital and leverage ratios. These requirements could adversely affect our ability to pay dividends, restrict certain business activities or compel us to raise capital, each of which may adversely affect our results of operations or financial condition. See Item 1. Business of this Annual Report on Form 10-K for additional information regarding the capital requirements under the Dodd-Frank Act and Basel III.

Compliance Risks

We operate in a highly regulated industry; the laws and regulations that govern our operations, taxes, corporate governance, executive compensation and financial accounting and reporting, including changes in them or our failure to comply with them, may adversely affect us.

We are subject to extensive regulation and supervision that govern almost all aspects of our operations. In addition to a multitude of regulations designed to protect customers, depositors and consumers, we must comply with other regulations that protect the deposit insurance fund and the stability of the U.S. financial system, including laws and regulations that, among other matters, prescribe minimum capital requirements; impose limitations on our business activities and investments; limit the dividends or distributions that we can pay; restrict the ability of our bank subsidiaries to guarantee our debt; and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP. Compliance with laws and regulations can be difficult and costly, and changes in laws and regulations often impose additional compliance costs.

The Sarbanes-Oxley Act of 2002 and the related rules and regulations issued by the SEC and The Nasdaq Stock Market LLC ("Nasdaq"), as well as numerous other recently enacted statutes and regulations, including the Dodd-Frank Act, EGRRCPA, and regulations promulgated thereunder, have increased the scope, complexity and cost of corporate governance and reporting and disclosure practices, including the costs of completing our external audit and maintaining our internal controls. Such additional regulation and supervision may limit our ability to pursue business opportunities.

The failure to comply with these various rules and regulations could subject us to restrictions on our business activities, including mergers and acquisitions, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our common stock.

We may be adversely affected by changes in U.S. tax laws and other laws and regulations.

Corporate tax rates affect our profitability and capital levels. The U.S. corporate tax code may be further reformed by the U.S. Congress and additional guidance may be issued by the U.S. Department of the Treasury. Changes in tax laws and regulations, and income tax rates in particular, could have an adverse impact on our financial condition and results of operations.

Financial Reporting Risks

Accounting standards may change and increase our operating costs and/or otherwise adversely affect our results.

FASB and the SEC periodically modify the standards governing 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 new or revised standards retroactively, resulting in changes to previously reported financial results or a cumulative adjustment to retained earnings. Implementation of new accounting rules or standards could additionally require us to implement technology changes which could impact ongoing earnings.

Our accounting policies and processes are critical to the reporting of financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to how BancShares records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with GAAP. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in BancShares reporting materially different results than would have been reported under a different alternative.

Management has identified certain accounting policies as being critical because they require management to make difficult, subjective or complex conclusions about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. BancShares has established policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding management's judgments and the estimates pertaining to these matters, BancShares cannot guarantee that it will not be required to adjust accounting policies or restate prior period financial statements. See "Critical Accounting Policies" included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our business is highly quantitative and requires widespread use of financial models for day-to-day operations; these models may produce inaccurate predictions that significantly vary from actual results.

We rely on quantitative models to measure risks and to estimate certain financial values. Such models may be used in many processes including, but not limited to, the pricing of various products and services, classifications of loans, setting interest rates on loans and deposits, quantifying interest rate and other market risks, forecasting losses, measuring capital adequacy and calculating economic and regulatory capital levels. Models may also be used to estimate the value of financial instruments and balance sheet items. Inaccurate or erroneous models present the risk that business decisions relying on the models will prove inefficient or ineffective. Additionally, information we provide to our investors and regulators may be negatively impacted by inaccurately designed or implemented models. For further information on models, see the "Risk Management" section included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

Failure to maintain an effective system of internal control over financial reporting could have a material adverse effect on our results of operations and financial condition and disclosures.

We must have effective internal controls over financial reporting in order to provide reliable financial reports, to effectively prevent fraud and to operate successfully as a public company. If we were unable to provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of our internal controls over financial reporting, we may discover material weaknesses or significant deficiencies requiring remediation. A “material weakness” is a deficiency, or a combination of deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

We continually work to improve our internal controls; however, we cannot be certain that these measures will ensure appropriate and adequate controls over our future financial processes and reporting. Any failure to maintain effective controls or to implement any necessary improvement of our internal controls in a timely manner could, among other things, result in losses from fraud or error, harm our reputation or cause investors to lose confidence in our reported financial information, each of which could have a material adverse effect on our results of operations and financial condition and the market value of our common stock.

Item 2. Properties

BancShares’ and FCB’s headquarters facility, a nine-story building with approximately 163,000 square feet, is located in Raleigh, North Carolina. In addition, FCB occupies two separate facilities in Raleigh as well as a facility in Columbia, South Carolina, which serve as data and operations centers. As of December 31, 2020, FCB operated 542 branch offices throughout the Southeast, Mid-Atlantic, Midwest and Western United States. FCB owns many of the buildings and leases other facilities from third parties.

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

Item 3. Legal Proceedings

BancShares and various subsidiaries are 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 those matters cannot be determined, in the opinion of management, no legal actions exist that would be material to BancShares’ consolidated financial statements. Additional information related to legal proceedings is set forth in Note T, Commitments and Contingencies, of BancShares’ Notes to Consolidated Financial Statements.

Part II

Item 5. 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 on the over-the-counter market and quoted on the OTC Pink Market under the symbol FCNCB. As of February 22, 2021, there were aggregates of 1,127 and 175 holders of record and individual participants in securities position listings with respect to the Class A common stock and Class B common stock, respectively. The market volume 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 volume. Over-the-counter market quotations for BancShares Class B common stock represent inter-dealer prices without retail markup, markdown or commissions, and may not represent actual transaction prices.

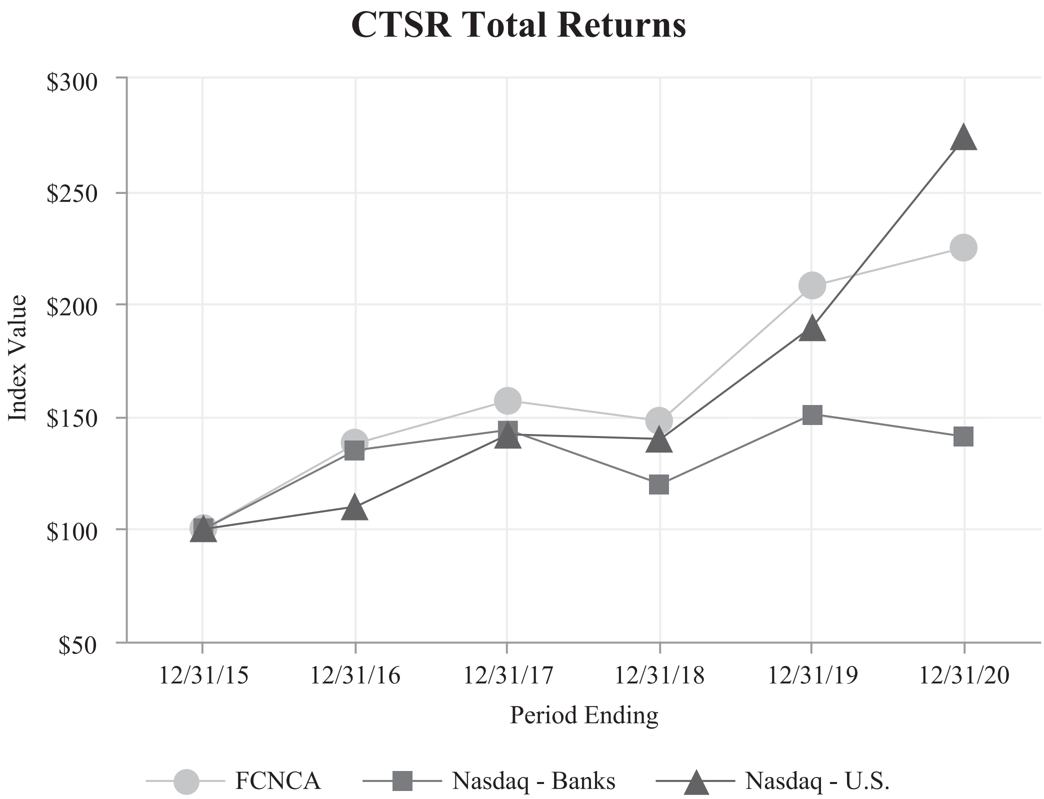
The average monthly trading volume for the Class A common stock was 1,444,327 shares for the fourth quarter of December 31, 2020 and 1,089,723 shares for the year ended December 31, 2020. The Class B common stock monthly trading volume averaged 2,786 shares in the quarter ended December 31, 2020 and 5,268 shares for the year ended December 31, 2020.

During 2020, the Board approved a series of authorizations of share repurchases of BancShares' Class A common stock. The shares could be repurchased from time to time at management's discretion during the authorized periods. The authorizations did not obligate BancShares to repurchase any particular amount of shares, and repurchases were able to be suspended or discontinued at any time. Following the expiration of our latest share repurchase authorization on July 31, 2020, share repurchase activity was suspended, and there were no share repurchases during the fourth quarter of 2020. A summary of share repurchases during 2020 is disclosed below.

Shares of Class A common stock repurchased by BancShares during the year ended December 31, 2020.

Class A common stock	Total Number of Class A Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Repurchased Under the Plans or Programs
Total repurchases in the first quarter of 2020	349,390	$ 457.10	243,000	243,200
Total repurchases in the second quarter of 2020	346,000	367.03	346,000	265,700
Total repurchases in the third quarter of 2020	117,700	399.83	117,700	—
Total repurchases in the fourth quarter of 2020	—	—	—	—
Total repurchases in 2020	813,090	$ 410.48	706,700	—

The following graph and table compare 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 $100 was invested on December 31, 2015, and dividends were reinvested for additional shares. The performance graph represents past performance and should not be considered to be an indication of future performance.



	2015	2016	2017	2018	2019	2020
FCNCA	$ 100	$ 138	$ 157	$ 148	$ 208	**$ 225**
Nasdaq - Banks	100	135	144	120	151	**141**
Nasdaq - U.S.	100	110	142	140	190	**274**

Item 6. Selected Financial Data

Table 1
FINANCIAL SUMMARY AND SELECTED AVERAGE BALANCES AND RATIOS

(Dollars in thousands, except share data)	2020	2019	2018	2017	2016
SUMMARY OF OPERATIONS					
Interest income	$ 1,484,026	$ 1,404,011	$ 1,245,757	$ 1,103,690	$ 987,757
Interest expense	95,857	92,642	36,857	43,794	43,082
Net interest income	1,388,169	1,311,369	1,208,900	1,059,896	944,675
Provision for credit losses	58,352	31,441	28,468	25,692	32,941
Net interest income after provision for credit losses	1,329,817	1,279,928	1,180,432	1,034,204	911,734
Gain on acquisitions	—	—	—	134,745	5,831
Noninterest income excluding gain on acquisitions	476,750	415,861	400,149	387,218	371,268
Noninterest expense	1,188,685	1,103,741	1,076,971	1,012,469	937,766
Income before income taxes	617,882	592,048	503,610	543,698	351,067
Income taxes	126,159	134,677	103,297	219,946	125,585
Net income	491,723	457,371	400,313	323,752	225,482
Net income available to common shareholders	$ 477,661	$ 457,371	$ 400,313	$ 323,752	$ 225,482
Net interest income, taxable equivalent [(1)]	$ 1,390,765	$ 1,314,940	$ 1,212,280	$ 1,064,415	$ 949,768
PER SHARE DATA					
Net income	$ 47.50	$ 41.05	$ 33.53	$ 26.96	$ 18.77
Cash dividends	1.67	1.60	1.45	1.25	1.20
Market price at period end (Class A)	574.27	532.21	377.05	403.00	355.00
Book value at period end	396.21	337.38	300.04	277.60	250.82
SELECTED PERIOD AVERAGE BALANCES					
Total assets	$ 46,021,438	$ 37,161,719	$ 34,879,912	$ 34,302,867	$ 32,439,492
Investment securities	9,054,933	6,919,069	7,074,929	7,036,564	6,616,355
Loans and leases [(2)]	31,605,090	26,656,048	24,483,719	22,725,665	20,897,395
Interest-earning assets	43,351,119	34,866,734	32,847,661	32,213,646	30,267,788
Deposits	39,746,616	32,218,536	30,165,249	29,119,344	27,515,161
Interest-bearing liabilities	24,894,309	20,394,815	18,995,727	19,576,353	19,158,317
Securities sold under customer repurchase agreements	632,362	530,818	555,555	649,252	721,933
Other short-term borrowings	50,549	23,087	58,686	77,680	7,536
Long-term borrowings	1,186,145	392,150	304,318	842,863	811,755
Common shareholders' equity	3,684,889	3,551,781	3,422,941	3,206,250	3,001,269
Shareholders' equity	$ 3,954,007	$ 3,551,781	$ 3,422,941	$ 3,206,250	$ 3,001,269
Shares outstanding	10,056,654	11,141,069	11,938,439	12,010,405	12,010,405
SELECTED PERIOD-END BALANCES					
Total assets	$ 49,957,680	$ 39,824,496	$ 35,408,629	$ 34,527,512	$ 32,990,836
Investment securities	9,922,905	7,173,003	6,834,362	7,180,256	7,006,678
Loans and leases	32,791,975	28,881,496	25,523,276	23,596,825	21,737,878
Deposits	43,431,609	34,431,236	30,672,460	29,266,275	28,161,343
Securities sold under customer repurchase agreements	641,487	442,956	543,936	586,256	590,936
Other short-term borrowings	—	295,277	28,351	107,551	12,551
Long-term borrowings	1,248,163	588,638	319,867	870,240	832,942
Shareholders' equity	$ 4,229,268	$ 3,586,184	$ 3,488,954	$ 3,334,064	$ 3,012,427
Shares outstanding	9,816,405	10,629,495	11,628,405	12,010,405	12,010,405
SELECTED RATIOS AND OTHER DATA					
Rate of return on average assets	1.07 %	1.23 %	1.15 %	0.94 %	0.70 %
Rate of return on average common shareholders' equity	12.96	12.88	11.69	10.10	7.51
Average equity to average assets ratio	8.59	9.56	9.81	9.35	9.25
Net yield on interest-earning assets (taxable equivalent)	3.17	3.74	3.66	3.28	3.11
Allowance for credit losses to total loans and leases:					
PCD	5.18	1.35	1.51	1.31	1.70
Non-PCD	0.62	0.77	0.86	0.93	0.98
Total	0.68	0.78	0.88	0.94	1.01
Ratio of total nonperforming assets to total loans, leases and other real estate owned	0.74	0.58	0.52	0.61	0.67
Total risk-based capital ratio	13.81	12.12	13.99	14.21	13.85
Tier 1 risk-based capital ratio	11.63	10.86	12.67	12.88	12.42
Common equity Tier 1 ratio	10.61	10.86	12.67	12.88	12.42
Leverage capital ratio	7.86	8.81	9.77	9.47	9.05
Dividend payout ratio	3.52	3.90	4.32	4.64	6.39
Average loans and leases to average deposits	79.52	82.74	81.17	78.04	75.95

[(1)] The taxable-equivalent adjustment was $2.6 million, $3.6 million, $3.4 million, $4.5 million and $5.1 million for the years 2020, 2019, 2018, 2017, and 2016, respectively.
[(2)] Average loan and lease balances include PCD loans, non-PCD loans and leases, loans held for sale and nonaccrual loans and leases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis ("MD&A") of earnings and related financial data are presented to assist in understanding the financial condition and results of operations of First Citizens BancShares, Inc. ("BancShares") and its banking subsidiary, First-Citizens Bank & Trust Company ("FCB"). This discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes presented within this Annual Report on Form 10-K. Intercompany accounts and transactions have been eliminated. See Note A, Accounting Policies and Basis of Presentation, in the Notes to the Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for more detail. Although certain amounts for prior years have been reclassified to conform to statement presentations for 2020, the reclassifications had no effect on shareholders' equity or net income as previously reported. Unless otherwise noted, the terms "we," "us," "our," and "BancShares" in this section refer to the consolidated financial position and consolidated results of operations for BancShares.

Year-over-year comparisons of the financial results for 2019 and 2018 are contained in Item 7 of BancShares' Annual Report on Form 10-K for 2019 filed with the Securities and Exchange Commission ("SEC") on February 26, 2020 and available through FCB's website www.firstcitizens.com or the SEC's EDGAR database.

FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K includes statements and exhibits relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments, expectations or beliefs about future events or results and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "forecasts," "projects," "potential" or "continue," or similar terms or the negative of these terms, or other statements concerning opinions or judgments of BancShares' management about future events.

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors which include, but are not limited to, risks, uncertainties and other factors relating to our proposed merger with CIT Group Inc. ("CIT"), including the ability to obtain regulatory approvals and satisfy other conditions to the proposed transaction, and delay in closing the proposed transaction, as well as risks, uncertainties and other factors relating to the impact of COVID-19 on our business and the economy, the financial success or changing strategies of our customers, customer acceptance of our services, products and fee structure, the competitive nature of the financial services industry, our ability to compete effectively against other financial institutions in our banking markets, actions of government regulators, the level of market interest rates and our ability to manage our interest rate risk, changes in general economic conditions affecting our loan and lease portfolio, the abilities of our borrowers to repay their loans and leases, the values of real estate and other collateral, the impact of our prior acquisitions, the risks discussed in Item 1A. Risk Factors above and other developments or changes in our business that we do not expect.

Actual results may differ materially from those expressed in or implied by any forward-looking statements. Except to the extent required by applicable law or regulation, BancShares undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

CRITICAL ACCOUNTING ESTIMATES

The accounting and reporting policies of BancShares are in accordance with accounting principles generally accepted in the United States of America ("GAAP") and are described in Note A, Accounting Policies and Basis of Presentation, of the Notes to the Consolidated Financial Statements. The preparation of financial statements in conformity with GAAP requires us to exercise judgment in determining many of the estimates and assumptions utilized to arrive at the carrying value of assets and liabilities and amounts reported for revenues and expenses. Our financial position and results of operations could be materially affected by changes to these estimates and assumptions.

The following is a summary of the more critical areas where these critical assumptions and estimates could impact the financial condition, results of operations and cash flows of BancShares:

Allowance for credit losses. As of January 1, 2020, BancShares adopted Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2016-13 Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), which changed the methodology, accounting policies and inputs used in determining the allowance for credit losses ("ACL"). See Note A, Accounting Policies and Basis of Presentation, in the Notes to Consolidated Financial Statements for discussion of our accounting policies for the ACL and the implementation impact of

ASC 326. See Note E, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements for additional disclosures.

The ACL represents the best estimate of expected credit losses on loans and leases as of the balance sheet date. The ACL is assessed at each balance sheet date and adjustments are recorded in provision for credit losses. Losses are estimated using historical loss rates and a projection of a reasonable and supportable macroeconomic forecast period which reverts to historical assumptions. This estimation process requires judgment in determining the amount and timing of charge-offs, economic forecast assumptions and loan specific attributes impacting the borrower's ability to repay contractual obligations. Other factors such as the composition of and risks within the loan portfolio, collateral values and prepayments are also considered. Loan balances considered uncollectible are charged off against the ACL. If it is probable a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement and a loss is probable, a specific valuation allowance is determined. Recoveries of amounts previously charged-off are generally credited to the ACL.

Financial Measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Certain assets and liabilities are measured at fair value on a recurring basis. Examples of recurring uses of fair value include marketable equity securities, investment securities available for sale and loans held for sale. There were no liabilities measured at fair value on a recurring basis at December 31, 2020. We also measure certain assets at fair value on a non-recurring basis. Examples include collateral-dependent loans, other real estate owned ("OREO"), goodwill and intangible assets. Assets acquired and liabilities assumed in a business combination are recognized at fair value as of the acquisition date.

Fair value is determined using different inputs and assumptions based upon the instrument being valued. Where observable market prices from transactions for identical assets or liabilities are not available, we identify market prices for similar assets or liabilities. If observable market prices are unavailable or impracticable to obtain for any such similar assets or liabilities, we look to other modeling techniques, which often incorporate unobservable inputs which are inherently subjective and require significant judgment. Fair value estimates requiring significant judgments are determined using various inputs developed by management with the appropriate skills, understanding and knowledge of the underlying asset or liability to ensure the development of fair value estimates is reasonable. Typical pricing sources used in estimating fair values include, but are not limited to, active markets with high trading volume, third-party pricing services, external appraisals, valuation models and commercial and residential evaluation reports. In certain cases, our assessments, with respect to assumptions market participants would make, may be inherently difficult to determine, and the use of different assumptions could result in material changes to these fair value measurements. See Note P, Estimated Fair Values, and Note B, Business Combinations, in the Notes to Consolidated Financial Statements for additional disclosures regarding fair value.

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

We evaluate our effective tax rate on a quarterly basis based upon the current estimate of net income, the favorable impact of various credits, statutory tax rates expected for the year and the amount of tax liability. We file tax returns in relevant jurisdictions and settle our return liabilities.

Changes in estimated 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 conducted by various taxing authorities and the impact of newly enacted legislation or guidance as well as income tax accounting pronouncements. See Note O, Income Taxes, in the Notes to Consolidated Financial Statements for additional disclosures.

CURRENT ACCOUNTING PRONOUNCEMENTS

Table 2 details ASUs issued by the FASB adopted in 2020. See Note A, Accounting Policies and Basis of Presentation, in the Notes to the Consolidated Financial Statements for more detail on the impact on the consolidated financial statements.

Table 2
RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Standard	Date of Adoption
ASU 2016-13 - *Financial Instruments-Credit Losses (Topic 326): Measure of Credit Losses on Financial Instruments* (including all subsequent ASUs on this topic)	January 1, 2020
ASU 2017-04 - *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*	January 1, 2020
ASU 2018-13 - *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*	January 1, 2020
ASU 2018-14 - *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*	December 31, 2020

EXECUTIVE OVERVIEW

BancShares conducts its banking operations through its wholly owned subsidiary FCB, a state-chartered bank organized under the laws of the state of North Carolina.

BancShares’ earnings and cash flows are primarily derived from our commercial and retail banking activities. We gather deposits from retail and commercial customers and we secure funding through various non-deposit sources. We invest the liquidity generated from these funding sources in interest-earning assets, including loans, investment securities and overnight investments. We also invest in bank premises, computer hardware and software and furniture and equipment used to conduct our commercial and retail banking business. We provide treasury management services, cardholder and merchant services, wealth management services and other products and services typically offered by commercial banks. The fees generated from these products and services are a primary source of noninterest income and an essential component of our total revenue.

Our strong financial position enables us to pursue growth through strategic acquisitions to enhance organizational value by providing opportunities to grow capital and increase earnings. These transactions allow us to strengthen our presence in existing markets as well as expand our footprint into new markets.

With interest rates at historical lows, our ability to generate earnings and shareholder value has been challenging. While our balance sheet is asset sensitive overall, we seek to reduce volatility and minimize the risk to earnings from interest rate movements in either direction. Additionally, our initiatives focus on growth of noninterest income sources, management of noninterest expenses, optimization of our branch network and further enhancements to our technology and delivery channels.

In lending, we continue to focus our activities within our core competencies of retail, small business, medical, commercial and commercial real estate lending to build a diversified portfolio. Our low to moderate risk appetite continues to govern all lending activities.

We also pursue noninterest income through enhanced credit card offerings and wealth management and merchant services. We have recently redesigned our credit card programs to offer more competitive products, intended to both increase the number of accounts and frequency of card usage. Enhancements include more comprehensive reward programs and improved card benefits. In wealth management, we have broadened our products and services to better align with the specialized needs and desires of those customers. Services include holistic financial planning, business owner advisory services and enhanced private banking offerings.

Our goals are to increase efficiencies and control costs while effectively executing an operating model that best serves our customers’ needs. We seek the appropriate footprint and staffing levels to take advantage of the revenue opportunities in each of our markets. Management is pursuing opportunities to improve operational efficiency and increase profitability through expense control, while continuing enterprise sustainability projects to improve the operating environment. Such initiatives include the automation of certain manual processes, elimination of duplicated and outdated systems, enhancements to existing technology, implementation of new digital technologies, outsourcing to third party service providers and actively managing personnel expenses and discretionary spending. We routinely review vendor agreements and third party contracts for cost savings.

Recent Economic and Industry Developments

During the first quarter of 2020, a novel strain of coronavirus ("COVID-19") spread throughout the world, causing significant disruptions to the domestic and global economies which continue to date. In response to the outbreak, governments have imposed restrictions resulting in business shutdowns, regional quarantines, disruptions of supply chains, changes in consumer behavior and overall economic instability. This uncertainty has led to volatility in the financial markets. This impact was coupled with spikes in unemployment as a result of business shutdowns that continue to impact financial institutions operationally and financially. For a discussion of the risks we face with respect to the COVID-19 pandemic, the associated economic uncertainty, the steps taken to mitigate the pandemic and the resulting economic contraction, see Item 1A. Risk Factors in Part I of this Annual Report on Form 10-K. Various external factors influence the focus of our business efforts and the results of our operations can change significantly based on those external factors. Based on the latest real gross domestic product ("GDP") information available, the Bureau of Economic Analysis' revised estimate of fourth quarter 2020 GDP growth was 4.0%, up from 2.1% GDP growth in the fourth quarter 2020. The acceleration in real GDP in the fourth quarter reflected increases in exports, nonresidential fixed investment, personal consumption expenditures, residential fixed investment, and private inventory investment that were partly offset by decreases in state and local government spending and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased. The increase in fourth quarter GDP reflected both the continued economic recovery from the sharp declines earlier in the year and the ongoing impact of the COVID-19 pandemic, including new restrictions and closures that took effect in some areas of the United States. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the fourth quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified.

On March 27, 2020, the Coronavirus Aid Relief and Economic Security Act (the "CARES Act") was passed. The bill was designed to provide short-term economic relief to individuals and businesses most impacted by the fallout of the pandemic. Key provisions include: for individuals, economic impact payments and enhanced unemployment benefits; for small businesses, access to loans and support through the Small Business Administration Paycheck Protection Program ("SBA-PPP"), direct aid and loans to the medical industry and other affected sectors, and certain tax benefits that can be used in conjunction with the other aid mentioned. While direct aid to financial services entities is not a primary goal of the provisions, financial institutions will function to transmit funds from the Federal Reserve, SBA and United States (the "U.S.") Treasury to the public. This was supplemented by the Paycheck Protection Program Flexibility Act, which was signed into law on June 5, 2020 and amended provisions of the SBA-PPP including timing of the program and changes to forgiveness criteria. Additionally, the Consolidated Appropriations Act 2021 was signed into law on December 27, 2020, and contained provisions for new funding of SBA-PPP loans. We began accepting applications for this round of funding in the first quarter of 2021.

There were other regulatory actions taken that may impact our business including changes in credit reporting on customer forbearance, federally backed mortgage forbearance, potential legal lending limit relaxation and other economic stabilization efforts. Further legislation is expected as the government continues to mitigate the economic impact on the crisis.

The U.S. unemployment rate increased from 3.5% in December 2019 to 6.7% in December 2020. According to the U.S. Department of Labor, nonfarm payroll employment declined 9.2 million in 2020, compared to growth of 2.1 million in 2019.

During the first quarter of 2020, the FOMC lowered the federal funds rate to a target range of 0.00% to 0.25%. The FOMC cited the effects of COVID-19 on economic activity and the risks posed to the economic outlook. The FOMC expects to maintain this target range until labor market conditions have reached levels consistent with the FOMC's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.

The U.S. Census Bureau and the Department of Housing and Urban Development's latest estimate for sales of new single-family homes in December 2020 was at a seasonally adjusted annual rate of 842,000, up 15.2% from the December 2019 estimate of 731,000. Purchases of existing homes in 2020 are also up 5.6% from a year ago.

Similar to the economic environment, the performance trends in the banking industry are mixed, as shown in the latest national banking results from the third quarter of 2020. FDIC-insured institutions reported a 10.7% decrease in net income compared to the third quarter of 2019 primarily a result of lower interest rates. Loan-loss provisions increased by 3.5% while noninterest expense rose by 3.0% from a year earlier. Banking industry average net interest margin ("NIM") was 2.68% in the third quarter of 2020, down from 3.35% in the same quarter a year ago primarily due to a decline in interest-earning asset yields. Total loans increased by 4.9% over the past twelve months primarily due to growth in commercial and industrial loans. Total deposits increased 19.9%, largely driven by government stimulus.

BANCSHARES' COVID-19 CONTINUED MONITORING AND RESPONSE

We remain in a strong capital and liquidity position providing stability in navigating the COVID-19 crisis. Our leadership team continues to work to identify and enact appropriate measures in an effort to protect the welfare of our employees and soundness of the organization, while continuing to support our customers. A significant majority of our branches have re-opened with enhanced safety protocols and our corporate locations remain at limited occupancy due to current virus trends.

Through December 31, 2020, we granted over 22,000 COVID-19 related loan extensions, representing loan balances of approximately $6.31 billion. Of these extensions, over 97% of have begun repayment. Delinquency trends among loans entering repayment are in line with the remainder of the portfolio. We have not seen significant declines in overall credit quality, though the impacts of the SBA-PPP and payment extensions could be delaying signs of credit deterioration.

During 2020, we originated over 23,000 SBA-PPP loans with an original balance of over $3.2 billion and an outstanding balance of $2.4 billion at December 31, 2020. We have collected all $117.2 million in SBA-PPP related loan fees per the program terms. These fees were deferred and are being recognized in interest income over the life of the respective loans. SBA-PPP loans have a stated rate of 1.00%, but with the accretion of these fees, the average yield on the portfolio was 4.33% for 2020. As of December 31, 2020, remaining net deferred fees were $41.1 million.

Table 3
SBA-PPP LOANS BY LOAN SIZE

(Dollars in thousands)

Loan Size		$ of Loans	% of Loans $
Less than $150,000	$	688,354	28.6 %
$150,000 to $2,000,000		1,236,448	51.4
Greater than $2,000,000		481,489	20.0
Total	$	2,406,291	100.0 %

We began accepting and processing applications for forgiveness during the third quarter of 2020. Table 4 represents the forgiveness status of SBA-PPP loans as of December 31, 2020.

Table 4

SBA-PPP LOAN FORGIVENESS STATUS

(Dollars in thousands)

Forgiveness Status		$ of Loans	% of Total
Received by FCB	$	1,384,859	43.1 %
Submitted to SBA		1,190,171	37.1
Approved by SBA		746,643	23.3
Funds Received		746,442	23.2

To date, we have received over 7,200 forgiveness decisions from the SBA, representing approximately $1.0 billion in forgiveness payments. The *Consolidated Appropriations Act 2021* was signed into law during the fourth quarter of 2020 and contained provisions for new funding of SBA-PPP loans. We began accepting applications for this round of funding in January 2021 and have funded over $670 million of loans to date.

Strong Liquidity and Capital Position

We maintain a strong level of liquidity. As of December 31, 2020, liquid assets (available cash and unencumbered high quality liquid assets at market value) totaled approximately $9.63 billion representing 19.8% of consolidated assets as of December 31, 2020.

In addition to liquid assets, we had contingent sources of liquidity totaling approximately $11.90 billion in the form of Federal Home Loan Bank ("FHLB") borrowing capacity, Federal Reserve Discount Window availability, federal funds lines and a committed line of credit.

At December 31, 2020, our regulatory capital ratios were well in excess of Basel III capital requirements.

FINANCIAL PERFORMANCE SUMMARY

Income Statement Highlights

For the year ended December 31, 2020, net income was $491.7 million, or $47.50 per share, compared to $457.4 million, or $41.05 per share, during 2019. The return on average assets was 1.07% during 2020, compared to 1.23% during 2019. The return on average shareholders' equity was 12.96% and 12.88% for the respective periods. The $34.3 million, or 7.5% increase in net income was primarily the result of the net effect of the following:

- Net interest income for the year ended 2020 increased $76.8 million, or by 5.9%, compared to the year ended 2019. The increase was due to loan growth driven largely by SBA-PPP balances, partially offset by a decrease in interest-earning asset yields.
- The taxable-equivalent net interest margin was 3.17% for the year ended 2020, a decrease of 57 basis points from the year ended 2019. The decrease was primarily due to a decline in yield on interest-earning assets coupled with an increase in total borrowings, partially offset by a decline in the rate paid on interest-bearing deposits.
- We recorded provision for credit losses of $58.4 million in 2020, compared to $31.4 million in 2019. Provision expense includes $36.1 million of reserve build for credit losses specifically related to the uncertainty surrounding COVID-19 and considers the potential impact of slower economic activity and elevated unemployment, as well as potential mitigants due to government stimulus and loan accommodations. The net charge-off to loans ratio was 0.07% for the year, down 4 basis points from 2019.
- Noninterest income for the year ended 2020 was $476.8 million, an increase of $60.9 million, or 14.6%, from the prior year. Fair value adjustments on marketable equity securities and realized gains on available for sale securities increased by a combined $61.9 million. Mortgage income increased by $18.5 million due to increased production and sales resulting from lower mortgage interest rates. These positive impacts were partially offset by a decline in service charges on deposits of $17.5 million due to lower volume with increased deposit balances and an increase in waived fees to aid our customers during the COVID-19 pandemic.
- Noninterest expense was $1.19 billion for the year ended December 31, 2020, compared to $1.10 billion for the same period in 2019. This 7.7% increase was primarily attributable to higher personnel expenses and processing fees paid to third parties reflecting continued investment in digital and technological capabilities.
- Income tax expense was $126.2 million and $134.7 million for the years ended 2020 and 2019, respectively, representing effective tax rates of 20.4% and 22.7%. The decline in the effective tax rate related primarily to the decision to utilize an allowable alternative for computing our 2020 federal income tax liability. The allowable alternative provided us the ability to use the federal income tax rate for certain current year deductible amounts related to prior year FDIC-assisted acquisitions that was applicable when these amounts were originally subjected to tax.

Balance Sheet Highlights

- During 2020, loans increased by $3.91 billion, or by 13.5% to $32.79 billion. Of this growth, $2.41 billion was related to SBA-PPP loans. Excluding SBA-PPP loans and loans from acquisitions, total loans increased $1.40 billion since December 31, 2019, or by 4.9%.
- The allowance for credit losses as a percentage of total loans was 0.68% at December 31, 2020, compared to 0.78% at December 31, 2019. At December 31, 2020, BancShares' nonperforming assets, including nonaccrual loans and OREO, increased $74.1 million to $242.4 million or 0.74% of total loans from $168.3 million or 0.58% of total loans at December 31, 2019. Of the increase in nonperforming assets, $24.9 million related to the transfer of loans in performing PCI pools to nonaccrual status under the adoption of ASC 326. A majority of the remainder of the increase related to increases within our acquired residential real estate loan portfolio.
- Deposit growth continued in 2020, up $9.00 billion, or by 26.1% to $43.43 billion. This growth includes estimated deposits of $0.93 billion related to the SBA-PPP and deposits from acquisitions of $203.2 million. Excluding the impact of these deposits, total deposits increased $7.87 billion since December 31, 2019, or by 22.9%.
- During the first quarter of 2020, BancShares successfully completed a $695 million capital raise which consisted of $350 million of subordinated notes and $345 million of depositary shares (the "Depositary Shares") each representing a 1/40th interest in a share of our 5.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share.

Capital Highlights

- In 2020, we returned $364.5 million of capital to shareholders through the repurchase of 813,090 shares of Class A common stock and cash dividends to common and preferred shareholders.

- Total shareholders' equity increased from $3.59 billion on December 31, 2019 to $4.23 billion on December 31, 2020. The increase was primarily due to earnings and the net proceeds of the issuance of the Depositary Shares, partially offset by share repurchases and dividends during the year.

- Under Basel III capital requirements, BancShares remained well-capitalized at December 31, 2020, with a total risk-based capital ratio of 10.61%, Tier 1 risk based capital ratio of 13.81%, common Tier 1 ratio of 11.63%, Tier 1 leverage capital ratio of 7.86% and a capital conservation buffer of 5.6%.

BUSINESS COMBINATIONS

Recently Announced Business Combinations

CIT Group Inc.

On October 15, 2020, BancShares and CIT entered into the Merger Agreement by and among BancShares, FCB, the Merger Sub, and CIT, the parent company of CIT Bank. Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub and CIT will ultimately merge with and into FCB, with FCB as the surviving entity. The Merger Agreement further provides that immediately following the consummation of the Mergers, CIT Bank will merge with and into FCB, with FCB as the surviving bank. Subject to the fulfillment of customary closing conditions, the parties anticipate that the Transaction will close in the first half of 2021.

Completed Business Combinations

We evaluated the financial statement significance for all business combinations completed during 2020 and 2019 and concluded the completed business combinations noted below are not material to BancShares' financial statements, individually or in aggregate, and therefore, pro forma financial data is not included.

Community Financial Holding Co. Inc.

On February 1, 2020, we completed the merger of Duluth, Georgia-based Community Financial Holding Company, Inc. ("Community Financial") and its bank subsidiary, Gwinnett Community Bank, into FCB. Under the terms of the agreement, total cash consideration of $2.3 million was paid to the shareholders of Community Financial. The merger allowed us to expand our presence and enhance banking efforts in Georgia. The merger contributed $222.1 million in consolidated assets, which included $686 thousand of goodwill, $134.0 million in loans, and $209.3 million in deposits.

Entegra Financial Corp.

On December 31, 2019, we completed the merger of Franklin, North Carolina-based Entegra Financial Corp. ("Entegra") and its bank subsidiary, Entegra Bank. Under the terms of the agreement, cash consideration of $30.18 for each share of common stock was paid to the shareholders of Entegra, totaling approximately $222.8 million. The merger allowed us to enhance banking efforts and expand our presence in western North Carolina. As part of the transaction, we agreed to divest certain branches, other assets and liabilities as a requirement of regulatory approval. The merger contributed $1.73 billion in consolidated assets, which included $1.03 billion in loans, and $1.33 billion in deposits.

On April 17, 2020, we completed the divestiture of the branches including loans and leases, premises and equipment and total deposits with a fair value of $110.1 million, $2.1 million and $184.8 million, respectively. The divestiture included an 8% premium for deposits acquired that was applied as a reduction of goodwill generated as part of the merger with Entegra.

First South Bancorp, Inc.

On May 1, 2019, we completed the merger of Spartanburg, South Carolina-based First South Bancorp, Inc. ("First South Bancorp") and its bank subsidiary, First South Bank. Under the terms of the agreement, cash consideration of $1.15 for each share of common stock was paid to the shareholders of First South Bancorp, totaling approximately $37.5 million. The merger allowed us to expand our presence and enhance banking efforts in South Carolina. The merger contributed $253.0 million in consolidated assets, which included $179.2 million in loans, and $207.6 million in deposits, as of the merger date.

Biscayne Bancshares, Inc.

On April 2, 2019, FCB completed the merger of Coconut Grove, Florida-based Biscayne Bancshares, Inc. ("Biscayne Bancshares") and its bank subsidiary, Biscayne Bank. Under the terms of the agreement, cash consideration of $25.05 for each share of common stock was paid to the shareholders of Biscayne Bancshares, totaling approximately $118.9 million. The merger allowed us to expand our presence in Florida and enhance banking efforts in South Florida. The merger contributed $1.08 billion in consolidated assets, which included $863.4 million in loans, and $786.5 million in deposits, as of the merger date.

See Note B, Business Combinations, in the Notes to Consolidated Financial Statements for additional disclosures.

FDIC-ASSISTED TRANSACTIONS

Between 2009 and 2017, we completed fourteen FDIC-assisted transactions with a carrying value of loans acquired in these transactions of approximately $410.4 million at December 31, 2020. Nine of the fourteen FDIC-assisted transactions included shared-loss agreements that protected us from a substantial portion of the credit and asset quality risk we would otherwise incur.

At December 31, 2020, shared-loss protection remains for a single acquired bank related to single family residential loans of $34.5 million. Cumulative losses for all fourteen acquisitions incurred through December 31, 2020 totaled $1.21 billion. Cumulative amounts reimbursed by the FDIC through December 31, 2020 totaled $674.9 million. The shared-loss agreements for two FDIC-assisted transactions include provisions related to payments owed to the FDIC at the termination of the agreements if actual cumulative losses on covered assets are lower than originally estimated by the FDIC at the time of acquisition ("clawback liability"). As of December 31, 2020, and December 31, 2019, the estimated clawback liability was $15.6 million and $112.4 million, respectively. The reduction in the clawback liability was the result of a payment to the FDIC in the first quarter of 2020 for $99.5 million related to one of the transactions. We expect to make a clawback liability payment to the FDIC in March 2021 in the amount of $15.9 million.

Table 5 provides changes in the FDIC clawback liability for the years ended December 31, 2020 and 2019.

Table 5
FDIC CLAWBACK LIABILITY

(Dollars in thousands)	2020	2019
Beginning balance	$ 112,395	$ 105,618
Accretion	2,674	6,777
Payments to FDIC for settlement of shared-loss agreements	(99,468)	—
Ending balance	$ 15,601	$ 112,395

Table 6
AVERAGE BALANCE SHEETS

(Dollars in thousands, taxable equivalent)	2020 Average Balance	2020 Interest Income/ Expense	2020 Yield/ Rate	2019 Average Balance	2019 Interest Income/ Expense	2019 Yield/ Rate
Assets						
Loans and leases[(1)]	$ 31,605,090	$ 1,335,008	4.18 %	$ 26,656,048	$ 1,219,825	4.54 %
Investment securities:						
U.S. Treasury	432,938	3,103	0.72	945,094	22,235	2.35
Government agency	665,318	8,457	1.27	491,001	14,308	2.91
Mortgage-backed securities	7,414,661	108,604	1.46	5,198,884	114,819	2.21
Corporate bonds	397,322	20,349	5.12	153,841	7,945	5.16
Other investments	144,694	4,254	2.94	130,249	2,205	1.69
Total investment securities	9,054,933	144,767	1.60	6,919,069	161,512	2.33
Overnight investments	2,691,096	6,847	0.25	1,291,617	26,245	2.03
Total interest-earning assets	43,351,119	$ 1,486,622	3.40 %	34,866,734	$ 1,407,582	4.01 %
Cash and due from banks	344,938			271,466		
Premises and equipment	1,259,325			1,218,611		
Allowance for credit losses	(211,413)			(226,600)		
Other real estate owned	53,137			45,895		
Other assets	1,224,332			985,613		
Total assets	$ 46,021,438			$ 37,161,719		
Liabilities						
Interest-bearing deposits:						
Checking with interest	$ 8,922,902	$ 5,913	0.07 %	$ 7,503,325	$ 6,018	0.08 %
Savings	2,936,593	1,217	0.04	2,604,217	1,700	0.07
Money market accounts	7,821,266	22,504	0.29	6,025,740	23,315	0.39
Time deposits	3,344,492	37,001	1.11	3,315,478	45,221	1.36
Total interest-bearing deposits	23,025,253	66,635	0.29	19,448,760	76,254	0.39
Securities sold under customer repurchase agreements	632,362	1,610	0.25	530,818	1,995	0.38
Other short-term borrowings	50,549	1,054	2.05	23,087	671	2.87
Long-term obligations	1,186,145	26,558	2.20	392,150	13,722	3.45
Total interest-bearing liabilities	24,894,309	95,857	0.38	20,394,815	92,642	0.45
Demand deposits	16,721,363			12,769,776		
Other liabilities	451,759			445,347		
Shareholders’ equity	3,954,007			3,551,781		
Total liabilities and shareholders’ equity	$ 46,021,438			$ 37,161,719		
Interest rate spread			3.02 %			3.56 %
Net interest income and net yield on interest-earning assets		$ 1,390,765	3.17 %		$ 1,314,940	3.74 %

(1)Loans and leases include non-PCD and PCD loans, nonaccrual loans and loans held for sale. Interest income on loans and leases includes accretion income and loan fees. Loan fees were $85.7 million, $9.7 million, and $8.8 million for the years ended 2020, 2019, and 2018, respectively. Yields related to loans, leases and securities exempt from both federal and state income taxes, federal income taxes only, or state income taxes only are stated on a taxable-equivalent basis assuming statutory federal income tax rates of 21.0% for 2020, 2019, and 2018, as well as state income tax rates of 3.5%, 3.9%, and 3.4% for the years ended 2020, 2019, and 2018, respectively. The taxable-equivalent adjustment was $2.6 million, $3.6 million, and $3.4 million, for the years ended 2020, 2019, and 2018, respectively.

(2)The rate/volume variance is allocated proportionally between the changes in volume and rate.

Table 6
AVERAGE BALANCE SHEETS (continued)

2018			2020			2019		
			Change from previous year due to:			Change from previous year due to:		
Average Balance	Interest Income/ Expense	Yield/ Rate	Volume	Yield/Rate	Total Change[2]	Volume	Yield/Rate	Total Change[2]
$ 24,483,719	$ 1,075,682	4.36 %	$ 232,398	$ (117,215)	$ 115,183	$ 83,908	$ 60,235	$ 144,143
1,514,598	28,277	1.87	(12,058)	(7,074)	(19,132)	(10,632)	4,590	(6,042)
106,067	2,697	2.54	5,080	(10,931)	(5,851)	9,787	1,824	11,611
5,241,865	113,698	2.17	51,357	(57,572)	(6,215)	(191)	1,312	1,121
104,796	5,727	5.46	12,575	(171)	12,404	2,680	(462)	2,218
107,603	1,059	0.98	208	1,841	2,049	230	916	1,146
7,074,929	151,458	2.14	57,162	(73,907)	(16,745)	1,874	8,180	10,054
1,289,013	21,997	1.71	28,418	(47,816)	(19,398)	45	4,203	4,248
32,847,661	$ 1,249,137	3.78 %	$ 317,978	$ (238,938)	$ 79,040	$ 85,827	$ 72,618	$ 158,445
281,510								
1,164,542								
(223,300)								
47,053								
762,446								
$ 34,879,912								
$ 7,278,662	$ 3,725	0.05 %	$ 1,122	$ (1,227)	$ (105)	$ 112	$ 2,181	$ 2,293
2,466,734	789	0.03	214	(697)	(483)	44	867	911
5,903,823	8,196	0.14	6,886	(7,697)	(811)	170	14,949	15,119
2,427,949	9,773	0.40	295	(8,515)	(8,220)	3,572	31,876	35,448
18,077,168	22,483	0.12	8,517	(18,136)	(9,619)	3,898	49,873	53,771
555,555	1,738	0.31	377	(762)	(385)	(77)	334	257
58,686	1,919	3.27	788	(405)	383	(1,164)	(84)	(1,248)
304,318	10,717	3.48	28,558	(15,722)	12,836	3,057	(52)	3,005
18,995,727	36,857	0.19	38,240	(35,025)	3,215	5,714	50,071	55,785
12,088,081								
373,163								
3,422,941								
$ 34,879,912								
		3.59 %						
	$ 1,212,280	3.66 %	$ 279,738	$ (203,913)	$ 75,825	$ 80,113	$ 22,547	$ 102,660

RESULTS OF OPERATIONS

Net Interest Margin and Income (Taxable Equivalent Basis)

Taxable-equivalent net interest income was $1.39 billion for the year ended December 31, 2020, an increase of $75.8 million, or 5.8%, compared to 2019. Interest income increased $79.0 million and interest expense increased by $3.2 million.

Interest income earned on loans and leases was $1.34 billion during 2020, an increase of $115.2 million compared to 2019. The increase was primarily due to the impacts of SBA-PPP loans, which contributed $90.1 million, and organic loan growth, partially offset by lower yields.

Interest income earned on investment securities was $144.8 million and $161.5 million during 2020 and 2019, respectively. The $16.7 million decrease was primarily due to a 73 basis point decline in the investment yield, partially offset by higher average balances.

Interest expense on interest-bearing deposits was $66.6 million in 2020, a decrease of $9.6 million compared to 2019, primarily due to lower rates paid on money market and time deposits. Interest expense on borrowings was $29.2 million in 2020, an increase of $12.8 million compared to 2019, primarily due to an increase in average borrowings, partially offset by lower rates paid.

The year-to-date taxable equivalent net interest margin for 2020 was 3.17%, compared to 3.74% during 2019. The margin compression was primarily due to a decline in the yield on interest-earning assets coupled with an increase in total borrowings, partially offset by a decline in the rate paid on interest-bearing deposits. During 2020, yields on loans, investment securities and overnight investments decreased 36 basis points to 4.18%, 73 basis points to 1.60% and 178 basis points to 0.25%, respectively.

Average interest-earning assets increased $8.48 billion, or by 24.3% for the year ended December 31, 2020. Growth in average interest-earning assets during 2020 was primarily due to higher investment balances, the impact of SBA-PPP loans and other organic loan growth. The year-to-date taxable-equivalent yield on interest-earning assets in 2020 declined by 61 basis points to 3.40%.

Average interest-bearing liabilities increased $4.50 billion for the year ended December 31, 2020, primarily due to increased interest-bearing deposits and borrowings. The rate paid on interest-bearing liabilities decreased 7 basis points in 2020 from 0.45% to 0.38%.

Provision for Credit Losses

BancShares recorded a provision for credit losses for loans and leases of $58.4 million for the year ended December 31, 2020, compared to $31.4 million for same period in 2019. This increase was primarily due to a COVID-19-related reserve build of $36.1 million during the first half of 2020 as loss estimates consider the potential uncertainty of slower economic activity and elevated unemployment, as well as potential mitigants due to government stimulus and loan accommodations.

Noninterest Income

Table 7
NONINTEREST INCOME

	Year ended December 31		
(Dollars in thousands)	2020	2019	2018
Wealth management services	$ 102,776	$ 99,241	$ 97,966
Service charges on deposit accounts	87,662	105,191	105,486
Cardholder services, net	74,291	69,078	65,478
Mortgage income	39,592	21,126	16,433
Other service charges and fees	30,911	31,644	30,606
Merchant services, net	24,122	24,304	24,504
Insurance commissions	14,544	12,810	12,702
ATM income	5,758	6,296	7,980
Realized gains on investment securities available for sale, net	60,253	7,115	351
Marketable equity securities gains (losses), net	29,395	20,625	(7,610)
Gain on extinguishment of debt	—	—	26,553
Other	7,446	18,431	19,700
Total noninterest income	$ 476,750	$ 415,861	$ 400,149

For the year ended December 31, 2020, total noninterest income was $476.8 million, compared to $415.9 million for 2019, an increase of $60.9 million, or 14.6%. The change was primarily attributable to the following:

- Gains on sale of investment securities available for sale increased by $53.1 million.
- Mortgage income increased $18.5 million primarily due to origination volume brought about by lower mortgage rates. The production-related income was partially offset by a $4.1 million impairment of mortgage servicing rights recorded due to accelerated prepayments.
- The $29.4 million net gain included realized gains on the sale equity securities of $44.6 million.
- Service charges on deposit accounts decreased $17.5 million primarily due to lower volume with increased deposit balances and an increase in waived fees to aid our customers during the COVID-19 pandemic.
- Other noninterest income decreased $11.0 million primarily due to acquired recoveries on PCD loans, formerly reported in noninterest income. After adoption of CECL, these are recorded as a component of the allowance for credit losses.

Noninterest Expense

Table 8
NONINTEREST EXPENSE

	Year ended December 31		
(Dollars in thousands)	2020	2019	2018
Salaries and wages	$ 590,020	$ 551,112	$ 527,691
Employee benefits	132,244	120,501	118,203
Occupancy expense	117,169	111,179	109,169
Equipment expense	115,535	112,290	102,909
Processing fees paid to third parties	44,791	29,552	30,017
Merger-related expenses	17,450	17,166	6,462
Core deposit intangible amortization	14,255	16,346	17,165
Collection and foreclosure-related expenses	13,658	11,994	16,567
Consultant expense	12,751	12,801	14,345
FDIC insurance expense	12,701	10,664	18,890
Telecommunications expense	12,179	9,391	10,471
Advertising expense	10,010	11,437	11,650
Other	95,922	89,308	93,432
Total noninterest expense	$ 1,188,685	$ 1,103,741	$ 1,076,971

For the year ended December 31, 2020, total noninterest expense was $1.19 billion, compared to $1.10 billion for 2019, an increase of $84.9 million, or 7.7%. The change was primarily attributable to the following:

- Personnel expense, which includes salaries, wages and employee benefits, increased by $50.7 million, primarily due to an increase in salaries and wages as a result of merit increases and additional headcount from recent acquisitions.
- Processing fees paid to third parties increased $15.2 million primarily due to the continued investment in our digital banking offerings as well as processing fees related to recent acquisitions.
- Other noninterest expense increased $6.6 million primarily due to increased pension costs due to a lower discount rate and a higher provision related to unfunded loan commitments as a result of the potential economic impact of COVID-19. The increase was partially offset by a decrease in travel expense.
- Occupancy expense increased $6.0 million primarily due to cleaning and sanitizing efforts in branches and corporate buildings to combat the spread of COVID-19.

Income Taxes

For 2020, income tax expense was $126.2 million compared to $134.7 million during 2019 and $103.3 million during 2018. Effective tax rates were 20.4%, 22.7% and 20.5% during the respective periods.

The effective tax rate for the year ended 2020 was favorably impacted by $13.9 million due to the decision to utilize an allowable alternative for computing our 2020 federal income tax liability. Without this alternative, the effective tax rate would have been approximately 22.7% for the year ended 2020. The allowable alternative provides us the ability to use the federal income tax rate for certain current year deductible amounts related to prior year FDIC-assisted acquisitions that was applicable when these amounts were originally subjected to tax.

INTEREST-EARNING ASSETS

Interest-earning assets include overnight investments, investment securities and loans and leases, all of which reflect varying interest rates based on the risk level and repricing characteristics of the underlying asset. Higher risk investments typically carry a higher interest rate, but expose us to higher levels of market and/or credit risk. We strive to maintain a high level of interest-earning assets relative to total assets, while keeping non-earning assets at a minimum.

Interest-earning assets totaled $47.19 billion and $37.23 billion at December 31, 2020 and December 31, 2019, respectively. The $9.96 billion increase was primarily composed of a $3.91 billion increase in loans and leases, a $3.24 billion increase in overnight investments and a $2.75 billion increase in investment securities.

Investment Securities

The primary objective of the investment portfolio is to generate incremental income by deploying excess funds into securities that have minimal liquidity risk and low to moderate interest rate risk and credit risk. Other objectives include acting as a stable source of liquidity, serving as a tool for asset and liability management and maintaining an interest rate risk profile compatible with BancShares' objectives. Additionally, purchases of equities and corporate bonds in other financial institutions have been made largely under a long-term earnings optimization strategy. Changes in the total balance of our investment securities portfolio result from trends in balance sheet funding and market performance. Generally, when inflows arising from deposit and treasury services products exceed loan and lease demand, we invest excess funds into the securities portfolio or into overnight investments. Conversely, when loan demand exceeds growth in deposits and short-term borrowings, we allow any overnight investments to decline and use proceeds from maturing securities and prepayments to fund loan demand. See Note A, Accounting Policies and Basis of Presentation, and Note C, Investments, in the Notes to Consolidated Financial Statements for additional disclosures regarding investment securities.

The carrying value of all investment securities was $9.92 billion at December 31, 2020, an increase of $2.75 billion compared to $7.17 billion at December 31, 2019. The increase in the portfolio was primarily attributable to purchases totaling $10.64 billion, partially offset by maturities and paydowns of $3.09 billion and sales of $4.94 billion. This increase was due to excess liquidity generated by significant deposit growth during the year.

As of December 31, 2020, investment securities available for sale had a net pre-tax unrealized gain of $102.3 million, compared to a net pre-tax unrealized gain of $7.5 million as of December 31, 2019. After evaluating the investment securities with unrealized losses, management concluded that no credit-related impairment existed as of December 31, 2020. Investment securities classified as available for sale are reported at fair value and unrealized gains and losses are included as a component of accumulated other comprehensive income ("AOCI"), net of deferred taxes.

On November 1, 2020, mortgage-backed securities with an amortized cost of $1.46 billion were transferred from investment securities available for sale to the held to maturity portfolio. At the time of transfer, the mortgage-backed securities had a fair value of $1.47 billion and a weighted average contractual maturity of 18 years. The unrealized gain on these securities at the date of transfer was $5.9 million, or $4.5 million net of tax, and was reported as a component of AOCI. This unrealized gain is accreted over the remaining expected life of the securities as an adjustment of yield.

On November 1, 2019, as part of the adoption of ASU 2019-04, mortgage-backed securities with an amortized cost of $2.08 billion were transferred from investment securities held to maturity to the available for sale portfolio. At the time of the transfer, the mortgage-backed securities had a fair value of $2.15 billion. The transfer resulted in a reclassification of unrealized losses of $72.5 million, or $55.8 million net of tax, previously frozen in AOCI. The transfer does not impact our intent and ability to hold the remainder of the held to maturity portfolio to maturity.

Table 9 presents the investment securities portfolio at December 31, 2020 segregated by major category.

Table 9
INVESTMENT SECURITIES

(Dollars in thousands)	December 31, 2020 Composition[1]	December 31, 2020 Cost	December 31, 2020 Fair Value	December 31, 2019 Composition[1]	December 31, 2019 Cost	December 31, 2019 Fair Value
Investment securities available for sale						
U.S. Treasury	5.0 %	$ 499,832	$ 499,933	5.7 %	$ 409,397	$ 409,999
Government agency	7.0	706,241	701,391	9.5	684,085	682,772
Residential mortgage-backed securities	44.5	4,369,130	4,438,103	73.4	5,269,060	5,267,090
Commercial mortgage-backed securities	7.9	745,892	771,537	5.3	373,105	380,020
Corporate bonds	6.1	590,870	603,279	2.8	198,278	201,566
State, county and municipal	—	—	—	1.7	118,227	118,227
Total investment securities available for sale	70.5	6,911,965	7,014,243	98.4	7,052,152	7,059,674
Investment in marketable equity securities	0.9	84,837	91,680	1.2	59,262	82,333
Investment securities held to maturity						
Residential mortgage-backed securities	19.1	1,877,692	1,895,381	—	—	—
Commercial mortgage-backed securities	9.4	937,034	940,862	—	—	—
Other	0.1	2,256	2,256	0.4	30,996	30,996
Total investment securities held to maturity	28.6	2,816,982	2,838,499	0.4	30,996	30,996
Total investment securities	100.0 %	$ 9,813,784	$ 9,944,422	100.0 %	$ 7,142,410	$ 7,173,003

(1) Calculated as a percent of the total fair value of investment securities.

Table 10 presents the weighted average taxable-equivalent yields for investment securities held to maturity at December 31, 2020 segregated by major category with ranges of contractual maturities. The weighted average yield on the portfolio is calculated using security-level annualized yields.

Table 10
WEIGHTED AVERAGE YIELD ON INVESTMENT SECURITIES

	December 31, 2020 Within One Year	One to Five Years	Five to 10 Years	After 10 Years	Total
Investment securities held to maturity					
Residential mortgage-backed securities[1]	— %	— %	— %	1.13 %	1.13 %
Commercial mortgage-backed securities[1]	—	—	—	1.27	1.27
Other investments	1.17	1.37	—	—	1.31
Total investment securities held to maturity	1.17 %	1.37 %	— %	1.18 %	1.18 %

(1)Residential mortgage-backed and commercial mortgage-backed securities, which are not due at a single maturity date, have been included in maturity groupings based on the contractual maturity. The expected life will differ from contractual maturities because borrowers have the right to prepay the underlying loans.

Loans and Leases

Loans held for sale were $124.8 million at December 31, 2020, a net increase of $57.0 million since December 31, 2019. The increase is primarily due to originations of $1.08 billion driven by low interest rates, partially offset by sales of $1.05 billion.

Loans and leases held for investment are classified differently, dependent on whether they are originated or purchased, and if purchased, whether or not the loans reflect more than insignificant credit deterioration since origination as of the date of acquisition. Non-PCD loans consist of loans which were originated by us or purchased from other institutions that did not reflect more than insignificant credit deterioration at acquisition. PCD loans are purchased loans which reflect a more than insignificant credit deterioration since origination as of the date of acquisition.

Loans and leases held for investment were $32.79 billion at December 31, 2020, a net increase of $3.91 billion, representing growth of 13.5% since December 31, 2019. This increase was driven by a $4.01 billion net increase in the non-PCD portfolio offset by a $95.8 million net decrease in the PCD loan portfolio. The net increase in the non-PCD portfolio was due to $2.41 billion related to SBA-PPP loans as well as organic growth, primarily in our commercial segments. The net decrease in PCD loans was primarily due to pay downs and pay-offs, partially offset by a $19.0 million increase from the adoption of ASC 326. Excluding 2020 loans related to SBA-PPP and acquired loans, total loans grew by 4.9%.

We report non-PCD and PCD loan portfolios separately, with the non-PCD portfolio further divided into commercial and consumer segments. Non-PCD loans and leases at December 31, 2020 were $32.33 billion compared to $28.32 billion at December 31, 2019, representing 98.6% and 98.1% of total loans, respectively. PCD loans at December 31, 2020 were $462.9 million, compared to $558.7 million of PCI loans at December 31, 2019, representing 1.4% and 1.9% of loans, respectively.

The discount related to acquired non-PCD loans and leases at December 31, 2020 and non-PCI loans and leases at December 31, 2019 was $19.5 million and $30.9 million, respectively. The discount related to PCD loans at December 31, 2020 and PCI loans at December 31, 2019 was $45.3 million and $88.2 million, respectively. The primary driver of the decrease in PCD discount was loan payoffs as well as the adoption of ASC 326, which resulted in a $19.0 million reclassification of the credit portion of the loan discount to the ACL.

During the year ended December 31, 2020 and 2019, accretion income on purchased non-PCD loans and leases was $11.3 million and $13.2 million, respectively. During the year ended December 31, 2020 and 2019, interest and accretion income on purchased PCD loans and leases was $59.7 million and $58.0 million, respectively.

Table 11 provides the composition of net loans and leases for the past three years.

Table 11
LOANS AND LEASES

(Dollars in thousands)	December 31 2020
Non-PCD loans and leases:	
Commercial:	
Construction and land development	$ 985,424
Owner occupied commercial mortgage	11,165,012
Non-owner occupied commercial mortgage	2,987,689
Commercial and industrial and leases	5,013,644
SBA-PPP	2,406,291
Total commercial loans	22,558,060
Consumer:	
Residential mortgage	5,561,686
Revolving mortgage	2,052,854
Construction and land development	348,123
Consumer auto	1,255,402
Consumer other	552,968
Total consumer loans	9,771,033
Total non-PCD loans and leases	32,329,093
PCD loans	462,882
Total loans and leases	32,791,975
Less allowance for credit losses	(224,314)
Net loans and leases	$ 32,567,661

(Dollars in thousands)	December 31 2019	December 31 2018
Non-PCI loans and leases:		
Commercial:		
Construction and land development	$ 1,013,454	$ 757,854
Commercial mortgage	12,282,635	10,717,234
Other commercial real estate	542,028	426,985
Commercial and industrial and leases	4,403,792	3,938,730
Other	310,093	296,424
Total commercial loans	18,552,002	16,137,227
Noncommercial:		
Residential mortgage	5,293,917	4,265,687
Revolving mortgage	2,339,072	2,542,975
Construction and land development	357,385	257,030
Consumer	1,780,404	1,713,781
Total noncommercial loans	9,770,778	8,779,473
Total non-PCI loans and leases	$ 28,322,780	$ 24,916,700
PCI loans	$ 558,716	$ 606,576
Total loans and leases	28,881,496	25,523,276
Less allowance for credit losses	(225,141)	(223,712)
Net loans and leases	$ 28,656,355	$ 25,299,564

Allowance for Credit Losses

During January 2020, we adopted ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), which changed the methodology, accounting policies, and inputs used in determining the ACL. Refer to Note A, Accounting Policies and Basis of Presentation, in the Notes to Consolidated Financial Statements for a discussion of the methodology used in the determination of the ACL, as well as further information about the adoption, under the "Recently Issued Accounting Pronouncements" section.

The ACL was $224.3 million at December 31, 2020, compared to $225.1 million and $223.7 million at December 31, 2019 and 2018, respectively. The ACL as a percentage of total loans and leases was 0.68% at December 31, 2020, compared to 0.78% and 0.88% at December 31, 2019 and 2018, respectively. The ACL as a percentage of total loans and leases excluding SBA-PPP loans, which have no associated ACL, was 0.74% at December 31, 2020.

Upon adoption of ASC 326 on January 1, 2020, BancShares recorded a net decrease of $37.9 million in the ACL which included a decrease of $56.9 million in the ACL on non-PCD loans, partially offset by an increase of $19.0 million in the ACL on PCD loans. The decrease in the ACL on non-PCD loans was primarily in the commercial segments as these portfolios have exhibited strong historical credit performance and have relatively short average lives. This decrease was partially offset by an increase in the consumer segments due to their longer average lives. The increase in the ACL on PCD loans was primarily the result of reallocating credit discount from loan balances into the ACL. At the time of adoption of ASC 326, the scope and severity of the COVID-19 pandemic and the related impacts were unknown. The economic forecasts did not project the impacts of the recession.

The ACL is calculated using a variety of factors, including, but not limited to, charge-off and recovery activity, loan growth, changes in macroeconomic factors, collateral type, estimated loan life and changes in credit quality. For the period ended December 31, 2020 the primary reason for the ACL change since the adoption of ASC 326, was a $36.1 million reserve build due to the potential economic impact of COVID-19 and its estimated potential impact on credit losses. Forecasted economic conditions are developed using third party macroeconomic scenarios adjusted based on management's expectations over a reasonable and supportable forecast period of two years. Assumptions revert to the long term historic averages over a one year period. Significant macroeconomic factors used in estimating the expected losses include unemployment, gross domestic product, home price index and commercial real estate index. Our model results consider baseline, adverse and upside scenarios. To calculate the ACL, we utilized the baseline scenario, which considers government stimulus and incorporates significant improvements to the most significant forecast assumptions when compared on the COVID-19-impacted levels from early in 2020.

As of December 31, 2020, the baseline forecast utilized the following significant inputs over the two-year reasonable and supportable forecast period:

Unemployment - Rates are projected to remain elevated, and will generally decrease to just below 6% by the end of 2022.

GDP Growth - Peak growth of 3.6% in the first quarter of 2021, primarily decreasing to under 3% in late 2022.

Home Pricing Index - Growth rates below 1% in early 2021 which increase to close to 4% in late 2022.

Commercial Real Estate Index - Forecasted downturn beginning 1Q21 with a maximum 20.7% drop by the end of 2021, and then slowly improving towards positive growth.

The model result was calibrated using management's expectation of borrower performance based upon COVID-19 residual risk by industry. These loss estimates were also influenced by strong credit quality, low net charge-offs and recent credit trends, which remained relatively stable through the period ended December 31, 2020.

At December 31, 2020, the ACL on non-PCD loans and leases was $200.3 million, or 0.62% of non-PCD loans and leases, compared to $217.6 million, or 0.77%, at December 31, 2019, and $214.6 million, or 0.86%, at December 31, 2018. The ACL as a percentage of non-PCD loans and leases excluding SBA-PPP loans was 0.67% at December 31, 2020. Aside from SBA-PPP loans, which have no allowance, the decrease since December 31, 2019 was primarily due to the adoption of ASC 326, partially offset by the forecasted potential economic impact of the COVID-19 pandemic on expected credit losses. The adoption of ASC 326 resulted in a decrease of 18 basis points, while the COVID-19 reserve build resulted in an increase of 11 basis points.

In the period after adoption of ASC 326, the ACL on commercial portfolios increased $26.0 million, with the largest share of the increase within the non-owner occupied commercial real estate as this portfolio contained industries hardest hit by the pandemic such as hospitality, lessors and retail. The ACL on consumer portfolios increased $13.6 million, with the largest increase within residential mortgages, due to loan growth during the year.

At December 31, 2020, the ACL on PCD loans totaled $24.0 million compared to $7.5 million at December 31, 2019 and $9.1 million, at December 31, 2018. The increase was primarily due the adoption of ASC 326, partially offset by loan payoffs.

At December 31, 2020, the ACL on unfunded commitments was $12.8 million compared to $1.1 million at December 31, 2019 and $1.1 million, at December 31, 2018. The increase was primarily due the adoption of ASC 326.

Table 12 provides details of the ACL, provision components and net charge-off ratio by loan class for the past three years.

Table 12
ALLOWANCE FOR CREDIT LOSSES

	Year ended December 31, 2020										
(Dollars in thousands)	Construction and land development - commercial	Owner occupied commercial mortgage	Non-owner occupied commercial mortgage	Commercial and industrial and leases	Residential mortgage	Revolving mortgage	Construction and land development - consumer	Consumer auto	Consumer other	PCD	Total
Allowance for credit losses:											
Balance at December 31, 2019	$ 33,213	$ 36,444	$ 11,102	$ 61,610	$ 18,232	$ 19,702	$ 2,709	$ 4,292	$ 30,301	$7,536	$ 225,141
Adoption of ASC 326	(31,061)	(19,316)	460	(37,637)	17,118	3,665	(1,291)	1,100	10,037	19,001	(37,924)
Balance at January 1, 2020	2,152	17,128	11,562	23,973	35,350	23,367	1,418	5,392	40,338	26,537	187,217
Provision (credits)	4,301	6,729	12,917	13,816	9,684	1,134	266	6,297	10,410	(7,202)	58,352
Initial allowance on PCD loans	—	—	—	—	—	—	—	—	—	1,193	1,193
Charge-offs	(138)	(593)	(1,951)	(14,904)	(1,653)	(1,662)	(70)	(3,646)	(17,188)	(3,300)	(45,105)
Recoveries	431	401	124	4,894	717	1,918	117	1,417	5,879	6,759	22,657
Balance at December 31, 2020	$ 6,746	$ 23,665	$ 22,652	$ 27,779	$ 44,098	$ 24,757	$ 1,731	$ 9,460	$ 39,439	$23,987	$ 224,314
Net charge-off ratio	(0.03)%	— %	0.06 %	0.21 %	0.02 %	(0.01)%	(0.01)%	0.18 %	2.06 %	(0.67)%	0.07 %
Net charge-offs	$ (293)	$ 192	$ 1,827	$ 10,010	$ 936	$ (256)	$ (47)	$ 2,229	$ 11,309	$(3,459)	$ 22,448
Average loans	1,017,595	10,418,447	2,995,382	4,881,884	5,382,045	2,122,144	355,368	1,207,820	550,223	517,121	31,417,256

	Years ended December 31, 2019 and 2018										
(Dollars in thousands)	Construction and land development - commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial and leases	Other	Residential mortgage	Revolving mortgage	Construction and land development - non-commercial	Consumer	PCI	Total
Allowance for credit losses:											
Balance at January 1, 2019	$ 35,270	$ 43,451	$ 2,481	$ 55,620	$ 2,221	$ 15,472	$ 21,862	$ 2,350	$ 35,841	$9,144	$ 223,712
Provision (credits)	(2,171)	2,384	(285)	14,212	(754)	3,481	(788)	359	16,611	(1,608)	31,441
Charge-offs	(196)	(1,096)	—	(13,352)	(100)	(1,137)	(2,584)	—	(24,562)	—	(43,027)
Recoveries	310	596	15	2,894	869	416	1,212	—	6,703	—	13,015
Balance at December 31, 2019	$ 33,213	$ 45,335	$ 2,211	$ 59,374	$ 2,236	$ 18,232	$ 19,702	$ 2,709	$ 34,593	$7,536	$ 225,141
Net charge-off ratio	(0.01)%	— %	— %	0.26 %	(0.26)%	0.02 %	0.06 %	— %	1.03 %	— %	0.11 %
Net charge-offs	$ (114)	$ 500	$ (15)	$ 10,458	$ (769)	$ 721	$ 1,372	$ —	$ 17,859	$ —	$ 30,012
Average loans	817,633	11,240,281	495,737	4,024,300	297,849	4,709,971	2,430,788	302,118	1,739,693	537,131	26,595,501
Balance at January 1, 2018	24,470	45,005	4,571	59,824	4,689	15,706	22,436	3,962	31,204	10,026	221,893
Provision (credits)	10,533	(1,490)	(2,171)	2,511	(2,827)	897	1,112	(1,520)	22,187	(765)	28,467
Charge-offs	(44)	(1,140)	(69)	(10,211)	(130)	(1,689)	(3,235)	(219)	(22,817)	(117)	(39,671)
Recoveries	311	1,076	150	3,496	489	558	1,549	127	5,267	—	13,023
Balance at December 31, 2018	$ 35,270	$ 43,451	$ 2,481	$ 55,620	$ 2,221	$ 15,472	$ 21,862	$ 2,350	$ 35,841	$9,144	$ 223,712
Net charge-off ratio	(0.04)%	— %	(0.02)%	0.18 %	(0.12)%	0.03 %	0.06 %	0.04 %	1.10 %	0.02 %	0.11 %
Net charge-offs	$ (267)	$ 64	$ (81)	$ 6,715	$ (359)	$ 1,131	$ 1,686	$ 92	$ 17,550	$ 117	$ 26,648
Average loans	717,668	10,255,531	443,956	3,732,452	298,364	3,903,796	2,610,110	249,488	1,601,226	671,128	24,483,719

Table 13 provides trends of the ACL ratios for the past three years.

Table 13
ALLOWANCE FOR CREDIT LOSSES RATIOS

(Dollars in thousands)	2020	2019	2018
Allowance for credit losses to total loans and leases:	0.68 %	0.78 %	0.88 %
Allowance for credit losses	$ 224,314	$ 225,141	$ 223,712
Total loans and leases	32,791,975	28,881,496	25,523,276
Allowance for credit losses to non-PCD loans and leases:	0.62 %	0.77 %	0.86 %
Allowance for credit losses on non-PCD loans and leases	$ 200,327	$ 217,605	$ 214,568
Total non-PCD loans and leases	32,329,093	28,322,780	24,916,700
Allowance for credit losses to PCD loans:	5.18 %	1.35 %	1.51 %
Allowance for credit losses on PCD loans	$ 23,987	$ 7,536	$ 9,144
Total PCD loans	462,882	558,716	606,576

Table 14 details the allocation of the ACL among the various loan types. See Note E, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements for additional disclosures regarding the ACL.

Table 14
ALLOCATION OF ALLOWANCE FOR CREDIT LOSSES

	December 31	
	2020	
(dollars in thousands)	Allowance for credit losses	Percent of loans to total loans
Non-PCI loans and leases		
Commercial:		
Construction and land development	$ 6,746	3.0 %
Owner occupied commercial mortgage	23,665	34.0
Non-owner occupied commercial mortgage	22,652	9.1
Commercial and industrial and leases	27,779	15.3
SBA-PPP	—	7.3
Total commercial loans and leases	80,842	68.7
Consumer:		
Residential mortgage	44,098	17.0
Revolving mortgage	24,757	6.3
Construction and land development	1,731	1.1
Consumer auto	9,460	3.8
Consumer other	39,439	1.7
Total consumer loans	119,485	29.9
Total non-PCD loans and leases	200,327	98.6
PCD loans	23,987	1.4
Total loans and leases	$ 224,314	100.0 %

	December 31			
	2019		2018	
(dollars in thousands)	Allowance for loan and lease losses	Percent of loans to total loans	Allowance for loan and lease losses	Percent of loans to total loans
Non-PCI loans and leases				
Commercial:				
Construction and land development	$ 33,213	3.5 %	$ 35,270	3.0 %
Commercial mortgage	45,335	42.5	43,451	42.0
Other commercial real estate	2,211	1.9	2,481	1.7
Commercial and industrial and leases	59,374	15.3	55,620	15.3
Other	2,236	1.1	2,221	1.2
Total commercial loans and leases	142,369	64.3	139,043	63.2
Noncommercial:				
Residential mortgage	18,232	18.3	15,472	16.7
Revolving mortgage	19,702	8.1	21,862	10.0
Construction and land development	2,709	1.2	2,350	1.0
Consumer	34,593	6.2	35,841	6.7
Total noncommercial loans	75,236	33.8	75,525	34.4
Total non-PCI loans and leases	217,605	98.1	214,568	97.6
PCI loans	7,536	1.9	9,144	2.4
Total loans and leases	$ 225,141	100.0 %	$ 223,712	100.0 %

Nonperforming Assets

Nonperforming assets include nonaccrual loans and other real estate owned ("OREO") resulting from both non-PCD and PCD loans. Non-PCD loans are generally placed on nonaccrual when principal or interest becomes 90 days past due or when it is probable that principal or interest is not fully collectable. When non-PCD loans are placed on nonaccrual, all previously uncollected accrued interest is reversed from interest income and the ongoing accrual of interest is discontinued. Non-PCD loans and leases are generally removed from nonaccrual status when they become current for a sustained period of time as to both principal and interest and there is no longer concern as to the collectability of principal and interest. Accretion of income for PCD loans is discontinued when we are unable to estimate the amount or timing of cash flows. PCD loans may begin or resume accretion of income when information becomes available that allows us to estimate the amount and timing of future cash flows.

OREO includes foreclosed property and branch facilities that we have closed but not sold. Net book values of OREO are reviewed at least annually to evaluate if write-downs are required. The level of review is dependent on the value and type of the collateral, with higher value and more complex properties receiving a more detailed review. Changes to the value of the assets between scheduled valuation dates are monitored through continued communication with brokers and monthly reviews by the asset manager assigned to each asset. The asset manager uses the information gathered from brokers and other market sources to identify any significant changes in the market or the subject property as they occur. Valuations are then adjusted or new appraisals are ordered to ensure the reported values reflect the most current information.

Since OREO is carried at the lower of cost or market value, less estimated selling costs, book value adjustments are only recorded when fair values have declined. Decisions regarding write-downs are based on factors including appraisals, previous offers received on the property, market conditions and the number of days the property has been on the market.

Table 15 provides details on nonperforming assets and other risk elements.

Table 15

NONPERFORMING ASSETS

	December 31		
(Dollars in thousands, except ratios)	2020	2019	2018
Nonaccrual loans and leases:			
Non-PCD	$ 136,544	$ 114,946	$ 84,546
PCD	54,939	6,743	1,276
Total nonaccrual loans	191,483	121,689	85,822
Other real estate owned	50,890	46,591	48,030
Total nonperforming assets	$ 242,373	$ 168,280	$ 133,852
Accruing loans and leases 90 days or more past due:			
Non-PCD	$ 5,507	$ 3,291	$ 2,888
PCD	355	24,257	37,020
Ratio of total nonperforming assets to total loans, leases and other real estate owned	0.74	0.58	0.52
Ratio of nonaccrual loans and leases to total loans and leases	0.58	0.42	0.34
Ratio of allowance for credit losses to nonaccrual loans and leases	117.1	185.0	260.7

The increase in nonaccrual loans and leases was impacted by the dissolution of PCI loan pools under the adoption of ASC 326 as those nonaccrual loans within performing PCI pools were previously excluded from reporting. As of December 31, 2020, there were $24.9 million of nonaccrual loans that had been released from performing PCI pools. The remaining increase in nonaccrual loans was primarily due to increases within our acquired residential real estate loan portfolio. The credit quality of the portfolio remains in line with our risk tolerances and management is actively monitoring any potential increases in portfolio risk due to COVID-19.

Troubled Debt Restructurings

A loan is considered a troubled debt restructuring ("TDR") when both of the following occur: (1) a modification to a borrower's debt agreement is made and (2) a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be granted. TDR concessions could include deferrals of interest, modifications of payment terms, or, in certain limited instances, forgiveness of principal or interest. Acquired loans are classified as TDRs if a modification is made subsequent to acquisition. We further classify TDRs as performing and nonperforming. Performing TDRs accrue interest at the time of restructure and continue to perform based on the restructured terms. Nonperforming TDRs do not accrue interest and are included with other nonperforming assets within nonaccrual loans and leases in Table 14 above.

The Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus was published by banking regulators in April 2020 to clarify expectations around loan modifications and the determination of TDRs for borrowers experiencing COVID-19-related financial difficulty. BancShares applied this regulatory guidance during its TDR identification process for short-term loan forbearance agreements as a result of COVID-19 and in most cases is not recording these as TDRs. See Note A, Accounting Policies and Basis of Presentation, in the Notes to Consolidated Financial Statements for discussion of our accounting policies for TDRs.

Table 16 provides further details on performing and nonperforming TDRs for the last three years.

Table 16
TROUBLED DEBT RESTRUCTURINGS

	December 31		
(Dollars in thousands)	2020	2019	2018
Accruing TDRs:			
Non-PCD	$ 139,747	$ 111,676	$ 108,992
PCD	17,617	17,074	18,101
Total accruing TDRs	$ 157,364	$ 128,750	$ 127,093
Nonaccruing TDRs:			
Non-PCD	43,470	42,331	28,918
PCD	7,346	111	119
Total nonaccruing TDRs	$ 50,816	$ 42,442	$ 29,037
All TDRs:			
Non-PCD	183,217	154,007	137,910
PCD	24,963	17,185	18,220
Total TDRs	$ 208,180	$ 171,192	$ 156,130

INTEREST-BEARING LIABILITIES

Interest-bearing liabilities include interest-bearing deposits, securities sold under customer repurchase agreements, FHLB borrowings, subordinated debt, and other borrowings. Interest-bearing liabilities totaled $27.31 billion at December 31, 2020, compared to $22.83 billion at December 31, 2019. The $4.48 billion increase was due to an increase in interest-bearing deposits of $3.91 billion and an increase in total borrowings of $562.8 million.

Deposits

At December 31, 2020, total deposits were $43.43 billion, an increase of $9.00 billion, or 26.1%, since 2019. This growth includes estimated deposits of $0.93 billion related to the SBA-PPP and deposits from acquisitions of $203.2 million. Excluding the impact of these deposits, total deposits increased $7.87 billion since December 31, 2019, or by 22.9%.

Table 17 provides deposit balances as of December 31, 2020 and 2019.

Table 17
DEPOSITS

(Dollars in thousands)	December 31 2020	December 31 2019
Demand	$ 18,014,029	$ 12,926,796
Checking with interest	10,591,687	8,284,302
Money market	8,632,713	6,817,752
Savings	3,304,167	2,564,777
Time	2,889,013	3,837,609
Total deposits	$ 43,431,609	$ 34,431,236

Due to our focus on maintaining a strong liquidity position, core deposit retention remains a key business objective. We believe that traditional bank deposit products remain an attractive option for many customers, but as economic conditions improve, we recognize that our liquidity position could be adversely affected as bank deposits are withdrawn and invested elsewhere. Our ability to fund future loan growth is significantly dependent on our success retaining existing deposits and generating new deposits at a reasonable cost.

Table 18 provides the expected maturity of time deposits in excess of $250 thousand, the FDIC insurance limit, as of December 31, 2020.

Table 18
MATURITIES OF TIME DEPOSITS IN EXCESS OF $250,000

(Dollars in thousands)	December 31 2020	December 31 2019
Time deposits maturing in:		
Three months or less	$ 136,200	$ 245,743
Over three months through six months	118,496	164,335
Over six months through 12 months	86,260	200,199
More than 12 months	311,956	209,941
Total	$ 652,912	$ 820,218

We estimate total uninsured deposits were $18.02 billion and $12.31 billion at December 31, 2020 and 2019, respectively.

Borrowings

At December 31, 2020, total borrowings were $1.89 billion compared to $1.33 billion at December 31, 2019. The $562.8 million increase was primarily due to an increase in subordinated debt of $341.1 million and an increase of $198.5 million in securities sold under customer repurchase agreements.

Table 19
BORROWINGS

(Dollars in thousands)	December 31 2020	December 31 2019
Securities sold under customer repurchase agreements	$ 641,487	$ 442,956
Federal Home Loan Bank borrowings	655,175	572,185
Subordinated debt		
SCB Capital Trust I	9,779	9,739
FCB/SC Capital Trust II	17,664	17,532
FCB/NC Capital Trust III	88,145	88,145
Capital Trust debentures assumed in acquisitions	14,433	14,433
3.375 %Fixed-to-Floating Rate Subordinated Notes due 2030	346,541	—
Other subordinated debt	27,956	33,563
Total subordinated debt	504,518	163,412
Other borrowings	88,470	148,318
Total borrowings	$ 1,889,650	$ 1,326,871

BancShares owns four special purpose entities – SCB Capital Trust I, FCB/SC Capital Trust II, FCB/NC Capital Trust III, and Macon Capital Trust I (the "Trusts"), which mature in 2034, 2034, 2036 and 2034, respectively. Subordinated debentures included junior subordinated debentures representing obligations to the Trusts, which may be redeemed at par in whole or in part at any time. BancShares has guaranteed all obligations of the Trusts.

On March 4, 2020, we completed a public offering of $350 million aggregate principal amount of our 3.375% Fixed-to-Floating Rate Subordinated Notes due 2030 and redeemable starting with the interest payment due March 15, 2025, subject to obtaining the prior approval of the Federal Reserve to the extent such approval is then required under the rules of the Federal Reserve, or earlier upon the occurrence of certain events.

Commitments and Contractual Obligations

Table 20 identifies significant obligations and commitments as of December 31, 2020 representing required and potential cash outflows. See Note T, Commitments and Contingencies, for additional information regarding total commitments. Loan commitments and standby letters of credit are presented at contractual amounts and do not necessarily reflect future cash outflows as many are expected to expire unused or partially used.

Table 20
COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Type of obligation	Payments due by period				
(Dollars in thousands)	Less than 1 year	1-3 years	3-5 years	Thereafter	Total
Contractual obligations:					
Time deposits	$ 1,844,860	$ 791,788	$ 110,868	$ 141,497	$ 2,889,013
Short-term borrowings	641,487	—	—	—	641,487
Long-term obligations	10,000	224,209	13,644	1,000,310	1,248,163
Estimated payment to settle FDIC clawback liability	15,888	—	—	—	15,888
Total contractual obligations	$ 2,512,235	$ 1,015,997	$ 124,512	$ 1,141,807	$ 4,794,551
Commitments:					
Loan commitments	$ 6,043,887	$ 2,065,797	$ 692,086	$ 3,296,647	$ 12,098,417
Standby letters of credit	114,042	15,572	45	160	129,819
Affordable housing partnerships	27,423	22,751	2,526	1,039	53,739
Total commitments	$ 6,185,352	$ 2,104,120	$ 694,657	$ 3,297,846	$ 12,281,975

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

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

During 2020, BancShares repurchased a total of 813,090 shares of Class A common stock, or 8.4% of outstanding Class A shares as of December 31, 2019, for $333.8 million at an average cost per share of $410.48. During 2019, BancShares repurchased a total of 998,910 shares of Class A common stock, or 9.4% of outstanding Class A shares of as of December 31, 2018, for $450.8 million at an average cost per share of $451.33. All share repurchases were executed under previously approved authorities.

Upon expiration of the most recent share repurchase authorization on July 31, 2020, share repurchase activity has ended and will be reevaluated in subsequent periods.

During 2020 and 2019, the share repurchases included 45,000 and 100,000 shares, respectively, of Class A common stock purchased from Ella Anna Holding, as trustee of her revocable trust. Mrs. Holding is the widow of BancShares' former Executive Vice Chairman, Frank B. Holding, and the mother of Frank B. Holding, Jr. and Hope H. Bryant, our Chairman and Chief Executive Officer and Vice Chairman, respectively.

Table 21 provides information on capital adequacy for BancShares and FCB as of December 31, 2020 and 2019.

Table 21
ANALYSIS OF CAPITAL ADEQUACY

		December 31, 2020		December 31, 2019	
(Dollars in thousands)	Requirements to be well-capitalized	Amount	Ratio	Amount	Ratio
BancShares					
Risk-based capital ratios					
Total risk-based capital	10.00 %	$ 4,577,212	13.81 %	$ 3,731,501	12.12 %
Tier 1 risk-based capital	8.00	3,856,086	11.63	3,344,305	10.86
Common equity Tier 1	6.50	3,516,149	10.61	3,344,305	10.86
Tier 1 leverage capital(1)	5.00	3,856,086	7.86	3,344,305	8.81
FCB					
Risk-based capital ratios					
Total risk-based capital	10.00	4,543,496	13.72	3,837,670	12.46
Tier 1 risk-based capital	8.00	4,276,870	12.92	3,554,974	11.54
Common equity Tier 1	6.50	4,276,870	12.92	3,554,974	11.54
Tier 1 leverage capital(2)	5.00	4,276,870	8.72	3,554,974	9.38

(1) The SBA-PPP program added $2.41 billion in outstanding loan balances and consequently decreased BancShares' Tier 1 leverage ratio by 59 bps; BancShares' Tier 1 leverage ratio would be estimated at 8.45% at December 31, 2020 without the impact of the SBA PPP program.
(2) The SBA-PPP program added $2.41 billion in outstanding loan balances and consequently decreased FCB's Tier 1 leverage ratio by 65 bps; FCB's Tier 1 leverage ratio would be estimated at 9.37% at December 31, 2020 without the impact of the SBA PPP program.

BancShares and FCB are required to meet minimum capital requirements set forth by regulatory authorities. Bank regulatory agencies have approved regulatory capital guidelines ("Basel III") aimed at strengthening existing capital requirements for banking organizations. Basel III became effective for BancShares on January 1, 2015. Under Basel III, requirements include total risk-based capital ratio minimum of 8.00%, Tier 1 risk-based capital minimum of 6.00%, a common equity Tier 1 ratio minimum of 4.50%, and Tier 1 leverage capital ratio minimum of 4.00%. Failure to meet minimum capital requirements may result in certain actions by regulators which could have a direct material effect on the consolidated financial statements.

BancShares and FCB both remain well-capitalized under Basel III capital requirements. BancShares and FCB had capital conservation buffers of 5.63% and 5.72%, respectively, at December 31, 2020. These buffers exceeded the 2.50% minimum requirement below which the regulators may impose limits on distributions.

At December 31, 2020, BancShares and FCB had $128.5 million and $24.0 million, respectively, of trust preferred capital securities and $377.5 million and $27.5 million, respectively, of qualifying subordinated debentures included in Tier 2 capital. At December 31, 2019, BancShares and FCB had $128.5 million and $24.0 million, respectively, of trust preferred capital securities and $32.5 million of qualifying subordinated debentures included in Tier 2 capital. Under current regulatory guidelines, when subordinated debentures are within five years of scheduled maturity date, issuers must discount the amount included in Tier 2 capital by 20% for each year until the debt matures. Once the debt is within one year of its scheduled maturity date, no amount of the debt is allowed to be included in Tier 2 capital.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

RISK MANAGEMENT

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

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

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

Enactment of the Economic Growth, Regulatory Relief and Consumer Protection Act in May 2018 significantly altered several provisions of the Dodd-Frank Act, including how stress tests are run. Bank holding companies with assets of less than $100 billion, such as BancShares, are no longer subject to company-run stress testing requirements in section 165(i)(2) of the Dodd-Frank Act, including publishing a summary of results; however, BancShares will continue to monitor and stress test its capital and liquidity consistent with the safety and soundness expectations of the federal regulators.

Credit risk management

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

We are actively monitoring our loan portfolio for areas of increased risk as a result of COVID-19. As of December 31, 2020, COVID-19 related loan extensions decreased to approximately $230.6 million in outstanding loan balances, representing approximately $6.3 million in payment deferrals. Through December 31, 2020, over 97% of all COVID-19 related loan extensions have begun repayment. Delinquency trends among loans entering repayment are in line with the remainder of the portfolio. We have not seen significant declines in overall credit quality, though the impact of the SBA-PPP and payment extensions could be delaying signs of credit deterioration.

Additionally, we are participating in the SBA-PPP program, which provided much needed funds to our existing small business customers, and we continue to assess both the credit and operational risks this program presents. BancShares originated approximately 23,000 SBA-PPP loans with an outstanding balance of $2.41 billion at December 31, 2020.

Our ACL estimate for the year ended December 31, 2020, included extensive reviews of the changes in credit risk associated with the uncertainties around economic forecasts and the overall economic impact of COVID-19. Expected loss estimates within each portfolio considered the potential impact of slower economic activity with elevated unemployment, as well as potential mitigating impact from the government stimulus and loan modification programs. These loss estimates additionally considered BancShares industry risk, historically strong credit quality and actual net losses incurred during prior periods of economic stress, as well as recent credit trends, which have not seen significant deterioration from COVID-19 as of December 31, 2020.

We maintain a well-diversified loan and lease portfolio and seek to minimize the risks associated with large concentrations within specific geographic areas, collateral types or industries. Despite our focus on diversification, several characteristics of our loan portfolio subject us to significant risk, such as our concentrations of real estate secured loans, revolving mortgage loans and medical- and dental-related loans.

We have historically carried a significant concentration of real estate secured loans but actively mitigate exposure through underwriting policies which primarily rely on borrower cash flow rather than underlying collateral values. When we do rely on underlying real property values, we favor financing secured by owner-occupied real property and, as a result, a large percentage of our real estate secured loans are owner occupied. At December 31, 2020, loans secured by real estate were $23.56 billion, or 71.8%, of total loans and leases compared to $22.38 billion, or 77.5% at December 31, 2019, and $19.57 billion, or 76.7%, at December 31, 2018.

Similar to our branch footprint, the collateral of loans secured by real estate is concentrated within North Carolina and South Carolina. At December 31, 2020, real estate located in North Carolina and South Carolina represented 37.0% and 15.8%, respectively, of all real estate used as collateral.

Table 22 provides the geographic distribution of real estate collateral by state.

Table 22
GEOGRAPHIC DISTRIBUTION OF REAL ESTATE COLLATERAL

	December 31, 2020
Collateral location	**Percent of real estate secured loans with collateral located in the state**
North Carolina	37.0
South Carolina	15.8
California	10.5
Florida	7.5
Georgia	6.7
Virginia	6.2
Washington	3.4
Texas	2.7
Tennessee	1.6
All other locations	8.6

Among real estate secured loans, our revolving mortgage loans (“Home Equity Lines of Credit” or “HELOCs”) present a heightened risk due to long commitment periods during which the financial position of individual borrowers or collateral values may deteriorate significantly. In addition, a large percentage of our HELOCs are secured by junior liens. Substantial declines in collateral values could cause junior lien positions to become effectively unsecured. HELOCs secured by real estate were $2.09 billion, or 6.4%, of total loans at December 31, 2020, compared to $2.38 billion, or 8.2%, at December 31, 2019, and $2.59 billion, or 10.2%, at December 31, 2018.

Except for loans acquired through mergers and acquisitions, we have not purchased HELOCs in the secondary market, nor have we originated these loans to customers outside of our market areas. All originated HELOCs were underwritten by us based on our standard lending criteria. The HELOC portfolio consists of variable rate lines of credit which allow customer draws during a specified period of the line of credit, with a portion switching to an amortizing term following the draw period. Approximately 80.9% of the revolving mortgage portfolio relates to properties in North Carolina and South Carolina. Approximately 37.3% of the loan balances outstanding are secured by senior collateral positions while the remaining 62.7% are secured by junior liens.

We actively monitor the portion of our HELOCs in the interest-only period and when they will mature. Approximately 87.5% of outstanding balances at December 31, 2020, require interest-only payments, while the remaining require monthly payments equal to the greater of 1.5% of the outstanding balance, or $100. When HELOCs switch from interest-only to fully amortizing, including principal and interest, some borrowers may not be able to afford the higher monthly payments. We have not experienced a significant increase in defaults as a result of these increased payments. In the normal course of business, the bank will work with each borrower as they approach the revolving period maturity date to discuss options for refinance or repayment.

Loans and leases to borrowers in medical, dental or related fields were $5.54 billion as of December 31, 2020, which represents 16.9% of total loans and leases, compared to $5.16 billion or 17.9% of total loans and leases at December 31, 2019, and $4.98 billion or 21.1% of total loans and leases at December 31, 2018. The credit risk of this industry concentration is mitigated through our underwriting policies which emphasize reliance on adequate borrower cash flow rather than underlying collateral value and our preference for financing secured by owner-occupied real property. Except for this single concentration, no other industry represented more than 10% of total loans and leases outstanding at December 31, 2020.

Interest rate risk management

Interest rate risk ("IRR") results principally from: assets and liabilities maturing or repricing at different points in time, assets and liabilities repricing at the same point in time but in different amounts, and short-term and long-term interest rates changing in different magnitudes.

We assess our short-term IRR by forecasting net interest income over 24 months under various interest rate scenarios and comparing those results to forecasted net interest income, assuming stable rates. IRR scenarios modeled include, but are not limited to, immediate, parallel rate shocks, interest rate ramps, changes in the shape of the yield curve and changes in the relationships of our rates to market rates.

Table 23 provides the impact on net interest income over 24 months resulting from various instantaneous interest rate shock scenarios as of December 31, 2020 and 2019.

Table 23
NET INCOME SENSITIVITY SIMULATION ANALYSIS

	Estimated (decrease) increase in net interest income	
Change in interest rate (basis points)	December 31, 2020	December 31, 2019
-100	(6.24)%	(8.00)%
+100	8.09	1.30
+200	14.57	0.01

Net interest income sensitivity metrics at December 31, 2020, compared to December 31, 2019, were primarily affected by an influx of non-maturity deposits during the year, following the onset of the COVID-19 pandemic, which helped boost overnight investments and improve sensitivity to rising interest rate shocks.

Long-term interest rate risk exposure is measured using the economic value of equity ("EVE") sensitivity analysis to study the impact of long-term cash flows on earnings and capital. EVE represents the difference between the sum of the present value of all asset cash flows and the sum of the present value of the liability cash flows. EVE sensitivity analysis involves discounting cash flows under different interest rate scenarios. The base-case measurement and its sensitivity to shifts in the yield curve allow management to measure longer-term repricing and option risk in the balance sheet.

Table 24 presents the EVE profile as of December 31, 2020 and 2019.

Table 24
ECONOMIC VALUE OF EQUITY MODELING ANALYSIS

	Estimated (decrease) increase in EVE	
Change in interest rate (basis points)	December 31, 2020	December 31, 2019
-100	(21.20)%	(8.25)%
+100	12.18	(0.03)
+200	15.71	(4.80)

The economic value of equity metrics at December 31, 2020, compared to December 31, 2019, saw improvement when measured against moderate rising rate shocks due largely to the same factors that impacted net interest income sensitivity.

We do not typically utilize interest rate swaps, floors, collars or other derivative financial instruments to attempt to hedge our overall balance sheet rate sensitivity and interest rate risk.

Table 25 provides loan maturity distribution information.

Table 25
LOAN MATURITY DISTRIBUTION

(Dollars in thousands)	At December 31, 2020, maturing Within One Year	One to Five Years	Five to 15 Years	After 15 years	Total
Commercial:					
Construction and land development	$ 250,382	$ 331,498	$ 307,768	$ 95,776	$ 985,424
Owner occupied commercial mortgage	572,611	3,311,479	6,857,005	423,917	11,165,012
Non-owner occupied commercial mortgage	257,558	1,289,739	1,385,624	54,768	2,987,689
Commercial and industrial and leases	1,024,974	2,502,099	1,475,041	11,530	5,013,644
SBA-PPP	—	2,406,291	—	—	2,406,291
Total commercial loans and leases	2,105,525	9,841,106	10,025,438	585,991	22,558,060
Consumer:					
Residential mortgage	145,012	454,419	1,334,611	3,627,644	5,561,686
Revolving mortgage	78,774	400,154	155,984	1,417,942	2,052,854
Construction and land development	33,709	84,692	15,450	214,272	348,123
Consumer auto	10,521	629,433	615,448	—	1,255,402
Consumer other	342,512	128,717	40,968	40,771	552,968
Total consumer loans	610,528	1,697,415	2,162,461	5,300,629	9,771,033
PCD loans	65,754	116,227	181,640	99,261	462,882
Total loans and leases	$ 2,781,807	$ 11,654,748	$ 12,369,539	$ 5,985,881	$ 32,791,975

Table 26 provides information regarding the sensitivity of loans and leases to changes in interest rates.

Table 26
LOAN INTEREST RATE SENSITIVITY

(Dollars in thousands)	Loans maturing after one year with Fixed interest rates	Variable interest rates
Commercial:		
Construction and land development	$ 473,204	$ 261,838
Owner occupied commercial mortgage	9,779,082	813,319
Non-owner occupied commercial mortgage	2,322,234	407,897
Commercial and industrial and leases	3,551,690	436,980
SBA-PPP	2,406,291	—
Total commercial loans and leases	18,532,501	1,920,034
Consumer:		
Residential mortgage	2,322,787	3,093,887
Revolving mortgage	41,232	1,932,848
Construction and land development	104,648	209,766
Consumer auto	1,244,881	—
Consumer other	124,526	85,930
Total consumer loans	3,838,074	5,322,431
PCD loans	188,458	208,670
Total loans and leases	$ 22,559,033	$ 7,451,135

Liquidity risk management

Liquidity risk is the risk an institution is unable to generate or obtain sufficient cash or its equivalents on a cost-effective basis to meet commitments as they fall due. The most common sources of liquidity risk arise from mismatches in the timing and value of on-balance sheet and off-balance sheet cash inflows and outflows. In general, on-balance sheet mismatches generate liquidity risk when the effective maturity of assets exceeds the effective maturity of liabilities. A commonly cited example of a balance sheet liquidity mismatch is when long-term loans (assets) are funded with short-term borrowings (liabilities). Other forms of liquidity risk include market constraints on the ability to convert assets into cash at expected levels, an inability to access funding sources at sufficient levels at a reasonable cost and changes in economic conditions or exposure to credit, market, operational, legal and reputation risks affecting an institution's liquidity risk profile.

We utilize various limit-based measures to monitor, measure and control liquidity risk across three different types of liquidity:

- Tactical - Measures the risk of a negative cash flow position whereby cash outflows exceed cash inflows over a short-term horizon out to nine weeks;
- Structural - Measures the amount by which illiquid assets are supported by long-term funding; and
- Contingent - Measures the risk of having insufficient liquidity sources to support cash needs under potential future stressed market conditions or having an inability to access wholesale funding sources in a timely and cost effective manner.

We aim to maintain a diverse mix of liquidity sources to support the liquidity management function, while aiming to avoid funding concentrations by diversifying our external funding with respect to maturities, counterparties and nature. Our primary source of liquidity is our branch-generated deposit portfolio due to the generally stable balances and low cost. Additional sources include cash in excess of our reserve requirement at the Federal Reserve Bank and various other correspondent bank accounts and unencumbered securities, which totaled $9.63 billion at December 31, 2020, compared to $3.57 billion at December 31, 2019. Another source of available funds is advances from the FHLB of Atlanta and Chicago. Outstanding FHLB advances were $655.2 million as of December 31, 2020, and we had sufficient collateral pledged to secure $7.99 billion of additional borrowings. Further, in the current year, $4.10 billion in non-PCD loans with a lendable collateral value of $3.32 billion were used to create additional borrowing capacity at the Federal Reserve Bank. We also maintain Federal Funds and other credit lines, which had $598.0 million of available capacity at December 31, 2020.

FOURTH QUARTER ANALYSIS

For the quarter ended December 31, 2020, net income was $138.1 million compared to $101.9 million for the corresponding quarter of 2019, an increase of $36.2 million or 35.5%. The increase was primarily the result of higher net interest income, higher noninterest income and lower provision expense, partially offset by higher noninterest expense. Earnings per share were $13.59 for the fourth quarter of 2020 compared to $9.55 for the same period a year ago.

Net interest income was $358.7 million, an increase of $31.6 million, or 9.7%, compared to the fourth quarter of 2019. The increase was primarily due to higher loan interest income driven by SBA-PPP loans, and organic loan growth and lower rates paid on interest-bearing liabilities. SBA-PPP loans contributed $42.2 million in interest and fee income during the quarter. This favorable impact was partially offset by a decline in investment securities interest income as a result of lower yields.

The taxable-equivalent net interest margin for the fourth quarter of 2020 was 3.02%, a decrease of 57 basis points from 3.59% in the same quarter in the prior year. The margin decline was primarily due to a lower yield on interest-earning assets, partially offset by a decline in rates paid on deposits and borrowings.

Income tax expense was $36.6 million in the fourth quarter of 2020, up from $29.7 million in the fourth quarter of 2019. The increase in income tax expense was a result of higher gross earnings, partially offset by a $3.5 million decrease due to BancShares' decision to utilize an allowable alternative for computing its 2020 federal income tax liability. An allowable alternative provides BancShares the ability to use the federal income tax rate for certain current year deductible amounts related to prior year FDIC-assisted acquisitions that was applicable when these amounts were originally subjected to tax. The effective tax rates were 21.0% and 22.5% during each of these respective periods. Without the alternative, the effective tax rate would have been approximately 23.0% for the fourth quarter.

Provision for credit losses was $5.4 million during the fourth quarter of 2020, compared to $7.7 million for the fourth quarter of 2019. The $2.3 million decrease was primarily due to limited movement in credit quality metrics and continued low net charge-offs. The net charge-off ratio was 0.07% for the fourth quarter of 2020, compared to 0.11% for the fourth quarter of 2019.

Noninterest income was $126.8 million for the fourth quarter of 2020, an increase of $22.4 million from the same period of 2019. The increase was primarily driven by an $11.8 million increase in marketable equity securities gains, a $6.5 million increase in mortgage income and a $5.0 million increase in gain on sale of investment securities available for sale. These increases were partially offset by a decrease of $4.3 million in service charges on deposit accounts.

Noninterest expense was $305.4 million for the fourth quarter of 2020, an increase of $13.1 million from the same quarter last year, largely due to an $8.7 million increase in personnel expense, primarily related to merit increases as well as personnel additions from acquisitions, a $3.8 million increase in occupancy expense, primarily due to enhanced cleaning and sanitation efforts in response to the COVID-19 pandemic, and a $3.7 million increase in processing fees paid to third parties.

Table 26 provides quarterly information for each quarter in 2020 and 2019. Table 27 provides the taxable equivalent rate/volume variance analysis between the fourth quarter of 2020 and 2019.

Table 27
SELECTED QUARTERLY DATA

(Dollars in thousands, except share data and ratios)	2020 Fourth Quarter	2020 Third Quarter	2020 Second Quarter	2020 First Quarter	2019 (1) Fourth Quarter	2019 (1) Third Quarter	2019 (1) Second Quarter	2019 (1) First Quarter
SUMMARY OF OPERATIONS								
Interest income	$ 376,876	$ 374,334	$ 363,257	$ 369,559	$ 354,048	$ 362,318	$ 350,721	$ 336,924
Interest expense	18,160	20,675	25,863	31,159	26,924	25,893	23,373	16,452
Net interest income	358,716	353,659	337,394	338,400	327,124	336,425	327,348	320,472
Provision for credit losses	5,403	4,042	20,552	28,355	7,727	6,766	5,198	11,750
Net interest income after provision for credit losses	353,313	349,617	316,842	310,045	319,397	329,659	322,150	308,722
Noninterest income	126,765	120,572	165,402	64,011	104,393	100,930	106,875	103,663
Noninterest expense	305,373	291,662	291,679	299,971	292,262	270,425	273,397	267,657
Income before income taxes	174,705	178,527	190,565	74,085	131,528	160,164	155,628	144,728
Income taxes	36,621	35,843	36,779	16,916	29,654	35,385	36,269	33,369
Net income	138,084	142,684	153,786	57,169	101,874	124,779	119,359	111,359
Net income available to common shareholders	$ 133,448	$ 138,048	$ 148,996	$ 57,169	$ 101,874	$ 124,779	$ 119,359	$ 111,359
Net interest income, taxable equivalent	$ 359,370	$ 354,256	$ 337,965	$ 339,174	$ 328,045	$ 337,322	$ 328,201	$ 321,372
PER COMMON SHARE DATA								
Net income	$ 13.59	$ 14.03	$ 14.74	$ 5.46	$ 9.55	$ 11.27	$ 10.56	$ 9.67
Cash dividends on common shares	0.47	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Market price at period end (Class A)	574.27	318.78	405.02	332.87	532.21	471.55	450.27	407.20
Book value at period-end	396.21	380.43	367.57	351.90	337.38	327.86	319.74	309.46
SELECTED QUARTERLY AVERAGE BALANCES								
Total assets	$ 49,557,803	$ 48,262,155	$ 45,553,502	$ 40,648,806	$ 38,326,641	$ 37,618,836	$ 37,049,030	$ 35,625,885
Investment securities	9,889,124	9,930,197	8,928,467	7,453,159	7,120,023	6,956,981	6,803,570	6,790,671
Loans and leases(2)	32,964,390	32,694,996	31,635,958	29,098,101	27,508,062	26,977,476	26,597,242	25,515,988
Interest-earning assets	46,922,823	45,617,376	42,795,781	38,004,341	36,032,680	35,293,979	34,674,842	33,432,162
Deposits	43,123,312	41,905,844	39,146,415	34,750,061	33,295,141	32,647,264	32,100,210	30,802,567
Interest-bearing liabilities	26,401,222	25,591,707	24,407,285	23,153,777	20,958,943	20,551,393	20,397,445	19,655,434
Securities sold under customer repurchase agreements	684,311	710,237	659,244	474,231	495,804	533,371	556,374	538,162
Other short-term borrowings	—	—	45,549	157,759	28,284	23,236	40,513	—
Long-term borrowings	1,250,682	1,256,331	1,275,928	961,132	467,223	384,047	371,843	344,225
Common shareholders' equity	3,786,158	3,679,138	3,648,284	3,625,975	3,570,872	3,580,235	3,546,041	3,509,746
Shareholders' equity	$ 4,126,095	$ 4,019,075	$ 3,988,225	$ 3,682,634	$ 3,570,872	$ 3,580,235	$ 3,546,041	$ 3,509,746
Common shares outstanding	9,816,405	9,836,629	10,105,520	10,473,119	10,708,084	11,060,462	11,286,520	11,519,008
SELECTED QUARTER-END BALANCES								
Total assets	$ 49,957,680	$ 48,666,873	$ 47,866,194	$ 41,594,453	$ 39,824,496	$ 37,748,324	$ 37,655,094	$ 35,961,670
Investment securities	9,922,905	9,860,594	9,508,476	8,845,197	7,173,003	7,167,680	6,695,578	6,914,513
Loans and leases	32,791,975	32,845,144	32,418,425	29,240,959	28,881,496	27,196,511	26,728,237	25,463,785
Deposits	43,431,609	42,250,606	41,479,245	35,346,711	34,431,236	32,743,277	32,719,671	31,198,093
Securities sold under customer repurchase agreements	641,487	693,889	740,276	540,362	442,956	522,195	544,527	508,508
Other short-term borrowings	—	—	—	105,000	295,277	—	—	—
Long-term borrowings	1,248,163	1,252,016	1,258,719	1,297,132	588,638	453,876	369,854	341,108
Shareholders' equity	$ 4,229,268	$ 4,074,414	$ 3,991,444	$ 3,957,520	$ 3,586,184	$ 3,568,482	$ 3,574,613	$ 3,523,309
Common shares outstanding	9,816,405	9,816,405	9,934,105	10,280,105	10,629,495	10,884,005	11,179,905	11,385,405
SELECTED RATIOS AND OTHER DATA								
Rate of return on average assets (annualized)	1.11 %	1.18 %	1.36 %	0.57 %	1.05 %	1.32 %	1.29 %	1.27 %
Rate of return on average shareholders' equity (annualized)	14.02	14.93	16.43	6.34	11.32	13.83	13.50	12.86
Net yield on interest-earning assets (taxable equivalent)	3.02	3.06	3.14	3.55	3.59	3.77	3.77	3.86
Allowance for credit losses to total loans and leases:								
PCD	5.18	5.07	5.07	4.80	1.35	1.34	1.51	1.61
Non-PCD	0.62	0.61	0.61	0.64	0.77	0.82	0.83	0.88
Total	0.68	0.68	0.69	0.72	0.78	0.83	0.85	0.90
Ratio of total nonperforming assets to total loans, leases and other real estate owned	0.74	0.73	0.77	0.79	0.58	0.57	0.56	0.53
Total risk-based capital ratio	13.81	13.70	13.63	13.65	12.12	13.09	13.34	14.02
Tier 1 risk-based capital ratio	11.63	11.48	11.38	11.43	10.86	11.80	12.03	12.69
Tier 1 common equity ratio	10.61	10.43	10.32	10.36	10.86	11.80	12.03	12.69
Tier 1 leverage capital ratio	7.86	7.80	8.07	8.98	8.81	9.18	9.35	9.80
Dividend payout ratio	3.46	2.85	2.71	7.33	4.19	3.55	3.79	4.14
Average loans and leases to average deposits	76.44	78.02	80.81	83.74	82.62	82.63	82.86	82.84

(1) We adopted ASC Topic 326 ("CECL") utilizing the modified retrospective approach. We did not restate selected financial data for the quarters prior to 2020 presented above.

(2) Average loan and lease balances include PCI loans, non-PCI loans and leases, loans held for sale and nonaccrual loans and leases.

Table 28
CONSOLIDATED TAXABLE EQUIVALENT RATE/VOLUME VARIANCE ANALYSIS - FOURTH QUARTER

(Dollars in thousands, taxable equivalent)	2020 Average Balance	2020 Interest Income/ Expense	2020 Yield/ Rate[2]	2019 Average Balance	2019 Interest Income/ Expense	2019 Yield/ Rate	Increase (decrease) due to: Volume	Increase (decrease) due to: Yield/ Rate	Increase (decrease) due to: Total Change
Assets									
Loans and leases[1]	$ 32,964,390	$ 345,300	4.12 %	$ 27,508,062	$ 308,832	4.42 %	$ 66,088	$ (29,620)	$ 36,468
Investment securities:									
U.S. Treasury	526,072	250	0.19	595,515	3,706	2.47	(441)	(3,015)	(3,456)
Government agency	695,757	1,574	0.90	659,857	4,224	2.56	230	(2,880)	(2,650)
Mortgage-backed securities	7,981,834	21,130	1.06	5,563,653	29,964	2.15	13,286	(22,120)	(8,834)
Corporate bonds	591,780	7,657	5.18	172,424	2,165	5.02	5,266	226	5,492
Other investments	93,681	600	2.55	128,574	653	2.02	(174)	121	(53)
Total investment securities	9,889,124	31,211	1.26	7,120,023	40,712	2.29	18,167	(27,668)	(9,501)
Overnight investments	4,069,309	1,019	0.10	1,404,595	5,425	1.53	10,248	(14,654)	(4,406)
Total interest-earning assets	46,922,823	$ 377,530	3.17 %	36,032,680	$ 354,969	3.89 %	$ 94,503	$ (71,942)	$ 22,561
Cash and due from banks	325,890			255,963					
Premises and equipment	1,262,831			1,229,445					
Allowance for credit losses	(225,339)			(225,170)					
Other real estate owned	50,949			44,134					
Other assets	1,220,649			989,589					
Total assets	$ 49,557,803			$ 38,326,641					
Liabilities									
Interest-bearing deposits:									
Checking with interest	$ 9,688,744	$ 1,533	0.06 %	$ 7,608,857	$ 1,561	0.08 %	$ 421	$ (449)	$ (28)
Savings	3,230,625	306	0.04	2,596,608	439	0.07	106	(239)	(133)
Money market accounts	8,529,816	3,242	0.15	6,248,735	7,066	0.45	2,553	(6,377)	(3,824)
Time deposits	3,017,044	5,976	0.79	3,513,432	13,367	1.51	(1,920)	(5,471)	(7,391)
Total interest-bearing deposits	24,466,229	11,057	0.18	19,967,632	22,433	0.45	1,160	(12,536)	(11,376)
Securities sold under customer repurchase agreements	684,311	374	0.22	495,804	479	0.38	180	(285)	(105)
Other short-term borrowings	—	—	—	28,284	190	2.63	(190)	—	(190)
Long-term borrowings	1,250,682	6,729	2.13	467,223	3,822	3.20	7,058	(4,151)	2,907
Total interest-bearing liabilities	26,401,222	18,160	0.27	20,958,943	26,924	0.51	8,208	(16,972)	(8,764)
Demand deposits	18,657,083			13,327,509					
Other liabilities	373,403			469,317					
Shareholders' equity	4,126,095			3,570,872					
Total liabilities and shareholders' equity	$ 49,557,803			$ 38,326,641					
Interest rate spread			2.90 %			3.38 %			
Net interest income and net yield on interest-earning assets		$ 359,370	3.02 %		$ 328,045	3.59 %	$ 86,295	$ (54,970)	$ 31,325

[1] Loans and leases include PCI loans and non-PCI loans, nonaccrual loans and loans held for sale. Interest income on loans and leases includes accretion income and loan fees. Loan fees were $39.8 million and $3.0 million for the three months ended December 31, 2020, and 2019, respectively.

[2] Yields related to loans, leases and securities exempt from both federal and state income taxes, federal income taxes only or state income taxes only are stated on a taxable-equivalent basis assuming statutory federal income tax rates of 21.0% as well as state income tax rates of 3.5% and 3.9% for the three months ended December 31, 2020, and 2019, respectively. The taxable-equivalent adjustment was $654 thousand and $921 thousand for the three months ended December 31, 2020, and 2019, respectively.

DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of First Citizens BancShares, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of First Citizens BancShares, Inc. and Subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2021 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Notes A and E to the consolidated financial statements, the Company changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Accounting Standards Codification (ASC) Topic 326 *Financial Instruments – Credit Losses*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses (ACL)

The Company's loans and leases portfolio totaled $32.8 billion and the associated allowance for credit losses (ACL) was $224.3 million at December 31, 2020. As described in Note A, the Company adopted ASC 326, *Financial Instruments – Credit Losses* as of January 1, 2020. As described in Notes A and E of the consolidated financial statements, the ACL represents management’s best estimate of credit losses expected over the life of the loan, adjusted for expected contractual payments and estimated prepayments. Loans within the various reporting classes are segregated into pools with similar risk characteristics and each have a model that is utilized to estimate the ACL. These models estimate the probability of default and loss given default for individual loans within each pool based on historical loss experience, borrower characteristics, collateral type, forecasts of relevant economic conditions, expected future recoveries and other factors. The Company uses a two-year reasonable and supportable forecast period which incorporates macroeconomic forecasts. Significant economic factors used in estimating the expected losses include unemployment, gross domestic product, home price and commercial real estate indices. A twelve month straight-line reversion period to historical averages is used for model inputs, however for the commercial card and certain consumer portfolios, immediate reversion to historical net loss rates is utilized. Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not captured within the models including credit quality, concentrations, and significant policy and underwriting changes.

We identified the ACL for loans and leases as a critical audit matter. The principal considerations for our determination of the ACL for loans and leases as a critical audit matter includes the subjectivity, complexity and estimation uncertainty involved in determining significant model assumptions and adjusting model outputs to reflect economic and portfolio trends and conditions not captured within the models. This required a high degree of auditor effort, including specialized skills and knowledge, and subjective and complex auditor judgment in evaluating the estimated credit losses for the loan and lease portfolios.

The primary procedures we performed to address this critical audit matter included:

- We obtained an understanding of the Company’s models and the process for establishing the ACL for the loan and lease portfolio, tested the design and operating effectiveness of controls relating to management’s determination of the ACL for loans and leases, including controls over the ACL models and the inputs and assumptions used to support the reserve calculations. Controls over the models include review of the model calculations, the macro-economic forecasts utilized in the models which also included sensitivity and other analysis by management as it relates to unemployment, gross domestic product, home price indices and commercial real estate indices, as well as monitoring of past due trends and adversely classified assets as well as risk ratings by industry. Additionally, we tested controls over the approval of key policies and decisions during the implementation of the new accounting standard and validation of the models.
- We involved valuation specialists to test the appropriateness of the design and operation of the models, including recalculations of modeled ACL reserves on certain portfolios.
- We evaluated the reasonableness of management’s application of industry and qualitative factor adjustments to the ACL, including the comparison of factors considered by management to third party or internal sources as well as evaluated the appropriateness and level of the qualitative factor adjustments.
- We assessed the overall trends in credit quality by comparing the Company’s year-over-year and quarterly changes in qualitative factors and the ACL.
- We evaluated management’s determination of reasonable and supportable forecasts, including comparing key factors to independent sources as well as involving our valuation specialists in testing the application of forecasts in the model calculation.
- We evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company’s conclusion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company’s auditor since 2004.

Raleigh, North Carolina
February 24, 2021

DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of First Citizens BancShares, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited First Citizens BancShares, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, First Citizens BancShares, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and our report dated February 24, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As described in Management's Annual Report on Internal Control Over Financial Reporting, the scope of management's assessment of internal control over financial reporting as of December 31, 2020 has excluded Community Financial Holding Company, Inc. acquired on February 1, 2020. We have also excluded Community Financial Holding Company, Inc. from the scope of our audit of internal control over financial reporting. Community Financial Holding Company, Inc. represented 0.34 percent and 0.22 percent of consolidated revenues (total interest income and total noninterest income) and consolidated total assets, respectively, for the year ended December 31, 2020.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Dixon Hughes Goodman LLP

Raleigh, North Carolina
February 24, 2021

First Citizens BancShares, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, except share data)	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 362,048	$ 376,719
Overnight investments	4,347,336	1,107,844
Investment in marketable equity securities (cost of $84,837 at December 31, 2020 and $59,262 at December 31, 2019)	91,680	82,333
Investment securities available for sale (cost of $6,911,965 at December 31, 2020 and $7,052,152 at December 31, 2019)	7,014,243	7,059,674
Investment securities held to maturity (fair value of $2,838,499 at December 31, 2020 and $30,996 at December 31, 2019)	2,816,982	30,996
Loans held for sale	124,837	67,869
Loans and leases	32,791,975	28,881,496
Allowance for credit losses	(224,314)	(225,141)
Net loans and leases	32,567,661	28,656,355
Premises and equipment	1,251,283	1,244,396
Other real estate owned	50,890	46,591
Income earned not collected	145,694	123,154
Goodwill	350,298	349,398
Other intangible assets	50,775	68,276
Other assets	783,953	610,891
Total assets	$ 49,957,680	$ 39,824,496
Liabilities		
Deposits:		
Noninterest-bearing	$ 18,014,029	$ 12,926,796
Interest-bearing	25,417,580	21,504,440
Total deposits	43,431,609	34,431,236
Securities sold under customer repurchase agreements	641,487	442,956
Federal Home Loan Bank borrowings	655,175	572,185
Subordinated debt	504,518	163,412
Other borrowings	88,470	148,318
FDIC shared-loss payable	15,601	112,395
Other liabilities	391,552	367,810
Total liabilities	45,728,412	36,238,312
Shareholders' equity		
Common stock:		
Class A - $1 par value (16,000,000 shares authorized; 8,811,220 and 9,624,310 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively)	8,811	9,624
Class B - $1 par value (2,000,000 shares authorized; 1,005,185 shares issued and outstanding at December 31, 2020 and December 31, 2019)	1,005	1,005
Preferred stock - $0.01 par value (10,000,000 shares authorized; 345,000 and no shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively)	339,937	—
Surplus	—	44,081
Retained earnings	3,867,252	3,658,197
Accumulated other comprehensive income (loss)	12,263	(126,723)
Total shareholders' equity	4,229,268	3,586,184
Total liabilities and shareholders' equity	$ 49,957,680	$ 39,824,496

See accompanying Notes to Consolidated Financial Statements.

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

(Dollars in thousands, except share and per share data)	Year ended December 31 2020	2019	2018
Interest income			
Loans and leases	$ 1,332,720	$ 1,217,306	$ 1,073,051
Investment securities interest and dividend income	144,459	160,460	150,709
Overnight investments	6,847	26,245	21,997
Total interest income	1,484,026	1,404,011	1,245,757
Interest expense			
Deposits	66,635	76,254	22,483
Securities sold under customer repurchase agreements	1,610	1,995	1,594
Federal Home Loan Bank borrowings	9,763	5,472	5,801
Subordinated debt	16,074	7,099	6,277
Other borrowings	1,775	1,822	702
Total interest expense	95,857	92,642	36,857
Net interest income	1,388,169	1,311,369	1,208,900
Provision for credit losses	58,352	31,441	28,468
Net interest income after provision for credit losses	1,329,817	1,279,928	1,180,432
Noninterest income			
Wealth management services	102,776	99,241	97,966
Service charges on deposit accounts	87,662	105,191	105,486
Cardholder services, net	74,291	69,078	65,478
Mortgage income	39,592	21,126	16,433
Other service charges and fees	30,911	31,644	30,606
Merchant services, net	24,122	24,304	24,504
Insurance commissions	14,544	12,810	12,702
ATM income	5,758	6,296	7,980
Realized gains on investment securities available for sale, net	60,253	7,115	351
Marketable equity securities gains (losses), net	29,395	20,625	(7,610)
Gain on extinguishment of debt	—	—	26,553
Other	7,446	18,431	19,700
Total noninterest income	476,750	415,861	400,149
Noninterest expense			
Salaries and wages	590,020	551,112	527,691
Employee benefits	132,244	120,501	118,203
Occupancy expense	117,169	111,179	109,169
Equipment expense	115,535	112,290	102,909
Processing fees paid to third parties	44,791	29,552	30,017
FDIC insurance expense	12,701	10,664	18,890
Collection and foreclosure-related expenses	13,658	11,994	16,567
Merger-related expenses	17,450	17,166	6,462
Other	145,117	139,283	147,063
Total noninterest expense	1,188,685	1,103,741	1,076,971
Income before income taxes	617,882	592,048	503,610
Income taxes	126,159	134,677	103,297
Net income	$ 491,723	$ 457,371	$ 400,313
Less: Preferred stock dividends	14,062	—	—
Net income available to common shareholders	$ 477,661	$ 457,371	$ 400,313
Weighted average common shares outstanding	10,056,654	11,141,069	11,938,439
Earnings per common share	$ 47.50	$ 41.05	$ 33.53
Dividends declared per common share	1.67	1.60	1.45

See accompanying Notes to Consolidated Financial Statements.

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

(Dollars in thousands)	Year ended December 31 2020	2019	2018
Net income	$ 491,723	$ 457,371	$ 400,313
Other comprehensive income			
Unrealized gains on securities available for sale:			
Unrealized gains on securities available for sale arising during the period	155,009	64,644	29,170
Tax effect	(35,652)	(14,868)	(6,709)
Reclassification adjustment for realized gains on securities available for sale included in income before income taxes	(60,253)	(7,115)	(351)
Tax effect	13,858	1,636	81
Unrealized gains on securities available for sale arising during the period, net of tax	72,962	44,297	22,191
Unrealized gains (losses) on securities available for sale transferred from/to held to maturity:			
Unrealized gains (losses) on securities available for sale transferred from/to held to maturity	5,894	72,512	(109,507)
Tax effect	(1,356)	(16,678)	25,186
Reclassification adjustment for accretion of unrealized (gains) losses on securities available for sale transferred to held to maturity	(495)	19,889	17,106
Tax effect	114	(4,574)	(3,934)
Total change in unrealized gains (losses) on securities available for sale transferred to held to maturity, net of tax	4,157	71,149	(71,149)
Defined benefit pension items:			
Actuarial gains (losses) arising during the period	55,023	(20,049)	(32,012)
Tax effect	(12,656)	4,611	7,363
Amortization of actuarial losses and prior service cost	25,324	10,981	13,981
Tax effect	(5,824)	(2,525)	(3,216)
Total change from defined benefit plans, net of tax	61,867	(6,982)	(13,884)
Other comprehensive income (loss)	138,986	108,464	(62,842)
Total comprehensive income	$ 630,709	$ 565,835	$ 337,471

See accompanying Notes to Consolidated Financial Statements.

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

(Dollars in thousands, except share and per share data)	Class A Common Stock	Class B Common Stock	Preferred Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2017	$ 11,005	$ 1,005	$ —	$ 658,918	$ 2,785,430	$ (122,294)	$ 3,334,064
Cumulative effect of adoption of ASU 2016-01	—	—	—	—	18,715	(18,715)	—
Cumulative effect of adoption of ASU 2018-02	—	—	—	—	31,336	(31,336)	—
Net income	—	—	—	—	400,313	—	400,313
Other comprehensive loss, net of tax	—	—	—	—	—	(62,842)	(62,842)
Repurchase of 382,000 shares of Class A common stock	(382)	—	—	(164,956)	—	—	(165,338)
Cash dividends declared ($1.45 per common share)							
Class A common stock	—	—	—	—	(15,785)	—	(15,785)
Class B common stock	—	—	—	—	(1,458)	—	(1,458)
Balance at December 31, 2018	10,623	1,005	—	493,962	3,218,551	(235,187)	3,488,954
Net income	—	—	—	—	457,371	—	457,371
Other comprehensive income, net of tax	—	—	—	—	—	108,464	108,464
Repurchase of 998,910 shares of Class A common stock	(999)	—	—	(449,881)	—	—	(450,880)
Cash dividends declared ($1.60 per common share)							
Class A common stock	—	—	—	—	(16,117)	—	(16,117)
Class B common stock	—	—	—	—	(1,608)	—	(1,608)
Balance at December 31, 2019	9,624	1,005	—	44,081	3,658,197	(126,723)	3,586,184
Cumulative effect of adoption of ASC 326	—	—	—	—	36,943	—	36,943
Net income	—	—	—	—	491,723	—	491,723
Other comprehensive income, net of tax	—	—	—	—	—	138,986	138,986
Issuance of preferred stock	—	—	339,937	—	—	—	339,937
Repurchase of 813,090 shares of Class A common stock	(813)	—	—	(44,081)	(288,861)	—	(333,755)
Cash dividends declared ($1.67 per common share)							
Class A common stock	—	—	—	—	(15,010)	—	(15,010)
Class B common stock	—	—	—	—	(1,678)	—	(1,678)
Preferred stock dividends declared	—	—	—	—	(14,062)	—	(14,062)
Balance at December 31, 2020	$ 8,811	$ 1,005	$ 339,937	$ —	$ 3,867,252	$ 12,263	$ 4,229,268

See accompanying Notes to Consolidated Financial Statements.

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

	Year ended December 31		
(Dollars in thousands)	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 491,723	$ 457,371	$ 400,313
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for credit losses on loans and leases	58,352	31,441	28,468
Deferred tax (benefit) expense	(25,535)	54,598	(13,377)
Net (increase) decrease in current tax receivable	(5,894)	(19,564)	23,353
Depreciation and amortization	108,641	103,828	96,781
Net (decrease) increase in accrued interest payable	(8,683)	14,412	(240)
Net increase in income earned not collected	(21,982)	(4,151)	(10,785)
Contribution to pension plans	(100,000)	(3,592)	(50,000)
Realized gains on investment securities available for sale, net	(60,253)	(7,115)	(351)
Marketable equity securities (gains) losses, net	(29,395)	(20,625)	7,610
Gain on extinguishment of debt	—	—	(26,553)
Origination of loans held for sale	(1,078,096)	(736,015)	(593,307)
Proceeds from sale of loans held for sale	1,045,937	731,803	608,549
Gain on sale of loans	(37,594)	(15,183)	(11,210)
Net write-downs/losses on other real estate owned	4,056	2,664	4,390
Net accretion of premiums and discounts	(8,513)	(27,263)	(32,291)
Amortization of intangible assets	32,801	23,861	23,648
Net change in mortgage servicing rights	(12,149)	(5,927)	(5,258)
Net change in other assets	(7,286)	(24,274)	(5,076)
Net change in other liabilities	(6,115)	(15,992)	9,105
Net cash provided by operating activities	340,015	540,277	453,769
CASH FLOWS FROM INVESTING ACTIVITIES			
Net increase in loans outstanding	(3,803,188)	(1,282,880)	(1,023,885)
Purchases of investment securities available for sale	(8,678,543)	(4,705,038)	(1,451,287)
Purchases of investment securities held to maturity	(1,633,165)	(223,598)	(97,827)
Purchases of marketable equity securities	(333,140)	(26,166)	(2,818)
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	301,347	341,077	296,632
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	2,791,291	2,345,512	1,664,730
Proceeds from sales of investment securities available for sale	4,585,002	2,308,856	360,218
Proceeds from sales of marketable equity securities	352,835	56,749	9,528
Net (increase) decrease in overnight investments	(3,204,363)	(65,181)	601,979
Proceeds from sales of loans held for investment	13,368	24,247	9,591
Cash paid to FDIC for settlement of shared-loss agreement	(99,468)	—	—
Proceeds from sales of other real estate owned	28,280	25,918	28,128
Proceeds from sales of premises and equipment	1,369	132	1,721
Purchases of premises and equipment	(133,384)	(121,077)	(140,444)
Business acquisitions, net of cash acquired	(59,999)	(236,728)	(155,126)
Net cash (used in) provided by investing activities	(9,871,758)	(1,558,177)	101,140
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in time deposits	(1,010,190)	284,611	33,023
Net increase in demand and other interest-bearing deposits	9,989,107	1,154,815	457,196
Net decrease in short-term borrowings	(96,746)	(27,703)	(246,517)
Repayment of long-term obligations	(86,737)	(73,284)	(752,447)
Origination of long-term obligations	400,000	200,000	125,000
Net proceeds from subordinated notes issuance	345,849	—	—
Net proceeds from preferred stock issuance	339,937	—	—
Repurchase of common stock	(333,755)	(453,123)	(163,095)
Cash dividends paid	(30,393)	(18,137)	(16,779)
Net cash provided by (used in) financing activities	9,517,072	1,067,179	(563,619)
Change in cash and due from banks	(14,671)	49,279	(8,710)
Cash and due from banks at beginning of period	376,719	327,440	336,150
Cash and due from banks at end of period	$ 362,048	$ 376,719	$ 327,440

(Dollars in thousands)	Year ended December 31 2020	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Interest	$ 104,567	$ 78,230	$ 37,097
Income taxes	116,583	83,038	73,806
Significant noncash investing and financing activities:			
Transfers of loans to other real estate	11,635	14,639	23,375
Dividends declared but not paid	4,613	4,256	4,668
Net reclassification of portfolio loans from (to) loans held for sale	1,687	22,034	(2,433)
Transfer of investment securities available for sale to (from) held to maturity	1,460,745	(2,080,617)	2,485,761
Transfer of investment securities available for sale to marketable equity securities	—	—	107,578
Transfers of premises and equipment to other real estate	15,187	7,045	1,622
Premises and equipment acquired through finance leases and other financing arrangements	—	—	12,196
Unsettled common stock repurchases	—	—	2,243

See accompanying Notes to Consolidated Financial Statements.

NOTE A
ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Nature of Operations

First Citizens BancShares, Inc. ("we," "us," "our," "BancShares,") is a financial holding company organized under the laws of Delaware and conducts operations through its banking subsidiary, First-Citizens Bank & Trust Company ("FCB," or "the Bank"), which is headquartered in Raleigh, North Carolina. BancShares and its subsidiaries operate 542 branches in 19 states predominantly located in the Southeast, Mid-Atlantic, Midwest and Western United States (the "U.S."). BancShares seeks to meet the financial needs of individuals and commercial entities in its market areas through a wide range of retail and commercial banking services. Loan services include various types of commercial, business and consumer lending. Deposit services include checking, savings, money market and time deposit accounts. First Citizens Wealth Management provides holistic, goals-based advisory services encompassing a broad range of client deliverables. These deliverables include wealth planning, discretionary investment advisory services, insurance, brokerage, defined benefit and defined contribution services, private banking, trust, fiduciary, philanthropy and special asset services.

Principles of Consolidation and Basis of Presentation

The accounting and reporting policies of BancShares and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry.

The consolidated financial statements of BancShares include the accounts of BancShares and its subsidiaries, certain partnership interests and variable interest entities. All significant intercompany accounts and transactions are eliminated upon consolidation. BancShares operates with centralized management and combined reporting; thus, BancShares operates as one consolidated reportable segment.

Variable interest entities ("VIE") are legal entities that either do not have sufficient equity to finance their activities without the support from other parties or whose equity investors lack a controlling financial interest. FCB has investments in certain partnerships and limited liability entities that have been evaluated and determined to be VIEs. Consolidation of a VIE is appropriate if a reporting entity holds a controlling financial interest in the VIE and is the primary beneficiary. FCB is not the primary beneficiary and does not hold a controlling interest in the VIEs as it does not have the power to direct the activities that most significantly impact the VIEs' economic performance. As such, assets and liabilities of these entities are not consolidated into the financial statements of BancShares. The recorded investment in these entities is reported within other assets.

Reclassifications

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions impacting the amounts reported. Actual results could differ from those estimates. The estimates BancShares considers significant are the allowance for credit losses, fair value measurements, and income taxes.

Business Combinations

BancShares accounts for all business combinations using the acquisition method of accounting. Under this method, acquired assets and assumed liabilities are included with the acquirer's accounts as of the date of acquisition, with any excess of purchase price over the fair value of the net assets acquired recognized as either finite lived intangibles or capitalized as goodwill. In addition, acquisition-related and restructuring costs are recognized as period expenses as incurred. See Note B, Business Combinations, for additional information.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks and federal funds sold. Cash and cash equivalents have initial maturities of three months or less. The carrying value of cash and cash equivalents approximates its fair value due to its short-term nature.

Debt Securities

BancShares classifies debt securities as held to maturity ("HTM") or available for sale ("AFS"). Debt securities are classified as HTM when BancShares has the intent and ability to hold the securities to maturity. HTM securities are reported at amortized cost. Other debt securities are classified as AFS and reported at estimated fair value, with unrealized gains and losses, net of income taxes, reported in Accumulated Other Comprehensive Income ("AOCI"). Amortization of premiums and accretion of discounts for debt securities are recorded in interest income. Realized gains and losses from the sale of debt securities are determined by specific identification on a trade date basis and are included in noninterest income.

BancShares performs pre-purchase due diligence and evaluates the credit risk of AFS and HTM debt securities purchased directly into our portfolio or via acquisition. If securities have evidence of more than insignificant credit deterioration since issuance, they are designated as purchased credit deteriorated ("PCD"). PCD debt securities are recorded at fair value at the date of acquisition, which includes an associated allowance for credit losses ("ACL") that is added to the purchase price or fair value to arrive at the Day 1 amortized cost basis. Excluding the ACL, the difference between the purchase price and the Day 1 amortized cost is amortized or accreted to interest income over the contractual life of the securities using the effective interest method.

For AFS debt securities, management performs a quarterly analysis of the investment portfolio to evaluate securities currently in an unrealized loss position for potential credit-related impairment. If BancShares intends to sell a security, or does not have the intent and ability to hold a security before recovering the amortized cost, the entirety of the unrealized loss is immediately recorded in earnings. For the remaining securities, an analysis is performed to determine if any portion of the unrealized loss recorded relates to credit impairment. If credit-related impairment exists, the amount is recorded through the ACL and related provision. This review includes indicators such as changes in credit rating, delinquency, bankruptcy or other significant news event impacting the issuer.

BancShares' portfolio of HTM debt securities is made up of mortgage-backed securities issued by government agencies and government sponsored entities. Given the historically strong credit rating of the U.S. Treasury and the long history of no credit losses on debt securities issued by government agencies and government sponsored entities, we determined zero expected credit losses on the HTM portfolio.

Equity Securities

Equity securities are recorded on a trade date basis and measured at fair value. Realized and unrealized gains and losses are determined by specific identification and are included in noninterest income. Non-marketable equity securities are securities with no readily determinable fair values and are measured at cost. BancShares evaluates its non-marketable equity securities for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of the issuer, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in noninterest expense. Non-marketable equity securities were $11.6 million and $12.5 million at December 31, 2020 and 2019, respectively, and are included in other assets.

Other Securities

Membership in the Federal Home Loan Bank ("FHLB") network requires ownership of FHLB restricted stock. This stock is restricted as it may only be sold to the FHLB and all sales must be at par. Accordingly, the FHLB restricted stock is carried at cost, less any applicable impairment charges and is recorded within other assets. FHLB restricted stock was $45.4 million and $43.0 million at December 31, 2020 and 2019, respectively. Additionally, BancShares holds approximately 354,000 shares of Visa Class B common stock. Visa Class B shares are not considered to have a readily determinable fair value and are recorded at $0.

Investments in Qualified Affordable Housing Projects

BancShares and FCB have investments in qualified affordable housing projects primarily for the purposes of fulfilling Community Reinvestment Act requirements and obtaining tax credits. These investments are accounted for using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received, and the net investment performance is recognized in the income statement as a component of income tax expense. All investments held in qualified affordable housing projects qualify for the proportional amortization method and totaled $163.9 million and $167.8 million at December 31, 2020 and 2019, respectively, and are included in other assets.

Loans Held For Sale

BancShares elected to apply the fair value option for residential mortgage loans originated to be sold to investors. Gains and losses on sales of mortgage loans are recognized within mortgage income.

Loans and Leases

BancShares' accounting methods for loans and leases depends on whether they are originated or purchased, and if purchased, whether or not the loans reflect more than insignificant credit deterioration since origination as of the date of acquisition.

<u>Non-Purchased Credit Deteriorated Loans</u>

Non-Purchased Credit Deteriorated ("Non-PCD") loans consist of loans originated by BancShares and loans purchased from other institutions that do not reflect more than insignificant credit deterioration at acquisition.

Originated loans for which management has the intent and ability to hold for the foreseeable future are classified as held for investment and carried at the principal amount outstanding net of any unearned income, charge-offs and unamortized fees and costs. Nonrefundable fees collected and certain direct costs incurred related to loan originations are deferred and recorded as an adjustment to loans outstanding. The net amount of the nonrefundable fees and costs is amortized to interest income over the contractual lives using methods that approximate a constant yield.

Purchased loans which do not reflect more than insignificant credit deterioration at acquisition are classified as non-PCD loans. These loans are recorded at fair value at the date of acquisition and an initial allowance is recorded on these assets as provision expense at the date of acquisition. The difference between the fair value and the unpaid principal balance at the acquisition date is amortized or accreted to interest income over the contractual life of the loan using the effective interest method.

<u>Purchased Credit Deteriorated Loans</u>

Purchased loans which reflect a more than insignificant credit deterioration since origination as of the date of acquisition are classified as PCD and are recorded at acquisition-date amortized cost, which is the purchase price or fair value in a business combination, plus our initial ACL. Excluding the ACL, the difference between the unpaid principal balance and the acquisition date amortized cost is amortized or accreted to interest income over the contractual life of the loan using the effective interest method.

The performance of all loans within the BancShares portfolio is subject to a number of external risks, including but not limited to changes in the overall health of the economy, declines in real estate or other collateral values, changes in the demand for products and services and personal events, such as death, disability or change in marital status. BancShares evaluates and reports its non-PCD and PCD loan portfolios separately, and each non-PCD portfolio is further divided into commercial and consumer segments based on the type of borrower, purpose, collateral and/or our underlying credit management processes. Additionally, non-PCD commercial and consumer loans are assigned to loan classes, which further disaggregate the loan portfolio. PCD loans are reported as a single loan segment and class.

Upon adoption of Accounting Standard Codification ("ASC") 326, owner occupied and non-owner occupied commercial real estate were segregated into separate classes within the commercial segment. Similarly, consumer auto was segregated into its own class within the consumer segment. These enhancements were made to capture the unique credit characteristics used in our current expected credit loss ("CECL") models. Information for reporting periods beginning after January 1, 2020 are presented in accordance with ASC 326 and reflect changes to the respective classes, while prior period amounts continue to be reported in accordance with previously applicable GAAP and have not been reclassified to conform to the current financial statement presentation.

Small Business Administration Paycheck Protection Program

The Small Business Administration Paycheck Protection Program ("SBA-PPP") is one of the centerpieces of the Coronavirus Aid Relief and Economic Security Act (the "CARES Act"), which was passed on March 27, 2020 in response to the outbreak of coronavirus ("COVID-19") and was supplemented with subsequent legislation. Overseen by the U.S. Treasury Department, the SBA-PPP offered cash-flow assistance to nonprofit and small business employers through guaranteed loans for expenses incurred between February 15, 2020, and August 8, 2020. Borrowers are eligible for forgiveness of principal and accrued interest on SBA-PPP loans to the extent that the proceeds were used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of between eight and 24-weeks after the loan was made as long as the borrower retains its employees and their compensation levels. The CARES Act authorized the SBA to temporarily guarantee these loans. The SBA began processing forgiveness payments during the fourth quarter of 2020.

The Consolidated Apportions Act 2021 was signed into law during the fourth quarter of 2020 and contained provisions for new funding of SBA-PPP loans. We began accepting applications for this round of funding beginning in the first quarter of 2021.

Due to the unique nature of these provisions, SBA-PPP loans have been disclosed as a separate loan class. Origination fees received from the SBA are capitalized into the carrying amount of the loans. The deferred fee income, net of origination costs, is recognized over the life of the loan as an adjustment to yield using the effective interest method.

The following represent our classes of loans as of January 1, 2020 upon adoption of ASC 326 (with the exception of SBA-PPP, which was added during second quarter 2020):

Commercial loans and leases

Construction and land development - Construction and land development consists of loans to finance land for commercial development of real property and construction of multifamily apartments or other commercial properties. These loans are highly dependent on the supply and demand for commercial real estate as well as the demand for newly constructed residential homes and lots acquired for development. Deterioration in demand could result in decreased collateral values, which could make repayments of outstanding loans difficult for customers.

Owner occupied commercial mortgage - Owner occupied commercial mortgages consists of loans to purchase or refinance owner occupied nonresidential properties. This includes office buildings, other commercial facilities and farmland. Commercial mortgages secured by owner occupied properties are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination. While these loans and leases are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.

Non-owner occupied commercial mortgage - Non-owner occupied commercial mortgage consists of loans to purchase or refinance investment nonresidential properties. This includes office buildings and other facilities rented or leased to unrelated parties, as well as farmland and multifamily properties. The primary risk associated with income producing commercial mortgage loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. While these loans and leases are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.

Commercial and industrial and leases - Commercial and industrial loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, business credit cards, and lease financing agreements for equipment, vehicles, or other assets. The primary risk associated with commercial and industrial and lease financing loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan or lease.

SBA-PPP - These loans were originated as part of the SBA-PPP to finance payroll and other costs for nonprofit and small businesses impacted by the COVID-19 pandemic. These loans are guaranteed by the SBA and borrowers have the ability to qualify for loan forgiveness through the U.S. Treasury.

Consumer loans

Residential mortgage - Residential mortgage consists of loans to purchase or refinance the borrower's primary dwelling, secondary residence or vacation home and are often secured by 1-4 family residential properties. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.

Revolving mortgage - Revolving mortgage consists of home equity lines of credit and other lines of credit or loans secured by first or second liens on the borrower's primary residence. These loans are secured by both senior and junior liens on the residential real estate and are particularly susceptible to declining collateral values. This risk is elevated for loans secured by junior lines as a substantial decline in value could render the junior lien position effectively unsecured.

Construction and land development - Construction and land development consists of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property. There is risk these construction and development projects can experience delays and cost overruns exceeding the borrower's financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral.

Consumer auto loans - Consumer auto loans consist of installment loans to finance purchases of vehicles. These loans include direct auto loans originated in bank branches, as well indirect auto loans originated through agreements with auto dealerships. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

Other consumer - Other consumer loans consist of loans to finance unsecured home improvements, student loans and revolving lines of credit that can be secured or unsecured, including personal credit cards. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

Loans and Leases - (Prior to Adoption of ASC 326)

Prior to the adoption of ASC 326, BancShares' accounting methods for loans and leases depended on whether they were originated or purchased, and if purchased, whether or not the loans reflected credit deterioration at the date of acquisition.

<u>Non-Purchased Credit Impaired ("Non-PCI") Loans</u>
Non-PCI loans consisted of loans originated by BancShares or loans purchased from other institutions that did not reflect credit deterioration at acquisition.

Originated loans for which management had the intent and ability to hold for the foreseeable future were classified as held for investment and carried at the principal amount outstanding net of any unearned income, charge-offs and unamortized fees and costs. Nonrefundable fees collected and certain direct costs incurred related to loan originations were deferred and recorded as an adjustment to loans outstanding. The net amount of the nonrefundable fees and costs was amortized to interest income over the contractual lives using methods that approximated a constant yield.

Purchased loans which did not reflect credit deterioration at acquisition were classified as non-PCI loans. These loans were recorded at fair value at the date of acquisition. The difference between the fair value and the unpaid principal balance at the acquisition date was amortized or accreted to interest income over the contractual life of the loan using the effective interest method.

<u>Purchased Credit Impaired ("PCI") Loans</u>
Purchased loans which reflected credit deterioration since origination, such that it was probable at acquisition that BancShares would be unable to collect all contractually required payments, were classified as PCI loans. PCI loans were recorded at fair value at the date of acquisition. If the timing and amount of the future cash flows could be reasonably estimated, any excess of cash flows expected at acquisition over the estimated fair value were recognized as interest income over the life of the loans using the effective yield method. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date were recognized prospectively as interest income. Decreases in expected cash flows due to credit deterioration were recognized by recording an allowance for loan losses. In the event of prepayment, the remaining unamortized amount was recognized in interest income. To the extent possible, PCI loans were aggregated into pools based upon common risk characteristics and each pool was accounted for as a single unit.

The performance of all loans within the BancShares portfolio was subject to a number of external risks, including changes in the overall health of the economy, declines in real estate values, changes in the demand for products and services and personal events, such as death, disability or change in marital status. BancShares evaluated and reported its non-PCI and PCI loan portfolios separately, and each portfolio was further divided into commercial and non-commercial segments based on the type of borrower, purpose, collateral and/or our underlying credit management processes.

Nonperforming Assets and Troubled Debt Restructurings

Nonperforming Assets

Nonperforming assets (“NPAs”) include nonaccrual loans, past due debt securities and other real estate owned.

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

Debt securities are also classified as past due when the payment of principal and interest based upon contractual terms is 30 days delinquent or greater. Missed interest payments on debt securities are rare. We review all debt securities with delinquent interest and immediately charge off any accrued interest determined to be uncollectible.

Troubled Debt Restructurings

A loan is considered a troubled debt restructuring (“TDR”) when both a modification to a borrower’s debt agreement is made and a concession is granted for economic or legal reasons related to a borrower’s financial difficulties that otherwise would not be granted. TDR concessions could include short-term deferrals of interest, modifications of payment terms or, in certain limited instances, forgiveness of principal or interest. Loans restructured as a TDR are treated and reported as such for the remaining life of the loan. TDR loans can be nonaccrual or accrual, depending on the individual facts and circumstances of the borrower. In circumstances where a portion of the loan balance is charged-off, the remaining balance is typically classified as nonaccrual.

Allowance for Credit Losses

Loans

Loans within the various reporting classes are segregated into pools with similar risk characteristics and models are built to estimate the ACL. These loan level ACL models estimate the probability of default and loss given default for individual loans within the risk pool based on historical loss experience, borrower characteristics, collateral type, forecasts of relevant economic conditions, expected future recoveries and other factors. Pools for estimating the ACL are aggregated into loan classes, as described above, which roll up into commercial and consumer loan segments. Non-PCD and PCD loans are modeled together within the loan level models using acquired and PCD indicator variables to provide differentiation of individual loan risk. BancShares uses a two year reasonable and supportable forecast period which incorporates economic forecasts at the time of evaluation. For most pools, BancShares uses a 12-month straight-line reversion period to historical averages for model inputs; however for the consumer other, consumer card and commercial card pools, immediate reversion to historical net loss rates is utilized.

The ACL for SBA-PPP loans originated during 2020 are separately evaluated given the explicit government guarantee. This analysis, which incorporated historical experience with similar SBA guarantees and underwriting, concluded the likelihood of loss was remote and therefore these loans were assigned a zero expected credit loss in the ACL.

The ACL represents management’s best estimate of credit losses expected over the life of the loan, adjusted for expected contractual payments and the impact of prepayment expectations. Prepayment assumptions were developed through a review of BancShares’ historical prepayment activity and began with a review of prepayment assumptions utilized in other modeling activities. Estimates for loan losses are determined by analyzing quantitative and qualitative components present as of the evaluation date. Adjustments to the ACL are recorded with a corresponding entry to provision for credit losses. Loan balances considered uncollectible are charged-off against the ACL. Recoveries of amounts previously charged-off are credited to the ACL.

A primary component of determining the ACL on loans is the actual net loss history of the various loan pools. For commercial pools, key factors utilized in the models include delinquency trends as well as macroeconomic variables such as unemployment and commercial real estate price index. For consumer pools, key factors include delinquency trends and the borrower’s original credit score, as well as other macroeconomic variables such as unemployment, gross domestic product, home price index, and commercial real estate index. As the models project losses over the life of the loans, prepayment assumptions also serve as inputs. Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not captured within the models including credit quality, concentrations, and significant policy and underwriting changes.

Within our ACL model, TDRs meet the definition of default and are given a 100% probability of default rating. TDRs are not individually evaluated unless determined to be collateral-dependent. Therefore, loss given default is calculated based on the individual risk characteristics of the loan as defined in the model.

When loans do not share risk characteristics similar to others in the pool, the ACL is evaluated on an individual basis. Given that BancShares' CECL models are loan level models, the population of loans evaluated individually is minimal and consists primarily of loans greater than $500 thousand and determined to be collateral-dependent. BancShares elected the practical expedient allowed under ASC 326 to assess the collectability of these loans, where repayment is expected to be provided substantially through operation or sale of collateral, based on the fair value of the underlying collateral. The fair value of the collateral is estimated using appraised and market values (appropriately adjusted for an assessment of the sales and marketing costs when applicable). A specific allowance is established, or partial charge-off is recorded, for the difference between the excess amortized cost of loan and the collateral’s estimated fair value.

Accrued Interest Receivable

BancShares has elected not to measure an ACL for accrued interest receivable and has excluded it from the amortized cost basis of loans and held to maturity debt securities as our accounting policies and credit monitoring provide that uncollectible accrued interest is reversed or written off against interest income in a timely manner.

Unfunded Commitments

A reserve for unfunded commitments is established for off-balance sheet exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e. commitment cannot be canceled at any time). These unfunded commitments are assessed to determine both the probability of funding as well the expectation of future losses. The expected funding balance is used in the probability of default and loss given default models to determine the reserve. The reserve for unfunded commitments was $12.8 million at December 31, 2020, and is recorded within other liabilities with changes recorded through other noninterest expense.

Other Real Estate Owned

Other Real Estate Owned (“OREO”) includes foreclosed real estate property and closed branch properties and is initially recorded at the asset’s estimated fair value less costs to sell. Any excess in the recorded investment in the loan over the estimated fair value less costs to sell is charged-off against the ACL at the time of foreclosure. If the estimated value of the OREO exceeds the recorded investment of the loan, the difference is recorded as a gain within other income.

OREO is subsequently carried at the lower of cost or market value less estimated selling costs and is evaluated at least annually. The periodic evaluations are generally based on the appraised value of the property and may include additional adjustments based upon management’s review of the valuation estimate and specific knowledge of the property. Routine maintenance costs, income and expenses related to the operation of the foreclosed asset, subsequent declines in market value and net gains or losses on disposal are included in collection and foreclosure-related expense.

Payable to the Federal Deposit Insurance Corporation for Shared-Loss Agreements

The purchase and assumption agreements for certain Federal Deposit Insurance Corporation (“FDIC”) assisted transactions include payments that may be owed to the FDIC at the termination of the shared-loss agreements. The payment is due to the FDIC if actual cumulative losses on acquired covered assets are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. The liability is calculated by discounting estimated future payments and is reported as FDIC shared-loss payable. The ultimate settlement amount of the payment is dependent upon the performance of the underlying covered loans, recoveries, the passage of time and actual claims submitted to the FDIC.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation expense is generally computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements and capitalized leases are amortized on a straight-line basis over the lesser of the lease terms or the estimated useful lives of the assets.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of an acquired entity over the fair value of the identifiable assets acquired. Goodwill is not amortized, but is evaluated at least annually for impairment during the third quarter, or when events or changes in circumstances indicate a potential impairment exists.

Other acquired intangible assets with finite lives, such as core deposit intangibles, are initially recorded at fair value and are amortized on an accelerated basis typically between five to twelve years over their estimated useful lives. Intangible assets are evaluated for impairment when events or changes in circumstances indicate a potential impairment exists.

Mortgage Servicing Rights

Mortgage servicing rights ("MSRs") represent the right to provide servicing under various loan servicing contracts is either retained in connection with a loan sale or acquired in a business combination. MSRs are initially recorded at fair value and amortized in proportion to, and over the period of, the future net servicing income of the underlying loan. At each reporting period, MSRs are evaluated for impairment based upon the fair value of the rights as compared to the carrying value.

Fair Values

The fair value of financial instruments and the methods and assumptions used in estimating fair value amounts and financial assets and liabilities for which fair value was elected are detailed in Note P, Estimated Fair Values.

Income Taxes

Income taxes are accounted for using the asset and liability approach as prescribed in ASC 740, *Income Taxes*. Under this method, a deferred tax asset or liability is determined based on the currently enacted tax rates applicable to the period in which the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in BancShares' income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period which includes the enactment date.

The potential impact of current events on the estimates used to establish income tax expenses and income tax liabilities is continually monitored and evaluated. Income tax positions based on current tax law, positions taken by various tax auditors within the jurisdictions where income tax returns are filed, as well as potential or pending audits or assessments by such tax auditors are evaluated on a periodic basis.

BancShares has unrecognized tax benefits related to the uncertain portion of tax positions BancShares has taken or expects to take. A liability may be created or an amount refundable may be reduced for the amount of unrecognized tax benefits. These uncertainties result from the application of complex tax laws, rules, regulations and interpretations, primarily in state taxing jurisdictions. Unrecognized tax benefits are assessed quarterly and may be adjusted through current income tax expense in future periods based on changing facts and circumstances, completion of examinations by taxing authorities or expiration of a statute of limitations. Estimated penalties and interest on uncertain tax positions are recognized in income tax expense.

BancShares files a consolidated federal income tax return and various combined and separate company state tax returns. See Note O, Income Taxes, for additional disclosures.

Per Share Data

Earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of both classes of common shares outstanding during each period. BancShares had no potential dilutive common shares outstanding in any period and did not report diluted earnings per common share.

Cash dividends per share apply to both Class A and Class B common stock. Shares of Class A common stock carry one vote per share, while shares of Class B common stock carry 16 votes per share.

Defined Benefit Pension Plans

BancShares maintains noncontributory defined benefit pension plans covering certain qualifying employees. The calculation of the obligations and related expenses under the plans require the use of actuarial valuation methods and assumptions. Actuarial assumptions used in the determination of future values of plan assets and liabilities are subject to management judgment and may differ significantly if different assumptions are used. All assumptions are reviewed annually for appropriateness. The discount rate assumption used to measure the plan obligations is based on a yield curve developed from high-quality corporate bonds across a full maturity spectrum. The projected cash flows of the pension plans are discounted based on this yield curve, and a single discount rate is calculated to achieve the same present value. The assumed rate of future compensation increases is based on actual experience and future salary expectations. We also estimate a long-term rate of return on pension plan assets used to estimate the future value of plan assets. In developing the long-term rate of return, we consider such factors as the actual return earned on plan assets, historical returns on the various asset classes in the plans and projections of future returns on various asset classes. Refer to Note Q, Employee Benefit Plans, for disclosures related to BancShares' defined benefit pension plans.

Leases

BancShares leases certain branch locations, administrative offices and equipment. Operating lease ROU assets are included in other assets and the associated lease obligations are included in other liabilities. Finance leases are included in premises and equipment and other borrowings. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets; we instead recognize lease expense for these leases on a straight-line basis over the lease term.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our corresponding obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The operating and finance lease ROU asset also includes initial direct costs and pre-paid lease payments made, excluding lease incentives. As most of our leases do not provide an implicit rate, BancShares uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is determined using secured rates for new FHLB advances under similar terms as the lease at inception. We utilize the implicit or incremental borrowing rate at the effective date of a modification not accounted for as a separate contract or a change in the lease terms to determine the present value of lease payments. For operating leases commencing prior to January 1, 2019, BancShares used the incremental borrowing rate as of that date.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 25 years. The exercise of lease renewal options is at our sole discretion. When it is reasonably certain we will exercise our option to renew or extend the lease term, the option is included in calculating the value of the ROU asset and lease liability. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

We determine if an arrangement is a lease at inception. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. We do not lease any properties or facilities from any related party. As of December 31, 2020, there were no leases that have not yet commenced that would have a material impact on our consolidated financial statements. See Note R, Leases, for additional disclosures.

Revenue Recognition

BancShares generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, we recognize revenues and the related costs to generate those revenues on a gross basis. In certain, circumstances, we act in an agent capacity, on behalf of the customers with other entities, and recognize revenues and the related costs to provide our services on a net basis. Business lines where BancShares acts as an agent include cardholder and merchant services, insurance, and brokerage. Descriptions of our noninterest revenue-generating activities are broadly segregated as follows:

Cardholder and Merchant Services - These represent interchange fees from customer debit and credit card transactions earned when a cardholder engages in a transaction with a merchant as well as fees charged to merchants for providing them the ability to accept and process the debit and credit card transaction. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Additionally, as FCB is acting as an agent for the customer and transaction processor, costs associated with cardholder and merchant services transactions are netted against the fee income.

Service charges on deposit accounts - These deposit account-related fees represent monthly account maintenance and transaction-based service fees such as overdraft fees, stop payment fees and charges for issuing cashier's checks and money orders. For account maintenance services, revenue is recognized at the end of the statement period when our performance obligation has been satisfied. All other revenues from transaction-based services are recognized at a point in time when the performance obligation has been completed.

Wealth management services - These primarily represent sales commissions on various product offerings, transaction fees and trust and asset management fees. The performance obligation for wealth management services is the provision of services to place annuity products issued by the counterparty to investors and the provision of services to manage the client's assets, including brokerage custodial and other management services. Revenue from wealth management services is recognized over the period in which services are performed, and is based on a percentage of the value of the assets under management/ administration.

Other service charges and fees - These include, but are not limited to, check cashing fees, international banking fees, internet banking fees, wire transfer fees and safe deposit fees. The performance obligation is fulfilled and revenue is recognized, at the point in time the requested service is provided to the customer.

Insurance commissions - These represent commissions earned on the issuance of insurance products and services. The performance obligation is generally satisfied upon the issuance of the insurance policy and revenue is recognized when the commission payment is remitted by the insurance carrier or policy holder depending on whether the billing is performed by BancShares or the carrier.

ATM income - These represent fees imposed on customers and non-customers for engaging in an ATM transaction. Revenue is recognized at the time of the transaction as the performance obligation of rendering the ATM service has been met.

Other - This consists of several forms of recurring revenue such as FHLB dividends and income earned on changes in the cash surrender value of bank-owned life insurance. Prior to adoption of ASC 326, other income included recoveries on PCI loans previously charged-off. For the remaining immaterial transactions, revenue is recognized when, or as, the performance obligation is satisfied. Refer to Note N, Other Noninterest Income and Other Noninterest Expense, for additional disclosures on other noninterest income.

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-14 - *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*

This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by eliminating the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and adding a requirement to disclose an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

The amendments in this ASU are effective for public entities for fiscal years ending after December 15, 2020. Early adoption is permitted for all entities. BancShares adopted all applicable amendments during the fourth quarter of 2020. See Note Q. Employee Benefit Plans for changes to disclosure.

FASB ASU 2018-13 - *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*

This ASU modifies the disclosure requirements on fair value measurements by eliminating the requirements to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy (2) the policy for timing of transfers between levels and (3) the valuation processes for Level 3 fair value measurements. This ASU also added specific disclosure requirements for fair value measurements for public business entities including the requirement to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

BancShares adopted this ASU during the first quarter of 2020 and have made all applicable updates to the disclosure within the Notes to the Consolidated Financial Statements.

FASB ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

This ASU eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative test.

BancShares adopted this ASU during the first quarter 2020 with no impact to our consolidated financial position or consolidated results of operations as a result of the adoption. There was no impairment recorded as a result of our annual assessment during the third quarter of 2020.

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

This ASU (and all subsequent ASUs on this topic) introduce the CECL model, a new credit loss methodology, replacing multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. The amendments in this ASU require loss estimates be determined over the lifetime of the asset and broaden the information that an entity must consider in developing its expected credit losses. The ASU does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate based on the entity's size, complexity and risk profile. In addition, the disclosures of credit quality indicators in relation to the amortized cost of financing receivables, a current disclosure requirement, are further disaggregated by year of origination.

BancShares adopted this ASU (and all subsequent ASUs on this topic) as of January 1, 2020 using the modified retrospective approach for all loans, leases, debt securities designated as held to maturity, and unfunded loan commitments. BancShares adopted the ASU using the prospective approach for debt securities available for sale and PCD loans previously accounted for under ASC 310-30. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. BancShares made changes to loan classifications and segmentation in order to align with ASC 326 requirements and facilitate CECL modeling. Using this updated segmentation, BancShares developed new loan level models to estimate the ACL and facilitate revised disclosures.

Upon adoption, BancShares recorded a net decrease of $37.9 million in the ACL which included a reduction of $56.9 million in the ACL on non-PCD loans, offset by an increase of $19.0 million in the ACL on PCD loans. The $56.9 million reduction in the ACL on non-PCD loans, as well as an $8.9 million increase in the reserve for unfunded commitments, net of deferred taxes, resulted in an increase in retained earnings of $36.9 million. The $19.0 million increase in the ACL on PCD loans was a reclassification of the PCD credit discount and resulted in a gross up of loan balances by this same amount and did not have any effect on retained earnings. Impact to total capital and capital ratios was not significant and we did not elect the capital phase-in option allowable for regulatory reporting purposes. There was no ACL recorded on debt securities held to maturity at adoption.

The largest changes in the ACL, affecting beginning retained earnings as a result of the adoption, were decreases in the ACL on commercial loan segments as these portfolios have exhibited strong historical credit performance and have relatively short average lives. The reduction in ACL on these segments was partially offset by increases in ACL on our consumer loan segments primarily due to their longer average lives. The increase in the reserve for unfunded commitments was primarily due to increases in the scope of off-balance sheet exposures considered in this estimate due to the provisions in ASC 326.

BancShares adopted this ASU using the prospective transition approach for PCD loans previously accounted for under ASC 310-30. In accordance with the standard, we did not assess whether purchased credit impaired ("PCI") loans met the criteria of PCD as of the date of adoption and all loans previously classified as PCI were updated to the PCD classification. Pools utilized for PCI accounting under ASC 310-30 were dissolved upon adoption. Loans from performing PCI pools, not previously considered nonaccrual of $47.0 million, were reclassified into nonaccrual status as a result of adoption. PCD loans were assessed using the loan level probability of default and loss given default models, as well as utilizing prior specific loan reviews to inform the initial PCD loan ACL. The ACL for PCD loans increased as a result of adoption and the amortized cost basis of these loans was adjusted to reflect the transfer of this amount from credit discount to ACL. The remaining noncredit discount will be accreted into interest income at the effective interest rate as of January 1, 2020. At the date of adoption, no securities were determined to be PCD.

BancShares also adopted this ASU under the prospective transition approach for debt securities available for sale. No previously recorded other than temporary impairment was reported on the portfolio of debt securities.

NOTE B
BUSINESS COMBINATIONS

Recently Announced Business Combinations

CIT Group Inc.

On October 15, 2020, BancShares and CIT Group Inc., a Delaware corporation ("CIT"), entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among BancShares, FCB, FC Merger Subsidiary IX, Inc., a direct, wholly owned subsidiary of FCB ("Merger Sub"), and CIT, the parent company of CIT Bank, N.A., a national banking association ("CIT Bank"). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into CIT, with CIT as the surviving entity (the "First-Step Merger"), and as soon as reasonably practicable following the effective time of the First-Step Merger, CIT will merge with and into FCB, with FCB as the surviving entity (together with the First-Step Merger, the "Mergers"). The Merger Agreement further provides that immediately following the consummation of the Mergers, CIT Bank will merge with and into FCB, with FCB as the surviving bank (together with the Mergers, the "Transaction").

The Merger Agreement was unanimously approved by the Board of Directors of each of BancShares and CIT. On February 9, 2021, BancShares and CIT both held a special meeting of shareholders where they received the necessary shareholder approvals for the consummation of the Transaction from their respective shareholders. Subject to the fulfillment of customary closing conditions, the parties anticipate that the Transaction will close in the first half of 2021.

Upon the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the First-Step Merger (the "Effective Time"), each share of CIT common stock, par value $0.01 per share, issued and outstanding immediately prior to the Effective Time ("CIT Common Stock"), except for certain shares of CIT Common Stock owned by CIT or BancShares, will be converted into the right to receive .06200 shares of BancShares Class A common stock, par value $1.00 per share. Holders of CIT Common Stock will receive cash in lieu of fractional shares.

In addition, at the Effective Time, each share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share, of CIT and 5.625% Non-Cumulative Perpetual Preferred Stock, Series B, par value $0.01 per share, of CIT issued and outstanding will automatically be converted into the right to receive one share of a newly created series of preferred stock, Series B, of BancShares and one share of a newly created series of preferred stock, Series C, of BancShares, respectively.

The Merger Agreement requires that, effective as of the Effective Time, the Boards of Directors of the combined company and the combined bank will consist of 14 directors, (i) 11 of whom will be members of the current Board of Directors of BancShares, and (ii) three of whom will be selected from among the current Board of Directors of CIT and will include as one of those three, Ellen R. Alemany, Chairwoman and Chief Executive Officer of CIT.

Completed Business Combinations

FCB has evaluated the financial statement significance for all business combinations completed during 2020 and 2019. FCB has concluded the completed business combinations noted below are not material to BancShares' consolidated financial statements, individually or in aggregate, and therefore, pro forma financial data has not been included.

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

As part of the accounting for each acquisition, we perform an analysis of the acquired bank's loan portfolio and based on such credit factors as past due status, nonaccrual status, life-to-date charge-offs and other quantitative and qualitative considerations segregate the acquired loans into PCD loans and non-PCD loans. PCD loans are accounted for under ASC 326, and non-PCD loans which do not meet this criteria are accounted for under ASC 310. Additionally, we perform an analysis of the acquired bank's portfolio of debt securities to determine if any debt securities should be designated PCD.

Community Financial Holding Company, Inc.

On February 1, 2020, FCB completed the merger of Duluth, Georgia-based Community Financial Holding Company, Inc. ("Community Financial") and its bank subsidiary, Gwinnett Community Bank. Under the terms of the agreement, total cash consideration of $2.3 million was paid to the shareholders of Community Financial. The merger allows FCB to expand its presence and enhance banking efforts in Georgia.

The fair value of the assets acquired was $221.4 million, including $110.6 million in non-PCD loans, $23.4 million in PCD loans, net of an ACL of $1.2 million, and $536 thousand in a core deposit intangible. No debt securities purchased in the transaction were designated PCD. Liabilities assumed were $219.8 million, of which $209.3 million were deposits. As a result of the transaction, FCB recorded $686 thousand of goodwill. The amount of goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The premium paid reflects the increased market share and related synergies expected to result from the acquisition. None of the goodwill was deductible for income tax purposes as the merger was accounted for as a qualified stock purchase.

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

(Dollars in thousands)		As recorded by FCB		
Purchase price			$	2,320
Assets				
Cash and due from banks	$	1,085		
Overnight investments		35,129		
Investment securities		30,146		
Loans		133,989		
Premises and equipment		7,624		
Other real estate owned		9,813		
Income earned not collected		558		
Intangible assets		536		
Other assets		2,520		
Total assets acquired		221,400		
Liabilities				
Deposits		209,340		
Borrowings		9,925		
Other liabilities		501		
Total liabilities assumed	$	219,766		
Fair value of net assets acquired				1,634
Goodwill recorded for Community Financial			**$**	**686**

The Community Financial transaction resulted in merger-related expenses of $3.5 million for the year ended December 31, 2020. Additionally, loan-related interest income generated was approximately $5.3 million since the acquisition date. The ongoing contribution of this transaction to BancShares' financial statements is not considered material, and therefore pro forma financial data is not included.

Entegra Financial Corp.

On December 31, 2019, FCB completed the merger of Franklin, North Carolina-based Entegra Financial Corp. ("Entegra") and its bank subsidiary, Entegra Bank. Fair values were subject to refinement for up to one year after the closing date of the acquisition. The measurement period ended on December 30, 2020.

The fair value of the assets acquired was $1.68 billion, including $953.7 million in non-PCI loans, $77.5 million in PCI loans and $4.5 million in a core deposit intangible. Liabilities assumed were $1.51 billion, of which $1.33 billion were deposits. As a result of the transaction, FCB recorded $52.6 million of goodwill. The amount of goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. Subsequent to the merger, management made a measurement period adjustment of $214 thousand related to an increase in the discount for PCD loans, an increase in the premium on deposits divested and adjustments to the deferred tax asset for these items.

In order to obtain regulatory approval, FCB entered into an agreement for Select Bank & Trust Company ("Select Bank") to purchase three North Carolina branches, located in Highlands, Sylva and Franklin. On April 17, 2020, FCB completed the divestiture of the branches including loans and leases, premises and equipment and total deposits with fair values of $110.1 million, $2.1 million and $184.8 million, respectively. The Select Bank purchase price for the divested branches included an 8% premium for deposits acquired that was applied against goodwill generated as part of the merger with Entegra Bank.

The Entegra transaction resulted in merger-related expenses of $7.8 million and $5.4 million or the years ended December 31, 2020 and 2019, respectively. Additionally, loan-related interest was $40.3 million for the year ended December 31, 2020, while no loan-related interest income was recorded for the year ended December 31, 2019.

First South Bancorp, Inc.

On May 1, 2019, FCB completed the merger of Spartanburg, South Carolina-based First South Bancorp, Inc. ("First South Bancorp") and its bank subsidiary, First South Bank. Fair values were subject to refinement for up to one year after the closing date of the acquisition. The measurement period ended on April 30, 2020, with no material changes to the original calculated fair values.

The fair value of the assets acquired was $239.2 million, including $162.8 million in non-PCI loans, $16.4 million in PCI loans and $2.3 million in a core deposit intangible. Liabilities assumed were $215.6 million, of which $207.6 million were deposits. As a result of the transaction, FCB recorded $13.9 million of goodwill. The amount of goodwill represents the excess purchase price over the estimated fair value of the net assets acquired.

The First South Bancorp transaction resulted in no merger-related expenses for the year ended December 31, 2020 and $4.1 million for the year ended December 31, 2019. Additionally, loan-related interest income was approximately $5.7 million and $6.1 million for the years ended December 31, 2020 and 2019, respectively.

Biscayne Bancshares, Inc.

On April 2, 2019, FCB completed the merger of Coconut Grove, Florida-based Biscayne Bancshares, Inc. ("Biscayne Bancshares") and its bank subsidiary, Biscayne Bank. Fair values were subject to refinement for up to one year after the closing date of the acquisition. The measurement period ended on April 1, 2020, with no material changes to the original calculated fair values.

The fair value of the assets acquired was $1.03 billion, including $850.4 million in non-PCI loans, $13.0 million in PCI loans and $4.7 million in a core deposit intangible. Liabilities assumed were $956.8 million, of which $786.5 million were deposits. As a result of the transaction, FCB recorded $46.5 million of goodwill. The amount of goodwill represents the excess purchase price over the estimated fair value of the net assets acquired.

The Biscayne Bancshares transaction resulted in merger-related expenses of $847 thousand and $5.8 million the years ended December 31, 2020 and 2019, respectively. Additionally, loan-related interest income generated approximately $37.8 million and $33.8 million for the years ended December 31, 2020 and 2019, respectively.

NOTE C
INVESTMENTS

The amortized cost and fair value of investment and marketable equity securities at December 31, 2020 and 2019, were as follows:

	December 31, 2020				
(Dollars in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Allowance for credit losses	Fair value
Investment securities available for sale					
U.S. Treasury	$ 499,832	$ 101	$ —	$ —	$ 499,933
Government agency	706,241	723	5,573	—	701,391
Residential mortgage-backed securities	4,369,130	70,283	1,310	—	4,438,103
Commercial mortgage-backed securities	745,892	25,645	—	—	771,537
Corporate bonds	590,870	14,437	2,028	—	603,279
Total investment securities available for sale	$ 6,911,965	$ 111,189	$ 8,911	$ —	$ 7,014,243
Investment in marketable equity securities	84,837	8,654	1,811		91,680
Investment securities held to maturity					
Residential mortgage-backed securities	1,877,692	17,689	—	—	1,895,381
Commercial mortgage-backed securities	937,034	3,884	56	—	940,862
Other	2,256	—	—	—	2,256
Total investment securities held to maturity	2,816,982	21,573	56	—	2,838,499
Total investment securities	$ 9,813,784	$ 141,416	$ 10,778	$ —	$ 9,944,422

	December 31, 2019			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury	$ 409,397	$ 602	$ —	$ 409,999
Government agency	684,085	928	2,241	682,772
Residential mortgage-backed securities	5,269,060	13,417	15,387	5,267,090
Commercial mortgage-backed securities	373,105	6,974	59	380,020
Corporate bonds	198,278	3,420	132	201,566
State, county and municipal	118,227	—	—	118,227
Total investment securities available for sale	$ 7,052,152	$ 25,341	$ 17,819	$ 7,059,674
Investment in marketable equity securities	59,262	23,304	233	82,333
Investment securities held to maturity				
Other	30,996	—	—	30,996
Total investment securities	$ 7,142,410	$ 48,645	$ 18,052	$ 7,173,003

On November 1, 2020, mortgage-backed securities with an amortized cost of $1.46 billion were transferred from investment securities available for sale to the held to maturity portfolio. At the time of transfer, the mortgage-backed securities had a fair value of $1.47 billion and a weighted average contractual maturity of 18 years. The unrealized gain on these securities at the date of transfer was $5.9 million, or $4.5 million net of tax, and was reported as a component of AOCI. This unrealized gain is accreted over the remaining expected life of the securities as an adjustment of yield.

On November 1, 2019, as part of the adoption of ASU 2019-04, mortgage-backed securities with an amortized cost of $2.08 billion were transferred from investment securities held to maturity to the available for sale portfolio. At the time of the transfer, the securities had a fair value of $2.15 billion. The transfer resulted in a reclassification of unrealized losses of $72.5 million, or $55.8 million net of tax, previously frozen in AOCI as a result of the initial transfer to held to maturity. FCB still has the intent and ability to hold the remainder of the held to maturity portfolio to maturity.

Investments in mortgage-backed securities represent securities issued by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Investments in government agency securities represent securities issued by the SBA. Investments in corporate bonds and marketable equity securities represent positions in securities of other financial institutions. Other held to maturity investments include certificates of deposit with other financial institutions.

As of December 31, 2020 and January 1, 2020, no ACL was required for available for sale and held to maturity debt securities. At December 31, 2020, accrued interest receivable for available for sale and held to maturity debt securities were $17.6 million and $5.4 million, respectively, and were excluded from the estimate of credit losses. During the year ended December 31, 2020, no accrued interest was deemed uncollectible and written off against interest income.

The following table provides the amortized cost and fair value by contractual maturity. Expected maturities will differ from contractual maturities on certain securities because borrowers and issuers may have the right to call or prepay obligations with or without prepayment penalties. Residential and commercial mortgage-backed and government agency securities are stated separately as they are not due at a single maturity date.

(Dollars in thousands)	December 31, 2020 Cost	December 31, 2020 Fair value	December 31, 2019 Cost	December 31, 2019 Fair value
Investment securities available for sale				
Non-amortizing securities maturing in:				
One year or less	$ 500,846	$ 500,954	$ 406,325	$ 406,927
One through five years	72,565	73,881	24,496	24,971
Five through 10 years	508,320	519,570	185,209	187,868
Over 10 years	8,971	8,807	109,872	110,026
Government agency	706,241	701,391	684,085	682,772
Residential mortgage-backed securities	4,369,130	4,438,103	5,269,060	5,267,090
Commercial mortgage-backed securities	745,892	771,537	373,105	380,020
Total investment securities available for sale	$ 6,911,965	$ 7,014,243	$ 7,052,152	$ 7,059,674
Investment securities held to maturity				
Non-amortizing securities maturing in:				
One year or less	$ 1,507	$ 1,507	$ 30,746	$ 30,746
One through five years	749	749	250	250
Residential mortgage-backed securities	1,877,692	1,895,381	—	—
Commercial mortgage-backed securities	937,034	940,862	—	—
Total investment securities held to maturity	$ 2,816,982	$ 2,838,499	$ 30,996	$ 30,996

For each period presented, realized gains on investment securities available for sale included the following:

(Dollars in thousands)	Year ended December 31 2020	2019	2018
Gross gains on retirement/sales of investment securities available for sale	$ 60,932	$ 8,993	$ 353
Gross losses on sales of investment securities available for sale	(679)	(1,878)	(2)
Realized gains on investment securities available for sale, net	$ 60,253	$ 7,115	$ 351

For each period presented, realized and unrealized gains or losses on marketable equity securities included the following:

(Dollars in thousands)	Year ended December 31 2020	2019	2018
Marketable equity securities gains (losses), net	$ 29,395	$ 20,625	$ (7,610)
Less net gains recognized on marketable equity securities sold	44,550	16,344	1,190
Unrealized (losses) gains recognized on marketable equity securities held	$ (15,155)	$ 4,281	$ (8,800)

The following table provides information regarding investment securities with unrealized losses as of December 31, 2020 and 2019:

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available for sale						
Government agency	$ 268,622	$ 3,197	$ 328,777	$ 2,376	$ 597,399	$ 5,573
Residential mortgage-backed securities	433,816	1,241	23,064	69	456,880	1,310
Corporate bonds	57,715	2,028	—	—	57,715	2,028
Total	$ 760,153	$ 6,466	$ 351,841	$ 2,445	$ 1,111,994	$ 8,911

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available for sale						
Government agency	$ 347,081	$ 1,827	$ 63,947	$ 414	$ 411,028	$ 2,241
Residential mortgage-backed securities	2,387,293	14,016	264,257	1,371	2,651,550	15,387
Commercial mortgage-backed securities	35,926	59	—	—	35,926	59
Corporate bonds	7,714	123	4,749	9	12,463	132
Total	$ 2,778,014	$ 16,025	$ 332,953	$ 1,794	$ 3,110,967	$ 17,819

As of December 31, 2020, there were 39 investment securities available for sale with continuous losses for more than 12 months, all of which are government sponsored, enterprise-issued mortgage-backed securities or government agency securities.

None of the unrealized losses identified as of December 31, 2020 or December 31, 2019 relate to the issuer's ability to honor redemption obligations. Rather, the unrealized losses relate to changes in interest rates relative to when the investment securities were purchased, and do not indicate credit-related impairment. BancShares considered other factors including changes in credit ratings, delinquencies, and other macroeconomic factors in this determination. As a result, none of the securities were deemed to require an allowance for credit losses. BancShares has the ability and intent to retain these securities for a period of time sufficient to recover all unrealized losses.

Investment securities having an aggregate carrying value of $4.64 billion at December 31, 2020 and $3.93 billion at December 31, 2019, were pledged as collateral to secure public funds on deposit and certain short-term borrowings, and for other purposes as required by law.

BancShares' portfolio of held to maturity debt securities consists of mortgage-backed securities issued by government agencies and government sponsored entities. Given the consistently strong credit rating of the U.S. Treasury and the long history of no credit losses on debt securities issued by government agencies and government sponsored entities, no allowance for credit losses has been recorded on these securities. Should there be downgrades to the credit rating of the U.S. Treasury or losses reported on securities issued by government agencies and government sponsored entities, BancShares will reevaluate its determination of zero expected credit losses on held to maturity debt securities.

There were no debt securities held to maturity on nonaccrual status as of December 31, 2020.

A security is considered past due once it is 30 days contractually past due under the terms of the agreement. There were no securities past due as of December 31, 2020.

NOTE D
LOANS AND LEASES

BancShares' accounting methods for loans and leases depends whether they are originated or purchased, and if purchased, whether or not the loans reflect more than insignificant credit deterioration since origination, which is determined as of the acquisition date. Non-PCD loans consist of loans originated by BancShares and loans purchased from other institutions that do not reflect more than insignificant credit deterioration at acquisition and are reported by loan segments as defined in Note A, Accounting Policies and Basis of Presentation. Purchased loans which reflect more than insignificant credit deterioration are classified as PCD and reported as a single loan segment or class. At the date of acquisition, all acquired loans are recorded at fair value.

Loans and leases outstanding include the following at December 31, 2020 and 2019:

(Dollars in thousands)	December 31, 2020
Commercial:	
Construction and land development	$ 985,424
Owner occupied commercial mortgage	11,165,012
Non-owner occupied commercial mortgage	2,987,689
Commercial and industrial and leases	5,013,644
SBA-PPP	2,406,291
Total commercial loans	22,558,060
Consumer:	
Residential mortgage	5,561,686
Revolving mortgage	2,052,854
Construction and land development	348,123
Consumer auto	1,255,402
Consumer other	552,968
Total consumer loans	9,771,033
Total non-PCD loans and leases	32,329,093
PCD loans	462,882
Total loans and leases	$ 32,791,975

(Dollars in thousands)	December 31, 2019
Commercial:	
Construction and land development	$ 1,013,454
Commercial mortgage	12,282,635
Other commercial real estate	542,028
Commercial and industrial and leases	4,403,792
Other	310,093
Total commercial loans	18,552,002
Noncommercial:	
Residential mortgage	5,293,917
Revolving mortgage	2,339,072
Construction and land development	357,385
Consumer	1,780,404
Total noncommercial loans	9,770,778
Total non-PCI loans and leases	28,322,780
PCI loans	558,716
Total loans and leases	$ 28,881,496

Certain residential real estate loans are originated to be sold to investors and are recorded in loans held for sale at fair value. Loans held for sale totaled $124.8 million and $67.9 million at December 31, 2020 and 2019, respectively. We may change our strategy for certain portfolio loans and sell them in the secondary market. At such time, portfolio loans are transferred to loans held for sale at fair value.

During 2020, total proceeds from sales of residential mortgage loans were $1.05 billion, the majority of which were originated to be sold. An additional $7.6 million related to sales of portfolio loans, which were sold at par. During 2019, total proceeds from sales of residential mortgage loans were $756.0 million, of which $731.8 million related to sales of loans held for sale. The remaining $24.2 million related to sales of portfolio loans, which resulted in a gain of $0.3 million.

Net deferred fees on originated non-PCD loans and leases, including unearned income as well as unamortized costs, were $50.2 million and $0.9 million at December 31, 2020 and 2019, respectively. Of the amount outstanding as of December 31, 2020, $41.1 million relates to net deferred fees and costs on SBA-PPP loans. The unamortized discounts related to purchased non-PCD loans was $19.5 million at December 31, 2020 and $30.9 million at December 31, 2019. The net unamortized discount related to PCD loans and leases was $45.3 million at December 31, 2020 and $88.2 million at December 31, 2019.

Loans and leases to borrowers in medical, dental or related fields were $5.54 billion as of December 31, 2020, which represented 16.9% of total loans and leases, compared to $5.16 billion or 17.9% of total loans and leases at December 31, 2019. The credit risk of this industry concentration is mitigated through our underwriting policies, which emphasize reliance on adequate borrower cash flow, rather than underlying collateral value, and our preference for financing secured by owner-occupied real property. Except for this single concentration, no other industry represented more than 10% of total loans and leases outstanding at December 31, 2020.

The aging of the outstanding loans and leases, by class, at December 31, 2020 and December 31, 2019 is provided in the tables below. Loans and leases 30 days or less past due are considered current, as various grace periods allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

	December 31, 2020					
(Dollars in thousands)	30-59 days past due	60-89 days past due	90 days or greater	Total past due	Current	Total loans and leases
Commercial:						
Construction and land development	$ 956	$ 527	$ 1,603	$ 3,086	$ 982,338	$ 985,424
Owner occupied commercial mortgage	8,757	2,232	14,082	25,071	11,139,941	11,165,012
Non-owner occupied commercial mortgage	12,370	—	5,973	18,343	2,969,346	2,987,689
Commercial and industrial and leases	14,532	2,842	3,243	20,617	4,993,027	5,013,644
SBA-PPP	—	—	—	—	2,406,291	2,406,291
Total commercial loans	36,615	5,601	24,901	67,117	22,490,943	22,558,060
Consumer:						
Residential mortgage	43,218	8,364	31,690	83,272	5,478,414	5,561,686
Revolving mortgage	11,977	2,626	7,415	22,018	2,030,836	2,052,854
Construction and land development	932	77	330	1,339	346,784	348,123
Consumer auto	6,825	1,835	1,076	9,736	1,245,666	1,255,402
Consumer other	3,610	1,464	1,505	6,579	546,389	552,968
Total consumer loans	66,562	14,366	42,016	122,944	9,648,089	9,771,033
PCD loans	18,322	6,076	31,026	55,424	407,458	462,882
Total loans and leases	$ 121,499	$ 26,043	$ 97,943	$ 245,485	$ 32,546,490	$ 32,791,975

	December 31, 2019					
(Dollars in thousands)	30-59 days past due	60-89 days past due	90 days or greater	Total past due	Current	Total loans and leases
Commercial:						
Construction and land development	$ 3,146	$ 195	$ 2,702	$ 6,043	$ 1,007,411	$ 1,013,454
Commercial mortgage	20,389	8,774	8,319	37,482	12,245,153	12,282,635
Other commercial real estate	861	331	698	1,890	540,138	542,028
Commercial and industrial and leases	18,269	4,842	5,032	28,143	4,375,649	4,403,792
Other	51	411	126	588	309,505	310,093
Total commercial loans	42,716	14,553	16,877	74,146	18,477,856	18,552,002
Noncommercial:						
Residential mortgage	45,839	18,289	24,409	88,537	5,205,380	5,293,917
Revolving mortgage	9,729	3,468	9,865	23,062	2,316,010	2,339,072
Construction and land development	977	218	1,797	2,992	354,393	357,385
Consumer	10,481	3,746	3,571	17,798	1,762,606	1,780,404
Total noncommercial loans	67,026	25,721	39,642	132,389	9,638,389	9,770,778
PCI loans	26,478	10,784	28,973	66,235	492,481	558,716
Total loans and leases	$ 136,220	$ 51,058	$ 85,492	$ 272,770	$ 28,608,726	$ 28,881,496

The amortized cost, by class, of loans and leases on nonaccrual status, and loans and leases greater than 90 days past due and still accruing at December 31, 2020 and December 31, 2019, were as follows:

	January 1, 2020[1]	December 31, 2020	
(Dollars in thousands)	Nonaccrual loans and leases	Nonaccrual loans and leases	Loans and leases > 90 days and accruing
Commercial:			
Construction and land development	$ 4,281	$ 1,661	$ —
Owner occupied commercial mortgage	24,476	23,103	3,625
Non-owner occupied commercial mortgage	5,965	7,932	147
Commercial and industrial and leases	7,685	10,626	540
Total commercial loans	42,407	43,322	4,312
Consumer:			
Residential mortgage	44,357	66,345	—
Revolving mortgage	22,411	22,236	—
Construction and land development	2,828	652	—
Consumer auto	2,145	3,166	—
Consumer other	798	823	1,195
Total consumer loans	72,539	93,222	1,195
PCD loans	53,771	54,939	355
Total loans and leases	$ 168,717	$ 191,483	$ 5,862

[1]Upon the adoption of ASC 326, BancShares eliminated the pooling of PCI loans and as a result $47.0 million in additional PCD loans were recognized as nonaccrual loans at January 1, 2020. As of December 31, 2020, $24.9 million of these loans remained outstanding.

	December 31, 2019	
(Dollars in thousands)	Nonaccrual loans and leases	Loans and leases > 90 days and accruing
Commercial:		
Construction and land development	$ 4,281	$ —
Commercial mortgage	29,733	—
Commercial and industrial and leases	7,365	1,094
Other commercial real estate	708	—
Other	320	—
Total commercial loans	42,407	1,094
Consumer:		
Construction and land development	2,828	—
Residential mortgage	44,357	45
Revolving mortgage	22,411	—
Consumer	2,943	2,152
Total noncommercial loans	72,539	2,197
Total non-PCI loans and leases	$ 114,946	$ 3,291

Credit quality indicators

Loans and leases are monitored for credit quality on a recurring basis. Commercial and noncommercial loans and leases have different credit quality indicators as a result of the unique characteristics of the loan segments being evaluated. The credit quality indicators for non-PCD commercial loans and leases are developed through a review of individual borrowers on an ongoing basis. Commercial loans are evaluated periodically with more frequent evaluations done on criticized loans. The indicators as of the date presented are based on the most recent assessment performed and are defined below:

Pass – A pass rated asset is not adversely classified because it does not display any of the characteristics for adverse classification.

Special mention – A special mention asset has potential weaknesses which deserve management’s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention assets are not adversely classified and do not warrant adverse classification.

Substandard – A substandard asset is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Assets classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These assets are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful – An asset classified as doubtful has all the weaknesses inherent in an asset classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values.

Loss – Assets classified as loss are considered uncollectible and of such little value it is inappropriate to be carried as an asset. This classification is not necessarily equivalent to any potential for recovery or salvage value, but rather it is not appropriate to defer a full charge-off even though partial recovery may be affected in the future.

Ungraded – Ungraded loans represent loans not included in the individual credit grading process due to their relatively small balances or borrower type. The majority of ungraded loans at December 31, 2020 and 2019, relate to business credit cards. Business credit card loans are subject to automatic charge-off when they become 120 days past due in the same manner as unsecured consumer lines of credit. The remaining balance is comprised of a small amount of commercial mortgage, lease financing and other commercial real estate loans.

The credit quality indicators for consumer and PCD loans are based on delinquency status of the borrower as of the date presented. As the borrower becomes more delinquent, the likelihood of loss increases.

The following tables represent current credit quality indicators by origination year as of December 31, 2020.

	Commercial Loans Amortized Cost Basis by Origination Year								
Classification:	**2020**	**2019**	**2018**	**2017**	**2016**	**Prior**	**Revolving**	**Revolving converted to term loans**	**Total**
(Dollars in thousands)									
Construction and land development									
Pass	$ 342,183	$ 341,233	$ 190,429	$ 50,776	$ 23,969	$ 11,306	$ 10,969	$ —	$ 970,865
Special Mention	246	—	6,421	5,342	—	—	153	—	12,162
Substandard	229	629	1,450	—	8	81	—	—	2,397
Total	342,658	341,862	198,300	56,118	23,977	11,387	11,122	—	985,424
Owner occupied commercial mortgage									
Pass	3,183,467	2,201,165	1,625,141	1,301,412	1,049,858	1,454,020	101,556	133	10,916,752
Special Mention	6,274	20,702	36,739	12,387	17,699	25,693	5,115	72	124,681
Substandard	10,280	19,052	9,842	20,928	13,736	41,303	8,438	—	123,579
Total	3,200,021	2,240,919	1,671,722	1,334,727	1,081,293	1,521,016	115,109	205	11,165,012
Non-owner occupied commercial mortgage									
Pass	865,514	609,975	378,136	331,800	282,810	391,517	32,149	—	2,891,901
Special Mention	569	905	10,794	1,808	5,121	3,279	483	—	22,959
Substandard	2,899	18,546	12,296	8,764	14,087	15,427	810	—	72,829
Total	868,982	629,426	401,226	342,372	302,018	410,223	33,442	—	2,987,689
Commercial and industrial and leases									
Pass	1,620,622	983,852	504,463	310,468	234,735	286,996	899,978	5,520	4,846,634
Special Mention	3,146	17,065	7,265	5,393	3,307	4,912	9,152	189	50,429
Substandard	17,811	4,095	4,370	4,257	2,548	3,801	22,384	983	60,249
Ungraded	—	—	—	—	—	—	56,332	—	56,332
Total	1,641,579	1,005,012	516,098	320,118	240,590	295,709	987,846	6,692	5,013,644
SBA-PPP									
Pass	2,406,291	—	—	—	—	—	—	—	2,406,291
Total commercial	$ 8,459,531	$ 4,217,219	$ 2,787,346	$ 2,053,335	$ 1,647,878	$ 2,238,335	$ 1,147,519	$ 6,897	$ 22,558,060

	Consumer and PCD Loans Amortized Cost Basis by Origination Year								
Days Past Due:	2020	2019	2018	2017	2016	Prior	Revolving	Revolving converted to term loans	Total
(Dollars in thousands)									
Residential mortgage									
Current	$ 1,882,683	$ 978,298	$ 655,798	$ 596,309	$ 461,719	$ 878,634	$ 24,973	$ —	$ 5,478,414
30-59 days	2,278	4,573	11,463	3,772	8,613	12,299	220	—	43,218
60-89 days	30	100	1,246	1,449	834	4,705	—	—	8,364
90 days or greater	282	4,831	3,150	4,015	5,689	13,723	—	—	31,690
Total	1,885,273	987,802	671,657	605,545	476,855	909,361	25,193	—	5,561,686
Revolving mortgage									
Current	—	—	—	—	—	—	1,879,968	150,868	2,030,836
30-59 days	—	—	—	—	—	—	8,241	3,736	11,977
60-89 days	—	—	—	—	—	—	527	2,099	2,626
90 days or greater	—	—	—	—	—	—	2,301	5,114	7,415
Total	—	—	—	—	—	—	1,891,037	161,817	2,052,854
Construction and land development									
Current	215,112	85,707	24,860	10,269	6,093	2,218	2,525	—	346,784
30-59 days	—	420	121	370	—	21	—	—	932
60-89 days	—	—	—	9	—	68	—	—	77
90 days or greater	—	—	—	—	—	330	—	—	330
Total	215,112	86,127	24,981	10,648	6,093	2,637	2,525	—	348,123
Consumer auto									
Current	521,719	340,594	219,597	104,280	49,872	9,604	—	—	1,245,666
30-59 days	2,175	1,873	1,257	842	544	134	—	—	6,825
60-89 days	329	689	312	351	109	45	—	—	1,835
90 days or greater	170	527	217	57	102	3	—	—	1,076
Total	524,393	343,683	221,383	105,530	50,627	9,786	—	—	1,255,402
Consumer other									
Current	53,842	27,117	10,911	7,159	2,980	29,336	415,044	—	546,389
30-59 days	322	114	77	18	11	7	3,061	—	3,610
60-89 days	102	20	13	18	3	23	1,285	—	1,464
90 days or greater	53	84	8	—	—	—	1,360	—	1,505
Total	54,319	27,335	11,009	7,195	2,994	29,366	420,750	—	552,968
Total consumer	2,679,097	1,444,947	929,030	728,918	536,569	951,150	2,339,505	161,817	9,771,033
PCD loans									
Current	31,475	25,425	27,183	27,955	28,995	232,186	13,212	21,027	407,458
30-59 days	999	925	801	718	1,341	12,637	156	745	18,322
60-89 days	447	81	312	695	97	4,098	9	337	6,076
90 days or greater	721	2,325	4,755	1,208	897	19,963	111	1,046	31,026
Total PCD	33,642	28,756	33,051	30,576	31,330	268,884	13,488	23,155	462,882
Total loans and leases	$ 11,172,270	$ 5,690,922	$ 3,749,427	$ 2,812,829	$ 2,215,777	$ 3,458,369	$ 3,500,512	$ 191,869	$ 32,791,975

Loans and leases outstanding at December 31, 2019 by credit quality indicator are provided below:

	December 31, 2019						
	Commercial loans and leases						
(Dollars in thousands)	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial and leases	Other	PCI	Total commercial loans and leases
Grade:							
Pass	$ 1,004,922	$ 12,050,799	$ 536,682	$ 4,256,456	$ 308,796	$ 148,412	$ 18,306,067
Special mention	2,577	115,164	3,899	44,604	622	44,290	211,156
Substandard	5,955	116,672	1,447	34,148	675	87,970	246,867
Doubtful	—	—	—	3	—	3,657	3,660
Ungraded	—	—	—	68,581	—	—	68,581
Total	$ 1,013,454	$ 12,282,635	$ 542,028	$ 4,403,792	$ 310,093	$ 284,329	$ 18,836,331

	December 31, 2019					
	Noncommercial loans and leases					
(Dollars in thousands)	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	PCI	Total noncommercial loans and leases
Days past due:						
Current	$ 5,205,380	$ 2,316,010	$ 354,393	$ 1,762,606	$ 240,995	$ 9,879,384
30-59 days past due	45,839	9,729	977	10,481	13,764	80,790
60-89 days past due	18,289	3,468	218	3,746	5,608	31,329
90 days or greater past due	24,409	9,865	1,797	3,571	14,020	53,662
Total	$ 5,293,917	$ 2,339,072	$ 357,385	$ 1,780,404	$ 274,387	$ 10,045,165

The following table provides information regarding loans pledged as collateral for borrowing capacity through the FHLB of Atlanta and the Federal Reserve Bank ("FRB") as of December 31, 2020 and 2019:

(Dollars in thousands)	December 31, 2020	December 31, 2019
FHLB of Atlanta		
Lendable collateral value of pledged non-PCD loans	$ 8,637,844	$ 6,574,636
Less: advances	652,675	563,690
Available borrowing capacity	$ 7,985,169	$ 6,010,946
Pledged non-PCD loans	$ 12,157,153	$ 9,407,688
FRB		
Lendable collateral value of pledged non-PCD loans	$ 3,321,762	$ 2,981,712
Less: advances	—	—
Available borrowing capacity	$ 3,321,762	$ 2,981,712
Pledged non-PCD loans	$ 4,104,866	$ 3,684,919

Purchased loans and leases

The following table summarizes PCD loans acquired in the Community Financial transaction and provides the contractually required payments, less the initial allowance for credit losses and discount to produce the fair value of acquired loans with evidence of more than insignificant credit quality deterioration since origination at the acquisition date:

(Dollars in thousands)	Community Financial
Contractually required payments	$ 25,635
Initial PCD allowance	1,193
Discount	1,055
Fair value at acquisition date	$ 23,387

The recorded fair values of purchased non-PCD loans acquired in the Community Financial transaction as of the acquisition date are as follows:

(Dollars in thousands)	Community Financial
Commercial:	
Construction and land development	$ 9,428
Owner occupied commercial mortgage	31,473
Non-owner occupied commercial mortgage	25,143
Commercial and industrial and leases	15,065
Total commercial loans	81,109
Consumer:	
Residential mortgage	21,168
Revolving mortgage	2,084
Construction and land development	5,254
Consumer auto	294
Consumer other	693
Total consumer loans	29,493
Total non-PCD loans	$ 110,602

NOTE E
ALLOWANCE FOR CREDIT LOSSES

As noted in Note A, Accounting Polices and Basis of Presentation, BancShares determined SBA-PPP loans have zero expected credit losses and as such these are excluded from ACL disclosures included in the following tables.

Upon adoption of ASC 326, BancShares recorded a net decrease of $37.9 million in the ACL which included a decrease of $56.9 million in the ACL on non-PCD loans, offset by an increase of $19.0 million in the ACL on PCD loans. The largest changes as a result of adoption were decreases in the ACL on commercial loan segments as these portfolios have exhibited strong historical credit performance and have relatively short average lives. The reduction in ACL on these segments was partially offset by increases in ACL on our consumer loan segments primarily due to their longer average lives. The increase in the ACL on PCD loans was primarily the result of reallocating credit discount from loan balances into ACL.

The ACL is calculated using a variety of factors, including, but not limited to, charge-off and recovery activity, loan growth, changes in macroeconomic factors, collateral type, estimated loan life and changes in credit quality. For the period ended December 31, 2020 the primary reason for the ACL change since the adoption of ASC 326, was a $36.1 million reserve build due to the potential economic impact of COVID-19 and its estimated impact on credit losses. Forecasted economic conditions are developed using third party macroeconomic scenarios adjusted based on management's expectations over a forecast period of two years. Assumptions revert to long term historic averages over a one year period. Significant macroeconomic factors used in estimating the expected losses include unemployment, gross domestic product, home price index and commercial real estate index. Our model results consider baseline, adverse and upside scenarios. To calculate the ACL, we utilized the baseline scenario, which considers government stimulus and incorporates significant improvements to the most significant forecast assumptions when compared on the COVID-19-impacted levels from early in 2020. This result was calibrated using management's expectation of borrower performance based upon COVID-19 residual risk by industry. These loss estimates were also influenced by BancShares strong credit quality, low net charge-offs and recent credit trends, which remained stable through the latter half of year ended December 31, 2020, despite potential impacts from COVID-19.

Activity in the allowance for credit losses by class of loans is summarized as follows:

	Year ended December 31, 2020										
(Dollars in thousands)	Construction and land development - commercial	Owner occupied commercial mortgage	Non-owner occupied commercial mortgage	Commercial and industrial and leases	Residential mortgage	Revolving mortgage	Construction and land development - consumer	Consumer auto	Consumer other	PCD	Total
Allowance for credit losses:											
Balance at December 31, 2019	$ 33,213	$ 36,444	$ 11,102	$ 61,610	$ 18,232	$ 19,702	$ 2,709	$ 4,292	$ 30,301	$ 7,536	$ 225,141
Adoption of ASC 326	(31,061)	(19,316)	460	(37,637)	17,118	3,665	(1,291)	1,100	10,037	19,001	(37,924)
Balance at January 1, 2020	2,152	17,128	11,562	23,973	35,350	23,367	1,418	5,392	40,338	26,537	187,217
Provision (credits)	4,301	6,729	12,917	13,816	9,684	1,134	266	6,297	10,410	(7,202)	58,352
Initial allowance on PCD loans	—	—	—	—	—	—	—	—	—	1,193	1,193
Charge-offs	(138)	(593)	(1,951)	(14,904)	(1,653)	(1,662)	(70)	(3,646)	(17,188)	(3,300)	(45,105)
Recoveries	431	401	124	4,894	717	1,918	117	1,417	5,879	6,759	22,657
Balance at December 31, 2020	$ 6,746	$ 23,665	$ 22,652	$ 27,779	$ 44,098	$ 24,757	$ 1,731	$ 9,460	$ 39,439	$ 23,987	$ 224,314

	Years ended December 31, 2019 and 2018										
(Dollars in thousands)	Construction and land development - commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial and leases	Other	Residential mortgage	Revolving mortgage	Construction and land development - non-commercial	Consumer	PCI	Total
Allowance for credit losses:											
Balance at January 1, 2018	$ 24,470	$ 45,005	$ 4,571	$ 59,824	$ 4,689	$ 15,706	$ 22,436	$ 3,962	$ 31,204	$ 10,026	$ 221,893
Provision (credits)	10,533	(1,490)	(2,171)	2,511	(2,827)	897	1,112	(1,520)	22,187	(765)	28,467
Charge-offs	(44)	(1,140)	(69)	(10,211)	(130)	(1,689)	(3,235)	(219)	(22,817)	(117)	(39,671)
Recoveries	311	1,076	150	3,496	489	558	1,549	127	5,267	—	13,023
Balance at December 31, 2018	35,270	43,451	2,481	55,620	2,221	15,472	21,862	2,350	35,841	9,144	223,712
Provision (credits)	(2,171)	2,384	(285)	14,212	(754)	3,481	(788)	359	16,611	(1,608)	31,441
Charge-offs	(196)	(1,096)	—	(13,352)	(100)	(1,137)	(2,584)	—	(24,562)	—	(43,027)
Recoveries	310	596	15	2,894	869	416	1,212	—	6,703	—	13,015
Balance at December 31, 2019	$ 33,213	$ 45,335	$ 2,211	$ 59,374	$ 2,236	$ 18,232	$ 19,702	$ 2,709	$ 34,593	$ 7,536	$ 225,141

BancShares records an allowance for credit losses on unfunded commitments within other liabilities. Activity in the allowance for credit losses for unfunded commitments is summarized as follows:

(Dollars in thousands)	Year ended December 31, 2020
Allowance for credit losses:	
Balance at December 31, 2019	$ 1,055
Adoption of ASC 326	8,885
Balance at January 1, 2020	$ 9,940
Provision	2,874
Balance at December 31, 2020	12,814

BancShares individually reviews loans greater than $500 thousand that are determined to be collateral-dependent. These collateral-dependent loans are evaluated based on the fair value of the underlying collateral as repayment of the loan is expected to be made through the operation or sale of the collateral. Commercial and industrial loans and leases are collateralized by business assets, while the remaining loan classes are collateralized by real property.

The following table presents information on collateral-dependent loans by class and includes the amortized cost of collateral-dependent loans and leases, the net realizable value of the collateral, the extent to which collateral secures collateral-dependent loans and the associated ACL as of December 31, 2020 were as follows:

(Dollars in thousands)	Collateral-Dependant Loans	Net Realizable Value of Collateral	Collateral Coverage	Allowance for Credit Losses
Commercial loans:				
Construction and land development	$ 1,424	$ 1,795	126.1 %	$ —
Owner occupied commercial mortgage	9,792	14,253	145.6	—
Non-owner occupied commercial mortgage	5,556	7,577	136.4	—
Total commercial loans	16,772	23,625	140.9	—
Consumer:				
Residential mortgage	23,011	29,775	129.4	131
Total non-PCD loans	39,783	53,400	134.2	131
PCD	19,042	27,872	146.4	—
Total collateral-dependent loans	$ 58,825	$ 81,272	138.2 %	$ 131

Collateral-dependent nonaccrual loans with no recorded allowance totaled $57.5 million as of December 31, 2020. All other nonaccrual loans have a recorded allowance.

Allowance for Loan and Lease Losses

Prior to adoption of ASC 326, management calculated estimated loan losses through the allowance for loan and lease losses (“ALLL”). The ALLL represented management’s best estimate of inherent credit losses within the loan and lease portfolio at the balance sheet date. Management determined the ALLL based on an ongoing evaluation of the loan portfolio. Estimates for loan losses were determined by analyzing quantitative and qualitative components, such as: economic conditions, historical loan losses, historical loan migration to charge-off experience, current trends in delinquencies and charge-offs, expected cash flows on PCI loans, current assessment of impaired loans, and changes in the size, composition and/or risk within the loan portfolio. Adjustments to the ALLL were recorded with a corresponding entry to provision for loan and lease losses. Loan balances considered uncollectible were charged-off against the ALLL. Recoveries of amounts previously charged-off were generally credited to the ALLL.

A primary component of determining the allowance on non-PCI loans collectively evaluated was the actual loss history of the various loan classes. Loan loss factors were based on historical experience and, when necessary, were adjusted for significant factors, that in management’s judgment, affect the collectability of principal and interest at the balance sheet date. Loan loss factors were monitored quarterly and, when necessary, adjusted based on changes in the level of historical net charge-offs and updates by management, such as the number of periods included in the calculation of loss factors, loss severity, loss emergence period and portfolio attrition.

For commercial non-PCI loans, management incorporated historical net loss data to develop the applicable loan loss factors. General reserves for collective impairment were based on incurred loss estimates for the loan class based on average loss rates by credit quality indicators, which were estimated using historical loss experience and credit risk rating migrations. Credit quality indicators include borrower classification codes and facility risk ratings. Incurred loss estimates were adjusted through a qualitative assessment to reflect current economic conditions and portfolio trends including credit quality, concentrations, aging of the portfolio and significant policy and underwriting changes.

For noncommercial non-PCI loans, management incorporated specific loan class and delinquency status trends into the loan loss factors. General reserve estimates of incurred losses were based on historical loss experience and the migration of loans through the various delinquency pools applied to the current risk mix.

Non-PCI loans were considered to be impaired when, based on current information and events, it was probable that a borrower would be unable to pay all amounts due according to the contractual terms of the loan agreement. Generally, management considered the following loans to be impaired: all TDR loans and all loan relationships which were on nonaccrual or 90+ days past due and greater than $500,000. Non-PCI impaired loans greater than $500,000 were evaluated individually for impairment while others were evaluated collectively.

The impairment assessment and determination of the related specific reserve for each impaired loan was based on the loan’s characteristics. Impairment measurement for loans dependent on borrower cash flow for repayment was based on the present value of expected cash flows discounted at the interest rate implicit in the original loan agreement. Impairment measurement for most real estate loans, particularly when a loan was considered to be a probable foreclosure, was based on the fair value of the underlying collateral. Collateral was appraised and market value (appropriately adjusted for an assessment of the sales and marketing costs) was used to calculate a fair value estimate. A specific valuation allowance was established or partial charge-off was recorded for the difference between the excess recorded investment in the loan and the loan’s estimated fair value less costs to sell.

The ALLL for PCI loans was estimated based on the expected cash flows over the life of the loan. BancShares estimated and updated cash flows expected to be collected on individual loans or pools of loans sharing common risk characteristics. BancShares compared the carrying value of all PCI loans to the present value at each balance sheet date. If the present value was less than the carrying value, the shortfall reduced the remaining credit discount and if it was in excess of the remaining credit discount, an ALLL was recorded through the recognition of provision expense. The ALLL for PCI loans with subsequent increases in expected cash flows to be collected was reduced and any remaining excess was recorded as an adjustment to the accretable yield over the loan's or pool's remaining life.

The following tables present the allowance and recorded investment in loans and leases by class of loans, as well as the associated impairment method at December 31, 2019.

	December 31, 2019									
(Dollars in thousands)	Construction and land development - commercial	Commercial mortgage	Other commercial real estate	Commercial and industrial and leases	Other	Residential mortgage	Revolving mortgage	Construction and land development - non-commercial	Consumer	Total
Non-PCI Loans										
Allowance for loan and lease losses:										
ALLL for loans and leases individually evaluated for impairment	$ 463	$ 3,650	$ 39	$ 1,379	$ 103	$ 3,278	$ 2,722	$ 174	$ 1,107	$ 12,915
ALLL for loans and leases collectively evaluated for impairment	32,750	41,685	2,172	57,995	2,133	14,954	16,980	2,535	33,486	204,690
Total allowance for loan and lease losses	$ 33,213	$ 45,335	$ 2,211	$ 59,374	$ 2,236	$ 18,232	$ 19,702	$ 2,709	$ 34,593	$ 217,605
Loans and leases:										
Loans and leases individually evaluated for impairment	$ 4,655	$ 70,149	$ 1,268	$ 12,182	$ 639	$ 60,442	$ 28,869	$ 3,882	$ 3,513	$ 185,599
Loans and leases collectively evaluated for impairment	1,008,799	12,212,486	540,760	4,391,610	309,454	5,233,475	2,310,203	353,503	1,776,891	28,137,181
Total loan and leases	$ 1,013,454	$ 12,282,635	$ 542,028	$ 4,403,792	$ 310,093	$ 5,293,917	$ 2,339,072	$ 357,385	$ 1,780,404	$ 28,322,780

The following table presents the PCI allowance and recorded investment in loans at December 31, 2019.

(Dollars in thousands)	December 31, 2019
Allowance for loan losses:	
ALLL for loans acquired with deteriorated credit quality	$ 7,536
Loans acquired with deteriorated credit quality	558,716

At December 31, 2019, $139.4 million, respectively, in PCI loans experienced an adverse change in expected cash flows since the date of acquisition. The corresponding valuation reserve was $7.5 million.

The following tables present the recorded investment and related allowance in non-PCI impaired loans and leases by class of loans, as well as the unpaid principle balance.

	December 31, 2019				
(Dollars in thousands)	With a recorded allowance	With no recorded allowance	Total	Unpaid principal balance	Related allowance recorded
Non-PCI impaired loans and leases					
Commercial:					
Construction and land development	$ 1,851	$ 2,804	$ 4,655	$ 5,109	$ 463
Commercial mortgage	42,394	27,755	70,149	74,804	3,650
Other commercial real estate	318	950	1,268	1,360	39
Commercial and industrial and leases	7,547	4,635	12,182	13,993	1,379
Other	406	233	639	661	103
Total commercial loans	52,516	36,377	88,893	95,927	5,634
Noncommercial:					
Residential mortgage	48,796	11,646	60,442	64,741	3,278
Revolving mortgage	26,104	2,765	28,869	31,960	2,722
Construction and land development	2,470	1,412	3,882	4,150	174
Consumer	3,472	41	3,513	3,821	1,107
Total noncommercial loans	80,842	15,864	96,706	104,672	7,281
Total non-PCI impaired loans and leases	$ 133,358	$ 52,241	$ 185,599	$ 200,599	$ 12,915

Non-PCI impaired loans less than $500,000 that were collectively evaluated was $41.0 million at December 31, 2019.

The following tables show the average non-PCI impaired loan balance and the interest income recognized by loan class for the years ended December 31, 2019 and 2018:

	2019		2018	
(Dollars in thousands)	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Non-PCI impaired loans and leases:				
Commercial:				
Construction and land development	$ 3,915	$ 53	$ 1,734	$ 84
Commercial mortgage	64,363	2,188	65,943	2,569
Other commercial real estate	919	27	1,225	43
Commercial and industrial and leases	11,884	482	9,560	364
Other	396	11	135	3
Total commercial	81,477	2,761	78,597	3,063
Noncommercial:				
Residential mortgage	52,045	1,386	41,368	1,237
Revolving mortgage	29,516	1,009	26,759	900
Construction and land development	3,589	116	3,677	172
Consumer	3,311	138	2,722	116
Total noncommercial	88,461	2,649	74,526	2,425
Total non-PCI impaired loans and leases	$ 169,938	$ 5,410	$ 153,123	$ 5,488

Troubled Debt Restructurings

BancShares accounts for certain loan modifications or restructurings as TDRs. In general, the modification or restructuring of a loan is considered a TDR if, for economic or legal reasons related to a borrower's financial difficulties, a concession is granted to the borrower that creditors would not otherwise consider. Concessions may relate to the contractual interest rate, maturity date, payment structure or other actions. Within our allowance for credit loss models, TDRs are not individually evaluated unless determined to be collateral-dependent and are included in the definition of default which provides for a 100% probability of default applied within the models. As a result, subsequent changes in default status do not impact the calculation of the allowance for credit losses on TDR loans.

The Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus was published by banking regulators in April 2020 to clarify expectations around loan modifications and the determination of TDRs for borrowers experiencing COVID-19-related financial difficulty. BancShares applied this regulatory guidance during its TDR identification process for short-term loan forbearance agreements as a result of COVID-19 and in most cases is not recording these as TDRs.

The following tables provides a summary of total TDRs by accrual status. Total TDRs at December 31, 2020 were $208.2 million. Total TDRs at December 31, 2019, were $171.2 million, of which $154.0 million were non-PCI and $17.2 million were PCI. Total TDRs at December 31, 2018, were $156.1 million, of which $137.9 million were non-PCI and $18.2 million were PCI.

	December 31, 2020		
(Dollars in thousands)	Accruing	Nonaccruing	Total
Commercial loans:			
Construction and land development	$ 578	$ 54	$ 632
Owner occupied commercial mortgage	37,574	10,889	48,463
Non-owner occupied commercial mortgage	18,336	1,649	19,985
Commercial and industrial and leases	29,131	3,528	32,659
Total commercial loans	85,619	16,120	101,739
Consumer:			
Residential mortgage	29,458	19,380	48,838
Revolving mortgage	20,124	7,128	27,252
Construction and land development	1,573	9	1,582
Consumer auto	2,018	696	2,714
Consumer other	955	137	1,092
Total consumer loans	54,128	27,350	81,478
PCD loans	17,617	7,346	24,963
Total loans	$ 157,364	$ 50,816	$ 208,180

	December 31, 2019			December 31, 2018		
(Dollars in thousands)	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial loans:						
Construction and land development	$ 487	$ 2,279	$ 2,766	$ 1,946	$ 352	$ 2,298
Commercial mortgage	50,819	11,116	61,935	53,270	7,795	61,065
Other commercial real estate	571	—	571	851	9	860
Commercial and industrial and leases	9,430	2,409	11,839	7,986	2,060	10,046
Other	320	105	425	118	173	291
Total commercial loans	61,627	15,909	77,536	64,171	10,389	74,560
Noncommercial:						
Residential mortgage	41,813	16,048	57,861	37,903	9,621	47,524
Revolving mortgage	21,032	7,367	28,399	20,492	8,196	28,688
Construction and land development	1,452	2,430	3,882	2,227	110	2,337
Consumer	2,826	688	3,514	2,300	721	3,021
Total noncommercial loans	67,123	26,533	93,656	62,922	18,648	81,570
Total loans	$ 128,750	$ 42,442	$ 171,192	$ 127,093	$ 29,037	$ 156,130

The following tables provide the types of modifications designated TDRs made during the years ended December 31, 2020, 2019 and 2018, as well as a summary of loans that were modified as a TDR during the years ended December 31, 2020, 2019 and 2018 that subsequently defaulted during the years ended December 31, 2020, 2019 and 2018. BancShares defines payment default as movement of the TDR to nonaccrual status, which is generally 90 days past due, foreclosure or charge-off, whichever occurs first.

	2020				2019				2018			
	All restructurings		Restructurings with payment default		All restructurings		Restructurings with payment default		All restructurings		Restructurings with payment default	
(Dollars in thousands)	Number of loans	Amortized cost at period end	Number of loans	Amortized cost at period end	Number of loans	Amortized cost at period end	Number of loans	Amortized cost at period end	Number of loans	Amortized cost at period end	Number of loans	Amortized cost at period end
Loans and leases												
Interest only period provided												
Commercial loans	31	$ 28,145	4	$ 4,498	11	$ 1,595	1	$ 238	3	$ 1,003	—	$ —
Consumer loans	6	4,169	5	2,569	7	4,018	2	2,717	—	—	—	—
Total interest only	37	32,314	9	7,067	18	5,613	3	2,955	3	1,003	—	—
Loan term extension												
Commercial loans	26	5,444	5	1,471	16	3,904	5	533	21	3,933	4	675
Consumer loans	66	5,689	43	3,241	2	342	1	306	21	1,554	4	190
Total loan term extension	92	11,133	48	4,712	18	4,246	6	839	42	5,487	8	865
Below market interest rate												
Commercial loans	98	33,870	26	1,912	90	13,932	24	2,634	85	12,859	24	2,998
Consumer loans	156	6,074	60	3,897	176	12,458	66	4,014	184	15,545	68	5,461
Total below market interest rate	254	39,944	86	5,809	266	26,390	90	6,648	269	28,404	92	8,459
Discharged from bankruptcy												
Commercial loans	30	1,168	17	286	25	5,571	20	5,028	26	2,043	8	825
Consumer loans	186	8,129	66	2,928	178	10,349	71	4,239	151	6,617	56	3,169
Total discharged from bankruptcy	216	9,297	83	3,214	203	15,920	91	9,267	177	8,660	64	3,994
Total restructurings	599	$ 92,688	226	$ 20,802	505	$ 52,169	190	$ 19,709	491	$ 43,554	164	$ 13,318

For the years ended December 31, 2020, 2019 and 2018, the pre-modification and post-modification outstanding amortized cost of loans modified as TDRs were not materially different.

NOTE F
PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31, 2020 and 2019 are summarized as follows:

(Dollars in thousands)	Useful Life (*years*)	2020	2019
Land	*indefinite*	$ 336,258	$ 335,093
Premises and leasehold improvements	*3 - 40*	1,286,092	1,228,588
Furniture, equipment and software	*3 - 10*	639,109	595,686
Total		2,261,459	2,159,367
Less accumulated depreciation and amortization		1,010,176	914,971
Total premises and equipment		$ 1,251,283	$ 1,244,396

Depreciation and amortization expense was $108.6 million, $103.8 million and $96.8 million for the years ended December 31, 2020, 2019 and 2018, respectively.

NOTE G
OTHER REAL ESTATE OWNED

The following table explains changes in other real estate owned ("OREO") for the years ended December 31, 2020 and 2019.

(Dollars in thousands)	2020	2019
Balance at January 1	$ 46,591	$ 48,030
Additions	26,822	21,684
Acquired in business combinations	9,813	5,459
Sales	(26,726)	(24,432)
Write-downs/losses	(5,610)	(4,150)
Balance at December 31	50,890	46,591

At December 31, 2020 and 2019, BancShares had $5.8 million and $14.5 million, respectively, of foreclosed residential real estate property in OREO. The recorded investment in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure was $29.4 million and $23.0 million at December 31, 2020, and 2019, respectively. Gains recorded on the sale of OREO were $1.6 million and $1.5 million for the years ended December 31, 2020 and 2019, respectively.

NOTE H
GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

BancShares' annual impairment test, conducted as of July 31 each year, or more frequently if events occur or circumstances change that may trigger a decline in the value of the reporting unit or otherwise indicate that a potential impairment exists, resulted in no indication of goodwill impairment. Subsequent to the annual impairment test, there were no events or changes in circumstances that would indicate goodwill should be tested for impairment during the interim period between annual tests. No goodwill impairment was recorded during 2020 or 2019.

The following table presents the changes in the carrying amount of goodwill as of December 31, 2020 and 2019:

	Year ended December 31	
(Dollars in thousands)	2020	2019
Balance at January 1	$ 349,398	$ 236,347
Recognized in the Community Financial acquisition	686	—
Measurement period adjustments[(1)]	214	—
Recognized in the Biscayne Bancshares acquisition	—	46,521
Recognized in the First South Bancorp acquisition	—	13,896
Recognized in the Entegra acquisition	—	52,634
Balance at December 31	$ 350,298	$ 349,398

[(1)]See Note B, Business Combinations for additional information

Other Intangible Assets

Other intangible assets include mortgage servicing rights ("MSRs") on loans sold to third parties with servicing retained, core deposit intangibles which represent the estimated fair value of acquired core deposits and other customer relationships, and other intangible assets acquired such as other servicing rights and noncompete agreements.

Mortgage Servicing Rights

Our portfolio of residential mortgage loans serviced for third parties was $3.31 billion, $3.38 billion and $2.95 billion as of December 31, 2020, 2019 and 2018, respectively. The majority of these loans were originated by BancShares and sold to third parties on a non-recourse basis with servicing rights retained. At December 31, 2020, a portion of the MSRs were related to originations by Entegra prior to acquisition. These retained servicing rights are recorded as a servicing asset and reported in other intangible assets. The mortgage servicing rights are initially recorded at fair value and then carried at the lower of amortized cost or fair market value. The amortization expense related to mortgage servicing rights is included as a reduction of mortgage income.

The activity of the mortgage servicing asset for the years ended December 31, 2020, 2019 and 2018 is presented in the following table:

(Dollars in thousands)	2020	2019	2018
Balance at January 1	$ 22,963	$ 21,396	$ 21,945
Servicing rights originated	8,006	6,149	5,258
Servicing rights acquired in Entegra transaction	—	1,873	—
Amortization	(8,400)	(6,233)	(5,807)
Valuation allowance increase	(4,143)	(222)	—
Balance at December 31	$ 18,426	$ 22,963	$ 21,396

The following table presents the activity in the servicing asset valuation allowance for the years ended December 31, 2020, 2019 and 2018:

(Dollars in thousands)	2020	2019	2018
Beginning balance	$ 222	$ —	$ —
Valuation allowance increase	4,143	222	—
Ending balance	$ 4,365	$ 222	$ —

Valuation of mortgage servicing rights is performed using a pooling methodology. Similar loans are pooled together and evaluated on a discounted earnings basis to determine the present value of future earnings.

Contractually specified mortgage servicing fees, late fees and ancillary fees earned for the years ended December 31, 2020, 2019 and 2018, were $8.5 million, $7.9 million and $7.5 million, respectively, and reported in mortgage income.

Key economic assumptions used to value mortgage servicing rights as of December 31, 2020 and 2019, were as follows:

	2020	2019
Discount rate - conventional fixed loans	7.92 %	8.92 %
Discount rate - all loans excluding conventional fixed loans	8.92 %	9.92 %
Weighted average constant prepayment rate	20.62 %	13.72 %
Weighted average cost to service a loan	$ 87.58	$ 87.09

The discount rate is based on the 10-year U.S. Treasury rate plus 700 basis points for conventional fixed loans and 800 basis points for all other loans. The 700 and 800 basis points are used as a risk premium when calculating the discount rate. The prepayment rate is derived from the Public Securities Association Standard Prepayment model, which compared to actual prepayment rates annually for reasonableness. The average cost to service a loan is based on the number of loans serviced and the total costs to service the loans.

Core Deposit Intangibles

Core deposit intangibles represent the estimated fair value of core deposits and other customer relationships acquired. They are being amortized on an accelerated basis over their estimated useful lives. The weighted average useful life of core deposit intangibles acquired in 2020 is 9 years.

The following information relates to core deposit intangible assets, which are being amortized over their estimated useful lives:

(Dollars in thousands)	2020	2019
Balance at January 1	$ 43,386	$ 48,232
Acquired in Community Financial transaction	536	—
Acquired in Biscayne Bancshares transaction	—	4,745
Acquired in First South Bancorp transaction	—	2,268
Acquired in Entegra transaction	—	4,487
Amortization	(14,255)	(16,346)
Balance at December 31	$ 29,667	$ 43,386

The gross amount of core deposit intangible assets and accumulated amortization as of December 31, 2020 and 2019, are:

(Dollars in thousands)	2020	2019
Gross balance	$ 127,842	$ 154,507
Accumulated amortization	(98,175)	(111,121)
Carrying value	$ 29,667	$ 43,386

Based on current estimated useful lives and carrying values, BancShares anticipates amortization expense for core deposit intangibles in subsequent periods will be:

(Dollars in thousands)	
2021	$ 10,948
2022	7,743
2023	5,129
2024	2,658
2025 and subsequent	3,189
	$ 29,667

NOTE I
DEPOSITS

Deposits at December 31, 2020 and 2019 were as follows:

(Dollars in thousands)	2020	2019
Demand	$ 18,014,029	$ 12,926,796
Checking with interest	10,591,687	8,284,302
Money market accounts	8,632,713	6,817,752
Savings	3,304,167	2,564,777
Time	2,889,013	3,837,609
Total deposits	$ 43,431,609	$ 34,431,236

Time deposits with a denomination of $250,000 or more were $670.4 million and $891.2 million at December 31, 2020 and 2019, respectively.

At December 31, 2020, the scheduled maturities of time deposits were:

(Dollars in thousands)	Year ended December 31
2021	$ 1,844,860
2022	648,516
2023	143,272
2024	67,908
2025	42,960
Thereafter	141,497
Total time deposits	$ 2,889,013

NOTE J
BORROWINGS

Short-term Borrowings

Short-term borrowings at December 31, 2020 and 2019 are as follows:

(Dollars in thousands)	2020	2019
Securities sold under customer repurchase agreements	$ 641,487	$ 442,956
Notes payable to FHLB of Atlanta	—	255,000
Other short-term debt	—	40,277
Total short-term borrowings	$ 641,487	$ 738,233

At December 31, 2020, BancShares had unused credit lines allowing contingent access to overnight borrowings of up to $598.0 million on an unsecured basis. Additionally, under borrowing arrangements with the FRB of Richmond and FHLB of Atlanta, BancShares has access to an additional $11.31 billion on a secured basis.

Repurchase Agreements

BancShares utilizes securities sold under agreements to repurchase to facilitate the needs of customers and secure wholesale funding needs. Repurchase agreements are transactions whereby BancShares offers to sell to a counterparty an undivided interest in an eligible security at an agreed upon purchase price, and which obligates BancShares to repurchase the security at an agreed upon date, repurchase price and interest rate. These agreements are recorded at the amount of cash received in connection with the transaction and are reflected as securities sold under customer repurchase agreements.

BancShares monitors collateral levels on a continuous basis and maintains records of each transaction specifically describing the applicable security and the counterparty's fractional interest in that security, and segregates the security from general assets in accordance with regulations governing custodial holdings of securities. The primary risk with repurchase agreements is market risk associated with the investments securing the transactions, as additional collateral may be required based on fair value changes of the underlying investments. Securities pledged as collateral under repurchase agreements are maintained with safekeeping agents. The carrying value of investment securities pledged as collateral under repurchase agreements was $689.3 million and $477.6 million at December 31, 2020 and December 31, 2019, respectively.

At December 31, 2020, BancShares held $641.5 million of securities sold under agreements to repurchase, with overnight and continuous remaining contractual maturities, made up of $432.8 million collateralized by government agency securities and $208.7 million collateralized by commercial mortgage-backed securities. At December 31, 2019, BancShares held securities sold under agreements to repurchase of $443.0 million, with overnight and continuous remaining contractual maturities collateralized by government agency securities.

Long-term Borrowings

Long-term borrowings at December 31, 2020 and 2019 include:

(Dollars in thousands)	2020	2019
Fixed-to-Floating subordinated notes at 3.375% maturing March 15, 2030	$ 350,000	$ —
Junior subordinated debenture at 3-month LIBOR plus 1.75% maturing June 30, 2036	88,145	88,145
Junior subordinated debenture at 3-month LIBOR plus 2.25% maturing June 15, 2034	19,588	19,588
Junior subordinated debenture at 3-month LIBOR plus 2.85% maturing April 7, 2034	10,310	10,310
Junior subordinated debentures at 3-month LIBOR plus 2.80% maturing March 30, 2034	14,433	14,433
Junior subordinated debentures at 7.00% maturing December 31, 2026[(1)]	20,000	20,000
Junior subordinated debentures at 6.50% maturing October 1, 2025[(2)]	7,500	7,500
Junior subordinated debentures at 7.13% called February 25, 2020[(2)]	—	5,000
Notes payable to FHLBs of Atlanta and Chicago with rates ranging from 0.75% to 2.99% and maturing through March 2032	655,175	317,191
Unsecured term loan at 1-month LIBOR plus 1.10% maturing September 5, 2022	82,125	96,425
Obligations under capitalized leases extending to December 2050	6,308	8,230
Unamortized issuance costs	(3,459)	—
Unamortized purchase accounting adjustments[(3)]	(1,999)	(1,569)
Other long-term debt	37	3,385
Total long-term obligations	$ 1,248,163	$ 588,638

(1) Assumed in HomeBancorp acquisition.
(2) Assumed in Biscayne BancShares acquisition.
(3) At December 31, 2020, unamortized purchase accounting adjustments were $2.0 million for subordinated debentures. At December 31, 2019, unamortized purchase accounting adjustments were $1.6 million for subordinated debentures and $6 thousand for FHLB advances.

Issuance of Subordinated Debt

On March 4, 2020, BancShares completed its public offering of $350 million aggregate principal amount of its 3.375% Fixed-to-Floating Rate Subordinated Notes due 2030 and redeemable at the option of BancShares starting with the interest payment due March 15, 2025, subject to obtaining the prior approval of the Federal Reserve to the extent such approval is then required under the rules of the Federal Reserve, or earlier upon the occurrence of certain events.

At December 31, 2020 and 2019, BancShares held $132.5 million in junior subordinated debentures representing obligations to FCB/NC Capital Trust III, FCB/SC Capital Trust II, SCB Capital Trust I and Macon Capital Trust I special purpose entities and grantor trusts (“the Trusts”) for trust preferred securities. The Trusts had outstanding trust preferred securities of $128.5 million at December 31, 2020 and 2019, which mature in 2036, 2034, 2034 and 2034, respectively, and may be redeemed at par in whole or in part at any time. BancShares has guaranteed all obligations of its subsidiaries, FCB Capital Trust III and FCB/SC Capital Trust II. FCB has guaranteed all obligations of its trust subsidiaries, SCB Capital Trust I and Macon Capital Trust I, which was acquired from Entegra during the fourth quarter of 2019 and has a related obligation of $14.4 million.

Long-term borrowings maturing in each of the five years subsequent to December 31, 2020 and thereafter include:

(Dollars in thousands)	Year ended December 31
2021	$ 10,000
2022	98,709
2023	125,500
2024	6,144
2025	7,500
Thereafter	1,000,310
Total long-term borrowings	$ 1,248,163

NOTE K
FDIC SHARED-LOSS PAYABLE

At December 31, 2020, shared-loss protection remains for single family residential loans acquired in the amount of $34.5 million. The shared-loss agreements for two FDIC-assisted transactions include provisions related to payments owed to the FDIC at the termination of the agreements if actual cumulative losses on covered assets are lower than originally estimated by the FDIC at the time of acquisition ("clawback liability"). As of December 31, 2020 and 2019, the estimated clawback liability was $15.6 million and $112.4 million, respectively, as a result of a payment to the FDIC in the first quarter of 2020 for $99.5 million related to one of the transactions. We expect to make a clawback liability payment to the FDIC in March 2021 in the amount of $15.9 million.

The following table provides changes in the FDIC shared-loss payable for the years ended December 31, 2020 and 2019.

(Dollars in thousands)	2020	2019
Beginning balance	$ 112,395	$ 105,618
Accretion	2,674	6,777
Payment made to the FDIC to settle shared-loss agreement	(99,468)	—
Ending balance	$ 15,601	$ 112,395

NOTE L
SHAREHOLDERS' EQUITY, DIVIDEND RESTRICTIONS AND OTHER REGULATORY MATTERS

BancShares and FCB are required to meet minimum capital requirements set forth by regulatory authorities. Certain activities such as, the ability to undertake new business initiatives, including acquisitions, the access to and cost of funding for new business initiatives, the ability to pay dividends, the ability to repurchase shares or other capital instruments, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in large part, on a financial institution's capital strength.

Bank regulatory agencies approved regulatory capital guidelines ("Basel III") aimed at strengthening existing capital requirements for banking organizations. Basel III became effective for BancShares on January 1, 2015. Under Basel III, requirements include a common equity Tier 1 ratio minimum of 4.50%, Tier 1 risk-based capital minimum of 6.00%, total risk-based capital ratio minimum of 8.00% and Tier 1 leverage capital ratio minimum of 4.00%. Failure to meet minimum capital requirements may result in certain actions by regulators that could have a direct, material effect on the consolidated financial statements.

Based on the most recent notifications from its regulators, BancShares and FCB is well-capitalized under the regulatory framework for prompt corrective action. As of December 31, 2020, BancShares and FCB met all capital adequacy requirements to which they are subject and were not aware of any conditions or events that would affect each entity's well-capitalized status.

Following is an analysis of capital ratios under Basel III guidelines for BancShares and FCB as of December 31, 2020 and 2019:

		December 31, 2020		December 31, 2019	
(Dollars in thousands)	Requirements to be well-capitalized	Amount	Ratio	Amount	Ratio
BancShares					
Total risk-based capital	10.00 %	$ 4,577,212	13.81 %	$ 3,731,501	12.12 %
Tier 1 risk-based capital	8.00	3,856,086	11.63	3,344,305	10.86
Common equity Tier 1	6.50	3,516,149	10.61	3,344,305	10.86
Leverage capital	5.00	3,856,086	7.86	3,344,305	8.81
FCB					
Total risk-based capital	10.00	4,543,496	13.72	3,837,670	12.46
Tier 1 risk-based capital	8.00	4,276,870	12.92	3,554,974	11.54
Common equity Tier 1	6.50	4,276,870	12.92	3,554,974	11.54
Leverage capital	5.00	4,276,870	8.72	3,554,974	9.38

As of January 1, 2019, the capital conservation buffer was fully phased in at 2.50%. BancShares and FCB had capital conservation buffers of 5.63% and 5.72%, respectively, at December 31, 2020.

At December 31, 2020, Tier 2 capital of BancShares included $128.5 million of trust preferred capital securities and $377.5 million of qualifying subordinated debentures, compared to $128.5 million of trust preferred capital securities and $32.5 million of qualifying subordinated debentures included at December 31, 2019.

BancShares has two classes of common stock—Class A common and Class B common shares. Shares of Class A common have one vote per share, while shares of Class B common have 16 votes per share.

During 2020, BancShares repurchased a total of 813,090 shares of Class A common stock, or 8.4% of outstanding shares of as of December 31, 2019, for $333.8 million at an average cost per share of $410.48. During 2019, BancShares repurchased a total of 998,910 shares of Class A common stock, or 9.4% of outstanding shares of as of December 31, 2018, for $450.8 million at an average cost per share of $451.33. All share repurchases were executed under previously approved authorities.

Upon expiration of the most recent share repurchase authorization on July 31, 2020, share repurchase activity has ended and will be reevaluated in subsequent periods.

Issuance of Depositary Shares

On March 12, 2020, BancShares issued and sold an aggregate of 13,800,000 depositary shares (the “Depositary Shares”), each representing a 1/40th interest in a share of 5.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share (the “Series A Preferred Stock”), with a liquidation preference of $25 per Depositary Share (equivalent to $1,000 per share of the Series A Preferred Stock) for a total of $345 million.

The capital raise provides liquidity for general corporate purposes, which may include, but is not limited to, providing capital to support our growth organically or through strategic acquisitions, financing investments and capital expenditures, for funding investments in First Citizens Bank as regulatory capital, and redeeming or repurchasing BancShares’ common stock.

Dividend Restrictions

The Board of Directors of FCB may approve distributions, including dividends, as it deems appropriate, subject to the requirements of the FDIC and the General Statutes of North Carolina, provided that the distributions do not reduce capital below applicable capital requirements. As of December 31, 2020, the maximum amount of distributions was limited to $1.70 billion to preserve well-capitalized status. Dividends declared by FCB and paid to BancShares amounted to $229.7 million in 2020, $149.8 million in 2019 and $242.9 million in 2018. 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.

BancShares and FCB are subject to various requirements imposed by state and federal banking statutes and regulations, including regulations requiring the maintenance of reserve balances at the Federal Reserve Bank. Banks are allowed to reduce the required balances by the amount of vault cash. For 2020, the requirements averaged $115.2 million. Effective March 26, 2020, the Federal Reserve Board reduced the reserve requirement ratio to 0%, eliminating the reserve requirement for all depository institutions.

NOTE M
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) included the following at December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
(Dollars in thousands)	Accumulated other comprehensive income (loss)	Deferred tax expense (benefit)	Accumulated other comprehensive income (loss), net of tax	Accumulated other comprehensive income (loss)	Deferred tax expense (benefit)	Accumulated other comprehensive income (loss), net of tax
Unrealized gains on securities available for sale	$ 102,278	$ 23,524	$ 78,754	$ 7,522	$ 1,730	$ 5,792
Unrealized gains on securities available for sale transferred from (to) held to maturity	5,399	1,242	4,157	—	—	—
Defined benefit pension items	(91,751)	(21,103)	(70,648)	(172,098)	(39,583)	(132,515)
Total	$ 15,926	$ 3,663	$ 12,263	$ (164,576)	$ (37,853)	$ (126,723)

The following table highlights changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2020 and 2019:

(Dollars in thousands)	Unrealized gains (losses) on securities available-for-sale[(1)]	Unrealized gains (losses) on securities available for sale transferred to held to maturity[(1)(2)]	Defined benefit pension items[(1)]	Total
Balance at January 1, 2019	$ (38,505)	$ (71,149)	$ (125,533)	$ (235,187)
Net unrealized gains (losses) arising during period	49,776	55,834	(15,438)	90,172
Amounts reclassified from accumulated other comprehensive loss	(5,479)	15,315	8,456	18,292
Net current period other comprehensive income (loss)	44,297	71,149	(6,982)	108,464
Balance at December 31, 2019	5,792	—	(132,515)	(126,723)
Net unrealized gains arising during period	119,357	4,538	42,367	166,262
Amounts reclassified from accumulated other comprehensive loss	(46,395)	(381)	19,500	(27,276)
Net current period other comprehensive income	72,962	4,157	61,867	138,986
Balance at December 31, 2020	$ 78,754	$ 4,157	$ (70,648)	$ 12,263

(1) All amounts are net of tax. Amounts in parentheses indicate debits.
(2) Net unrealized gains (losses) represent unrealized gains and losses related to the reclassification of investment securities between categories. See Note C, Investments, for additional information.

The following table presents the amounts reclassified from accumulated other comprehensive income (loss) and the line item affected in the statement where net income is presented for years ended December 31, 2020 and 2019:

(Dollars in thousands)	Year ended December 31, 2020	
Details about accumulated other comprehensive income (loss)	**Amount reclassified from accumulated other comprehensive income (loss)[1]**	**Affected line item in the statement where net income is presented**
Unrealized gains on available for sale securities	$ 60,253	Realized gains on investment securities available for sale, net
	(13,858)	Income taxes
	$ 46,395	
Amortization of unrealized gains on securities available for sale transferred to held to maturity	$ 495	Net interest income
	(114)	Income taxes
	$ 381	
Amortization of actuarial losses on defined benefit pension items	$ (25,324)	Other noninterest expense
	5,824	Income taxes
	$ (19,500)	
Total reclassifications for the period	$ 27,276	

	Year ended December 31, 2019	
Details about accumulated other comprehensive (loss) income	**Amount reclassified from accumulated other comprehensive income (loss)[1]**	**Affected line item in the statement where net income is presented**
Unrealized gains on available for sale securities	$ 7,115	Realized gains on investment securities available for sale, net
	(1,636)	Income taxes
	$ 5,479	
Amortization of unrealized losses on securities available for sale transferred to held to maturity	$ (19,889)	Net interest income
	4,574	Income taxes
	$ (15,315)	
Amortization of defined benefit pension items		
Prior service costs	$ (57)	Salaries and wages
Actuarial losses	(10,924)	Other noninterest expense
	(10,981)	Income before income taxes
	2,525	Income taxes
	$ (8,456)	
Total reclassifications for the period	$ (18,292)	

[1] Amounts in parentheses indicate debits to profit/loss.

NOTE N
OTHER NONINTEREST INCOME AND OTHER NONINTEREST EXPENSE

Other noninterest income for the years ended December 31, 2020, 2019 and 2018 was $7.4 million, $18.4 million and $19.7 million, respectively. Prior to the adoption of ASC 326, the most significant item in other noninterest income was recoveries on PCI loans previously charged-off. BancShares recorded the portion of recoveries related to loans and leases written off prior to the closing of an acquisition as noninterest income rather than as an adjustment to the allowance for loan losses. These recoveries were $17.4 million and $16.6 million for the years ended December 31, 2019 and 2018, respectively. Following the adoption of ASC 326, these recoveries are recorded as an adjustment to the ACL. Other noninterest income also includes FHLB dividends and other various income items.

Other noninterest expense for the years ended December 31, 2020, 2019 and 2018 included the following:

(Dollars in thousands)	2020	2019	2018
Core deposit intangible amortization	$ 14,255	$ 16,346	$ 17,165
Consultant expense	12,751	12,801	14,345
Advertising expense	10,010	11,437	11,650
Telecommunications expense	12,179	9,391	10,471
Other	95,922	89,308	93,432
Total other noninterest expense	$ 145,117	$ 139,283	$ 147,063

Other expense consists of miscellaneous expenses including travel, postage, supplies, appraisal expense and other operational losses. Advertising expense related to non-direct response advertisements are expensed as incurred.

NOTE O
INCOME TAXES

At December 31, 2020, 2019 and 2018 income tax expense consisted of the following:

(Dollars in thousands)	2020	2019	2018
Current tax expense			
Federal	$ 137,162	$ 68,984	$ 95,151
State	14,532	11,095	21,523
Total current tax expense	151,694	80,079	116,674
Deferred tax (benefit) expense			
Federal	(28,535)	50,522	(10,944)
State	3,000	4,076	(2,433)
Total deferred tax (benefit) expense	(25,535)	54,598	(13,377)
Total income tax expense	$ 126,159	$ 134,677	$ 103,297

Income tax expense differed from the amounts computed by applying the statutory federal income tax rate of 21% to pretax income as a result of the following:

(Dollars in thousands)	2020	2019	2018
Income taxes at federal statutory rates	$ 129,755	$ 124,330	$ 105,758
Increase (reduction) in income taxes resulting from:			
Nontaxable income on loans, leases and investments, net of nondeductible expenses	(1,581)	(1,639)	(1,796)
Excess tax benefits of compensation	1,146	1,070	371
State and local income taxes, including any change in valuation allowance, net of federal income tax benefit	13,850	11,985	15,081
Effect of federal rate change	—	—	(15,736)
Tax credits net of amortization	(5,367)	(4,474)	(2,891)
Repayment of claim of right income	(13,926)	—	—
Other, net	2,282	3,405	2,510
Total income tax expense	$ 126,159	$ 134,677	$ 103,297

The net deferred tax liability included the following components at December 31, 2020, and 2019:

(Dollars in thousands)	2020	2019
Allowance for credit losses	$ 52,293	$ 53,073
Operating lease liabilities	15,737	17,752
Executive separation from service agreements	8,989	12,334
Net operating loss carryforwards	9,545	11,085
Employee compensation	16,083	13,313
FDIC assisted transactions timing differences	—	8,678
Other reserves	5,376	5,001
Other	6,898	10,698
Deferred tax asset	114,921	131,934
Accelerated depreciation	14,984	51,249
Lease financing activities	15,265	8,101
Operating lease assets	15,670	17,837
Net unrealized gain on securities included in accumulated other comprehensive loss	24,857	1,821
Net deferred loan fees and costs	13,975	11,781
Intangible assets	13,012	9,148
Security, loan and debt valuations	2,051	5,767
FDIC assisted transactions timing differences	2,393	—
Pension liability	44,549	5,079
Other	10,193	15,993
Deferred tax liability	156,949	126,776
Net deferred tax (liability) asset	$ (42,028)	$ 5,158

At December 31, 2020, the gross tax benefit related to net operating loss carryforwards were $41.7 million and $19.5 million related to federal and state taxes, respectively. These carryforwards expire in years beginning in 2024. The net operating losses were obtained through various acquisitions and are subject to the annual limitations set forth by Internal Revenue Code Section 382. No valuation allowance was necessary as of December 31, 2020 and 2019, to reduce BancShares' gross deferred tax asset to the amount more likely than not to be realized.

Income tax expense for 2020 was favorably impacted by $13.9 million due to BancShares' decision in the second quarter to utilize an allowable alternative for computing its 2020 federal income tax liability. The allowable alternative provides BancShares the ability to use the federal income tax rate for certain current year deductible amounts related to prior year FDIC-assisted acquisitions that was applicable when these amounts were originally subjected to tax.

BancShares regularly adjusts its net deferred tax asset as a result of changes in tax rates in the state where it files tax returns. These changes in tax rates did not have a material impact on tax expense in 2020, 2019 or 2018.

BancShares' and its subsidiaries' federal income tax returns for 2017 through 2019 remain open for examination. Generally, BancShares is no longer subject to examination by state and local taxing authorities for taxable years prior to 2015.

The following table provides a rollforward of BancShares' gross unrecognized tax benefits, excluding interest and penalties, during the years ended December 31, 2020, 2019 and 2018:

(Dollars in thousands)	2020	2019	2018
Unrecognized tax benefits at the beginning of the year	$ 32,226	$ 28,255	$ 29,004
Additions (reductions) related to tax positions taken in prior year	153	(683)	(1,054)
Additions related to tax positions taken in current year	1,295	6,554	1,433
Settlements	(1,516)	—	—
Reductions related to lapse of statute of limitations	(783)	(1,900)	(1,128)
Unrecognized tax benefits at the end of the year	$ 31,375	$ 32,226	$ 28,255

All of the unrecognized tax benefits, if recognized, would affect BancShares' effective tax rate.

BancShares has unrecognized tax benefits relating to uncertain state tax positions in North Carolina and other state jurisdictions resulting from tax filings submitted to the states. No tax benefit has been recorded for these uncertain tax positions in the consolidated financial statements. BancShares does not expect the unrecognized tax benefits to change significantly during 2021.

BancShares recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. BancShares recognized $467 thousand, ($135) thousand and $114 thousand for the years ended December 31, 2020, 2019 and 2018, respectively. BancShares had $896 thousand and $429 thousand accrued for the payment of interest and penalties as of December 31, 2020 and 2019, respectively.

NOTE P
ESTIMATED FAIR VALUES

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. BancShares estimates fair value using discounted cash flows or other valuation techniques when there is no active market for a financial instrument. Inputs used in these valuation techniques are subjective in nature, involve uncertainties and require significant judgment. Therefore, the derived fair value estimates presented below are not necessarily indicative of the amounts BancShares would realize in a current market exchange.

Assets and liabilities are recorded at fair value according to a fair value hierarchy comprised of three levels. The levels are based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The level within the fair value hierarchy for an asset or liability is based on the lowest level of input significant to the fair value measurement with Level 1 inputs considered highest and Level 3 inputs considered lowest. A brief description of each input level follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities.
- Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices observable for the assets or liabilities and market corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability. These unobservable inputs and assumptions reflect the estimates market participants would use in pricing the asset or liability.

BancShares' management reviews any changes to its valuation methodologies to ensure they are appropriate and supportable, and refines valuation methodologies as more market-based data becomes available. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

The methodologies used to estimate the fair value of financial assets and financial liabilities are discussed below.

Investment securities available for sale. The fair value of U.S. Treasury, government agency, mortgage-backed and municipal securities and a portion of our corporate bonds are generally estimated using a third party pricing service. The third party provider evaluates securities based on comparable investments with trades and market data and will utilize pricing models which use a variety of inputs, such as benchmark yields, reported trades, issuer spreads, benchmark securities, bids and offers as needed. These securities are generally classified as Level 2. The remaining corporate bonds held are generally measured at fair value based on indicative bids from broker-dealers using inputs that are not directly observable. These securities are considered Level 3.

Marketable equity securities. Equity securities are measured at fair value using observable closing prices. The valuation also considers the amount of market activity by examining the trade volume of each security. Equity securities are classified as Level 1 if they are traded in an active market and as Level 2 if the observable closing price is from a less than active market.

Loans held for sale. Certain residential real estate loans originated to be sold to investors are carried at fair value based on quoted market prices for similar types of loans. Accordingly, the inputs used to calculate fair value of originated residential real estate loans held for sale are considered Level 2 inputs. Portfolio loans subsequently transferred to held for sale to be sold in the secondary market are transferred at fair value. The fair value of the transferred portfolio loans is based on quoted prices and considered Level 1 inputs.

Net loans and leases (Non-PCD and PCD). Fair value is estimated based on discounted future cash flows using the current interest rates at which loans with similar terms would be made to borrowers of similar credit quality. The inputs used in the fair value measurements for loans and leases are considered Level 3 inputs.

FHLB stock. The carrying amount of FHLB stock is a reasonable estimate of fair value, as these securities are not readily marketable and are evaluated for impairment based on the ultimate recoverability of the par value. BancShares considers positive and negative evidence, including the profitability and asset quality of the issuer, dividend payment history and recent redemption experience, when determining the ultimate recoverability of the par value. BancShares investment in FHLB stock is ultimately recoverable at par. The inputs used in the fair value measurement for the FHLB stock are considered Level 2 inputs.

Mortgage and other servicing rights. Mortgage and other servicing rights are carried at the lower of amortized cost or market and are, therefore, carried at fair value only when fair value is less than the amortized cost. The fair value of mortgage and other servicing rights is performed using a pooling methodology. Similar loans are pooled together and a model which relies on discount rates, estimates of prepayment rates and the weighted average cost to service the loans is used to determine the fair value. The inputs used in the fair value measurement for mortgage and other servicing rights are considered Level 3 inputs.

Deposits. For deposits with no stated maturity, the carrying value is a reasonable estimate of fair value. The fair value of time deposits is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities. The inputs used in the fair value measurement for deposits are considered Level 2 inputs.

Borrowings. For borrowings, the fair values are determined based on recent trades or sales of the actual security, if available. Otherwise, fair values are estimated by discounting future cash flows using current interest rates for similar financial instruments. The inputs used in the fair value measurement for FHLB borrowings, subordinated debentures, and other borrowings are considered Level 2 inputs.

Payable to the FDIC for shared-loss agreements. The fair value of the payable to the FDIC for shared-loss agreements is determined by the projected cash flows based on expected payments to the FDIC in accordance with the shared-loss agreements. Cash flows are discounted using current discount rates to reflect the timing of the estimated amounts due to the FDIC. The inputs used in the fair value measurement for the payable to the FDIC are considered Level 3 inputs.

Off-balance-sheet commitments and contingencies. Carrying amounts are reasonable estimates of the fair values for such financial instruments. Carrying amounts include unamortized fee income and, in some cases, reserves for any credit losses from those financial instruments. These amounts are not material to BancShares' financial position.

For all other financial assets and financial liabilities, the carrying value is a reasonable estimate of the fair value as of December 31, 2020 and 2019. The carrying value and fair value for these assets and liabilities are equivalent because they are relatively short-term in nature and there is no interest rate or credit risk that would cause the fair value to differ from the carrying value. Cash and due from banks is classified on the fair value hierarchy as Level 1. Overnight investments, income earned not collected and accrued interest payable are considered Level 2.

The table presents the carrying values and estimated fair values for financial instruments as of December 31, 2020 and 2019.

	December 31, 2020		December 31, 2019	
(Dollars in thousands)	Carrying value	Fair value	Carrying value	Fair value
Cash and due from banks	$ 362,048	$ 362,048	$ 376,719	$ 376,719
Overnight investments	4,347,336	4,347,336	1,107,844	1,107,844
Investment securities available for sale	7,014,243	7,014,243	7,059,674	7,059,674
Investment securities held to maturity	2,816,982	2,838,499	30,996	30,996
Investment in marketable equity securities	91,680	91,680	82,333	82,333
Loans held for sale	124,837	124,837	67,869	67,869
Net loans and leases	32,567,661	33,298,166	28,656,355	28,878,550
Income earned not collected	145,694	145,694	123,154	123,154
Federal Home Loan Bank stock	45,392	45,392	43,039	43,039
Mortgage and other servicing rights	19,628	20,283	24,891	26,927
Deposits with no stated maturity	40,542,596	40,542,596	30,593,627	30,593,627
Time deposits	2,889,013	2,905,577	3,837,609	3,842,162
Securities sold under customer repurchase agreements	641,487	641,487	442,956	442,956
Federal Home Loan Bank borrowings	655,175	677,579	572,185	577,362
Subordinated debt	504,518	525,610	163,412	173,685
Other borrowings	88,470	89,263	148,318	149,232
FDIC shared-loss payable	15,601	15,843	112,395	114,252
Accrued interest payable	9,414	9,414	18,124	18,124

Among BancShares' assets and liabilities, investment securities available for sale, marketable equity securities and loans held for sale are reported at their fair values on a recurring basis. For assets and liabilities carried at fair value on a recurring basis, the following table provides fair value information as of December 31, 2020 and 2019.

	December 31, 2020			
		Fair value measurements using:		
(Dollars in thousands)	Fair value	Level 1	Level 2	Level 3
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$ 499,933	$ —	$ 499,933	$ —
Government agency	701,391	—	701,391	—
Residential mortgage-backed securities	4,438,103	—	4,438,103	—
Commercial mortgage-backed securities	771,537	—	771,537	—
Corporate bonds	603,279	—	286,655	316,624
Total investment securities available for sale	$ 7,014,243	$ —	$ 6,697,619	$ 316,624
Marketable equity securities	$ 91,680	$ 32,855	$ 58,825	—
Loans held for sale	124,837	—	124,837	—

	December 31, 2019			
		Fair value measurements using:		
	Fair value	Level 1	Level 2	Level 3
Assets measured at fair value				
Investment securities available for sale				
U.S. Treasury	$ 409,999	$ —	$ 409,999	$ —
Government agency	682,772	—	682,772	—
Residential mortgage-backed securities	5,267,090	—	5,267,090	—
Commercial mortgage-backed securities	380,020	—	380,020	—
Corporate bonds	201,566	—	131,881	69,685
State, county and municipal	118,227	—	118,227	—
Total investment securities available for sale	$ 7,059,674	$ —	$ 6,989,989	$ 69,685
Marketable equity securities	$ 82,333	$ 29,458	$ 52,875	$ —
Loans held for sale	67,869	—	67,869	—

During the year ended December 31, 2020, $1.8 million of corporate bonds available for sale were transferred from Level 2 to Level 3. The transfers were due to a lack of observable inputs and trade activity for those securities. During the year ended December 31, 2019, $112.6 million of corporate bonds available for sale were transferred from Level 3 to Level 2. The transfers were due to the availability of additional observable inputs for those securities.

The following table summarizes activity for Level 3 assets for the years ended December 31, 2020 and 2019:

	2020	2019
(Dollars in thousands)	Corporate bonds	Corporate bonds
Beginning balance	$ 69,685	$ 143,226
Purchases[1]	242,595	35,993
Unrealized net gains included in other comprehensive income	2,898	3,891
Amounts included in net income	(336)	174
Transfers in	1,782	—
Transfers out	—	(112,599)
Sales / Calls	—	(1,000)
Ending balance	$ 316,624	$ 69,685

[1] The year ended December 31, 2019, includes Corporate bonds of $500 thousand acquired in Entegra transaction.

The following table presents quantitative information about Level 3 fair value measurements for fair value on a recurring basis at December 31, 2020.

(Dollars in thousands)			December 31, 2020
Level 3 assets	Valuation technique	Significant unobservable input	Fair Value
Corporate bonds	Indicative bid provided by broker	Multiple factors, including but not limited to, current operations, financial condition, cash flows, and recently executed financing transactions related to the issuer	$ 316,624

Fair Value Option

BancShares has elected the fair value option for residential real estate loans originated to be sold. This election reduces certain timing differences in the Consolidated Statements of Income and better aligns with the management of the portfolio from a business perspective. The changes in fair value are recorded as a component of mortgage income and were gains of $3.9 million, $289 thousand and $50 thousand for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table summarizes the difference between the aggregate fair value and the unpaid principal balance for residential real estate loans originated for sale measured at fair value as of December 31, 2020 and 2019.

	December 31, 2020		
(Dollars in thousands)	Fair Value	Unpaid Principal Balance	Difference
Originated loans held for sale	$ 124,837	$ 118,902	$ 5,935

	December 31, 2019		
	Fair Value	Unpaid Principal Balance	Difference
Originated loans held for sale	$ 67,869	$ 65,697	$ 2,172

No originated loans held for sale were 90 or more days past due or on nonaccrual status as of December 31, 2020 or December 31, 2019.

Certain other assets are adjusted to their fair value on a nonrecurring basis, including certain loans, OREO, goodwill, which are periodically tested for impairment, and mortgage servicing rights, which are carried at the lower of amortized cost or market. Most loans held for investment, deposits, and borrowings are not reported at fair value.

Following the adoption of ASC 326, the population of loans measured at fair value on a non-recurring basis has greatly diminished and is limited to collateral-dependent loans evaluated individually. These collateral-dependent loans are deemed to be at fair value if there is an associated allowance for credit losses or if a charge-off has been recorded in the previous 12 months. Collateral values are determined using appraisals or other third-party value estimates of the subject property discounted based on estimated selling costs, generally between 6% and 10%, and immaterial adjustments for other external factors that may impact the marketability of the collateral. At December 31, 2020, the weighted average discount for estimated selling costs applied was 7.63%.

Prior to the adoption of ACS 326, impaired loans were considered to be at fair value if an associated allowance adjustment or current period charge-off was recorded. The value of impaired loans is determined by either collateral valuations or discounted present value of the expected cash flow calculations. Collateral values are determined using appraisals or other third-party value estimates of the subject property with discounts generally between 6% and 11% applied for estimated selling costs and other external factors that may impact the marketability of the property. Expected cash flows are determined using expected payment information at the individual loan level, discounted using the effective interest rate. The effective interest rate for the majority of impaired loans generally ranged between 3% and 7%.

OREO acquired or written down within the previous 12 months is deemed to be at fair value. Asset valuations are determined by using appraisals or other third-party value estimates of the subject property with with discounts, generally between 7% and 16%, applied for estimated selling costs and other external factors that may impact the marketability of the property. At December 31, 2020, the weighted average discount applied was 8.44%. Changes to the value of the assets between scheduled valuation dates are monitored through continued communication with brokers and monthly reviews by the asset manager assigned to each asset. If there are any significant changes in the market or the subject property, valuations are adjusted or new appraisals ordered to ensure the reported values reflect the most current information.

Mortgage servicing rights are carried at the lower of cost or market and are, therefore, carried at fair value only when fair value is less than amortized cost. The fair value of mortgage servicing rights is performed using a pooling methodology. Similar loans are pooled together and a discounted cash flow model, which takes into consideration discount rates, prepayment rates, and the weighted average cost to service the loans, are used to determine the fair value.

For financial assets and liabilities carried at fair value on a nonrecurring basis, the following table provides fair value information as of December 31, 2020 and December 31, 2019.

	December 31, 2020			
		Fair value measurements using:		
(Dollars in thousands)	Fair value	Level 1	Level 2	Level 3
Collateral-dependent loans	11,779	—	—	11,779
Other real estate remeasured during the year	40,115	—	—	40,115
Mortgage servicing rights	16,966	—	—	16,966

	December 31, 2019			
		Fair value measurements using:		
	Fair value	Level 1	Level 2	Level 3
Impaired loans	$ 132,336	$ —	$ —	$ 132,336
Other real estate remeasured during the year	38,310	—	—	38,310
Mortgage servicing rights	3,757	—	—	3,757

No financial liabilities were carried at fair value on a nonrecurring basis as of December 31, 2020 and December 31, 2019.

NOTE Q
EMPLOYEE BENEFIT PLANS

FCB sponsors benefit plans for its qualifying employees and former First Citizens Bancorporation, Inc. employees (“legacy Bancorporation”) including noncontributory defined benefit pension plans, a 401(k) savings plan and an enhanced 401(k) savings plan. These plans are qualified under the Internal Revenue Code. FCB also maintains agreements with certain executives providing supplemental benefits paid upon death or separation from service at an agreed-upon age.

Defined Benefit Pension Plans

BancShares employees who were hired prior to April 1, 2007 and qualified under length of service and other requirements are covered by the BancShares pension plan, which was closed to new participants as of April 1, 2007. Discretionary contributions of $80.0 million were made to the BancShares pension plan in 2020, while discretionary contributions of $71 thousand were made in 2019.

Certain legacy Bancorporation employees who qualified under length of service and other requirements are covered by the legacy Bancorporation pension plan, which was closed to new participants as of September 1, 2007. Discretionary contributions of $20.0 million were made to the legacy Bancorporation pension plan for 2020, while discretionary contributions of $3.5 million were made for 2019.

Participants in the noncontributory defined benefit pension plans (“the Plans”) were fully vested in the Plans after five years of service. Retirement benefits are based on years of service and highest annual compensation for five consecutive years during the last ten years of employment. FCB makes contributions to the Plans in amounts between the minimum required for funding and the maximum amount deductible for federal income tax purposes. Management evaluates the need for its pension plan contributions on a periodic basis based upon numerous factors including, but not limited to, the pension plan funded status, returns on plan assets, discount rates and the current economic environment.

Due to the Plans having the same terms in both form and substance, the following tables and disclosures will report the Plans in total.

Obligations and Funded Status

The following table provides the changes in benefit obligation and plan assets and the funded status of the Plans at December 31, 2020 and 2019.

(Dollars in thousands)	2020	2019
Change in benefit obligation		
Projected benefit obligation at January 1	$ 990,406	$ 852,975
Service cost	14,279	12,767
Interest cost	34,197	37,260
Actuarial losses	72,080	118,964
Benefits paid	(33,309)	(31,560)
Projected benefit obligation at December 31	1,077,653	990,406
Change in plan assets		
Fair value of plan assets at January 1	976,072	842,534
Actual return on plan assets	192,792	161,506
Employer contributions	100,000	3,592
Benefits paid	(33,309)	(31,560)
Fair value of plan assets at December 31	1,235,555	976,072
Funded status at December 31	$ 157,902	$ (14,334)

The amount recognized in other assets at December 31, 2020 was $157.9 million. The amount recognized in other liabilities at December 31, 2019 was $14.3 million.

The following table details the amounts recognized in accumulated other comprehensive income at December 31, 2020 and 2019.

(Dollars in thousands)	2020	2019
Net actuarial loss	$ 91,751	$ 172,098

The accumulated benefit obligation for the Plans at December 31, 2020 and 2019, was $985.0 million and $904.5 million, respectively. The Plans use a measurement date of December 31.

The following table shows the components of periodic benefit cost related to the Plans and changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended December 31, 2020, 2019 and 2018.

	Year ended December 31		
(Dollars in thousands)	2020	2019	2018
Service cost	$ 14,279	$ 12,767	$ 16,154
Interest cost	34,197	37,260	34,733
Expected return on assets	(65,689)	(62,590)	(60,296)
Amortization of prior service cost	—	57	79
Amortization of net actuarial loss	25,324	10,924	13,902
Total net periodic benefit cost (income)	8,111	(1,582)	4,572
Current year actuarial (gain) loss	(55,023)	20,049	32,012
Amortization of actuarial loss	(25,324)	(10,924)	(13,902)
Amortization of prior service cost	—	(57)	(79)
Net (gain) loss recognized in other comprehensive income	(80,347)	9,068	18,031
Total recognized in net periodic benefit cost and other comprehensive income	$ (72,236)	$ 7,486	$ 22,603

Actuarial gains in 2020 were primarily driven by return on assets greater than expected, partially offset by the impact of a decreased discount rate.

Service costs and the amortization of prior service costs are recorded in personnel expense, while interest cost, expected return on plan assets and the amortization of actuarial (gains)/losses are recorded in other noninterest expense.

The assumptions used to determine the benefit obligations at December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	2.76 %	3.46 %
Rate of compensation increase	5.60	5.60

The assumptions used to determine the net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018, are as follows:

	2020	2019	2018
Discount rate	3.46 %	4.38 %	3.76 %
Rate of compensation increase	5.60	5.60	4.00
Expected long-term return on plan assets	7.50	7.50	7.50

The estimated discount rate, which represents the interest rate that could be obtained for a suitable investment used to fund the benefit obligations, is based on a yield curve developed from high-quality corporate bonds across a full maturity spectrum. The projected cash flows of the pension plans are discounted based on this yield curve and a single discount rate is calculated to achieve the same present value.

The weighted average expected long-term rate of return on the Plans' assets represents the average rate of return expected to be earned on the Plans' assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, historical and current returns, as well as investment allocation strategies, on the Plans' assets are considered.

Plan Assets

For the Plans, our primary total return objective is to achieve returns over the long term that will fund retirement liabilities and provide desired plan benefits in a manner that satisfies the fiduciary requirements of the Employee Retirement Income Security Act. The Plans' assets have a long-term time horizon that runs concurrent with the average life expectancy of the participants. As such, the Plans can assume a time horizon that extends well beyond a full market cycle and can assume a reasonable level of risk. It is expected, however, that both professional investment management and sufficient portfolio diversification will smooth volatility and help generate a consistent level of return. The investments are broadly diversified across global, economic and market risk factors in an attempt to reduce volatility and target multiple return sources. Within approved guidelines and restrictions, the investment manager has discretion over the timing and selection of individual investments. The Plans' assets are currently held by the FCB trust department.

The fair values of pension plan assets at December 31, 2020 and 2019, by asset class are as follows:

	December 31, 2020					
(Dollars in thousands)	Market Value	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Nonobservable Inputs (Level 3)	Target Allocation	Actual % of Plan Assets
Cash and equivalents	$ 37,913	$ 37,913	—	—	0 - 5%	3 %
Equity securities					30 - 70%	77 %
Common and preferred stock	144,924	144,924	—	—		
Mutual funds	559,472	559,472	—	—		
Exchange traded funds	248,819	248,819	—	—		
Fixed income					15 - 45%	20 %
U.S. government and government agency securities	90,292	—	90,292	—		
Corporate bonds	154,135	—	154,135	—		
Total pension assets	$ 1,235,555	$ 991,128	$ 244,427	$ —		100 %

	December 31, 2019					
	Market Value	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Nonobservable Inputs (Level 3)	Target Allocation	Actual % of Plan Assets
Cash and equivalents	$ 10,974	$ 10,974	$ —	$ —	0 - 5%	1 %
Equity securities					30 - 70%	73 %
Common and preferred stock	142,157	142,157	—	—		
Mutual funds	565,343	565,343	—	—		
Fixed income					15 - 45%	23 %
U.S. government and government agency securities	78,175	—	78,175	—		
Corporate bonds	122,370	—	122,370	—		
Mutual funds	25,288	25,288	—	—		
Alternative investments					0 - 30%	3 %
Mutual funds	31,765	31,765	—	—		
Total pension assets	$ 976,072	$ 775,527	$ 200,545	$ —		100 %

Cash Flows

The following are estimated payments to pension plan participants in the indicated periods:

(Dollars in thousands)	Estimated Payments
2021	$ 38,660
2022	41,340
2023	43,777
2024	46,161
2025	48,343
2026-2030	269,256

401(k) Savings Plans

Certain employees enrolled in the defined benefit plan are also eligible to participate in a 401(k) savings plan through deferral of portions of their salary. For employees who participate in the 401(k) savings plan who also continue to accrue additional years of service under the defined benefit plan, FCB makes a matching contribution equal to 100% of the first 3% and 50% of the next 3% of the participant's deferral up to and including a maximum contribution of 4.5% of the participant's eligible compensation. The matching contribution immediately vests.

At the end of 2007, current employees were given the option to continue to accrue additional years of service under the defined benefit plans or to elect to join an enhanced 401(k) savings plan. Under the enhanced 401(k) savings plan, FCB matches up to

100% of the participant's deferrals not to exceed 6% of the participant's eligible compensation. The matching contribution immediately vests. In addition to the employer match of the employee contributions, the enhanced 401(k) savings plan provides a required employer non-elective contribution equal to 3% of the compensation of a participant who remains employed at the end of the calendar year. This employer contribution vests after three years of service. Employees who elected to enroll in the enhanced 401(k) savings plan discontinued the accrual of additional years of service under the defined benefit plans and became enrolled in the enhanced 401(k) savings plan effective January 1, 2008. Eligible employees hired after January 1, 2008, are eligible to participate in the enhanced 401(k) savings plan. FCB recognized expense related to contributions to the 401(k) plans of $35.6 million, $30.8 million and $28.6 million during 2020, 2019 and 2018, respectively.

Additional Benefits for Executives, Directors, and Officers

FCB has entered into contractual agreements with certain executives providing payments for a period of no more than ten years following separation from service occurring no earlier than an agreed-upon age. These agreements also provide a death benefit in the event a participant dies prior to separation from service or during the payment period following separation from service. FCB has also assumed liability for contractual obligations to directors and officers of previously acquired entities.

The following table provides the accrued liability as of December 31, 2020 and 2019, and the changes in the accrued liability during the years then ended:

(Dollars in thousands)	2020	2019
Accrued liability as of January 1	$ 45,295	$ 34,063
Liability assumed in the Biscayne Bancshares acquisition	—	1,138
Liability assumed in the First South Bancorp acquisition	—	1,067
Liability assumed in the Entegra acquisition	—	9,738
Discount rate adjustment	1,719	1,574
Benefit expense and interest cost	3,503	2,396
Benefits paid	(7,862)	(4,681)
Accrued liability as of December 31	$ 42,655	$ 45,295
Discount rate at December 31	2.76 %	3.46 %

Other Compensation Plans

FCB offers various short-term and long-term incentive plans for certain employees. Compensation awarded under these plans may be based on defined formulas, performance criteria, or at the discretion of management. The incentive compensation programs were designed to motivate employees through a balanced approach of risk and reward for their contributions toward FCB's success. As of December 31, 2020 and 2019, the accrued liability for incentive compensation was $68.2 million and $57.0 million, respectively.

NOTE R
LEASES

The following table presents lease assets and liabilities as of December 31, 2020 and 2019:

(Dollars in thousands)	Classification	December 31, 2020	December 31, 2019
Assets:			
Operating	Other assets	$ 68,048	$ 77,115
Finance	Premises and equipment	6,478	8,820
Total leased assets		$ 74,526	$ 85,935
Liabilities:			
Operating	Other liabilities	$ 68,343	$ 76,746
Finance	Other borrowings	6,308	8,230
Total lease liabilities		$ 74,651	$ 84,976

The following table presents lease costs for the years ended December 31, 2020 and 2019. Variable lease cost primarily represents variable payments such as common area maintenance and utilities recognized in the period in which the expense was incurred. Certain of our lease agreements also include rental payments adjusted periodically for inflation. While lease liabilities are not remeasured as a result of these changes, these adjustments are treated as variable lease costs and recognized in the period in which the expense is incurred.

(Dollars in thousands)	Classification	2020	2019
Lease cost:			
Operating lease cost [1]	Occupancy expense	$ 15,023	$ 16,094
Finance lease cost:			
Amortization of leased assets	Equipment expense	2,168	1,975
Interest on lease liabilities	Interest expense - Other borrowings	220	259
Variable lease cost	Occupancy expense	3,231	2,394
Sublease income	Occupancy expense	(350)	(390)
Net lease cost		$ 20,292	$ 20,332

[1] Operating lease cost includes short-term lease cost, which is immaterial.

The following table presents lease liability maturities in the next five years and thereafter:

(Dollars in thousands)	Operating Leases	Finance Leases	Total
2020	$ 12,865	$ 2,159	$ 15,024
2021	11,757	1,876	13,633
2022	9,980	993	10,973
2023	8,146	617	8,763
2024	5,223	635	5,858
Thereafter	32,045	431	32,476
Total lease payments	$ 80,016	$ 6,711	$ 86,727
Less: Interest	11,673	403	12,076
Present value of lease liabilities	$ 68,343	$ 6,308	$ 74,651

The following table presents the remaining weighted average lease terms and discount rates as of December 31, 2020:

	December 31, 2020
Weighted average remaining lease term (years):	
Operating	9.2
Finance	4.0
Weighted average discount rate:	
Operating	3.14 %
Finance	3.08

The following table presents supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019:

	Year ended December 31	
(Dollars in thousands)	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 14,237	$ 15,703
Operating cash flows from finance leases	220	259
Financing cash flows from finance leases	1,922	1,850
Right-of-use assets obtained in exchange for new operating lease liabilities	4,595	17,837
Right-of-use assets obtained in exchange for new finance lease liabilities	—	1,886

NOTE S
TRANSACTIONS WITH RELATED PERSONS

BancShares has, and expects to have in the future, banking transactions in the ordinary course of business with directors, officers and their associates ("Related Persons") and entities controlled by Related Persons.

For those identified as Related Persons as of December 31, 2020, the following table provides an analysis of changes in the loans outstanding during 2020 and 2019:

	Year ended December 31	
(dollars in thousands)	2020	2019
Balance at January 1	$ 145	$ 199
New loans	19	5
Repayments	(47)	(59)
Balance at December 31	$ 117	$ 145

The amounts presented exclude loans to Related Persons for credit card lines of $15,000 or less, overdraft lines of $5,000 or less and intercompany transactions between BancShares and FCB.

Unfunded loan commitments available to Related Persons were $2.6 million as of December 31, 2020 and 2019.

During the years ended December 31, 2020 and 2019, BancShares repurchased 45,000 and 100,000 shares, respectively, of its outstanding Class A common stock from Ella Anna Holding, as trustee of her revocable trust. Mrs. Holding is the widow of BancShares' former Executive Vice Chairman, Frank B. Holding, and the mother of Frank B. Holding, Jr. and Hope H. Bryant, BancShares' Chairman and Chief Executive Officer and Vice Chairman, respectively.

NOTE T
COMMITMENTS AND CONTINGENCIES

To meet the financing needs of its customers, BancShares and its subsidiaries have financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit, interest rate or liquidity risk.

Commitments to extend credit are legally binding agreements to lend to customers. These commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. Established credit standards control the credit risk exposure associated with these commitments. In some cases, BancShares requires collateral be pledged to secure the commitment, including cash deposits, securities and other assets.

Standby letters of credit are commitments guaranteeing performance of a customer to a third party. These commitments are primarily issued to support public and private borrowing arrangements, and their fair value is not material. To mitigate its risk, BancShares' credit policies govern the issuance of standby letters of credit. The credit risk related to the issuance of these letters of credit is essentially the same as those involved in extending loans to clients and, therefore, these letters of credit are collateralized when necessary.

The following table presents the commitments to extend credit and unfunded commitments as of December 31, 2020 and 2019:

(Dollars in thousands)	2020	2019
Unused commitments to extend credit	$ 12,098,417	$ 10,682,378
Standby letters of credit	129,819	99,601

BancShares and FCB have investments in qualified affordable housing projects primarily for the purposes of fulfilling Community Reinvestment Act requirements and obtaining tax credits. Unfunded commitments to fund future investments in affordable housing projects totaled $53.7 million and $70.0 million as of December 31, 2020 and 2019, respectively, and were recorded within other liabilities.

BancShares and various subsidiaries have been named as defendants in legal actions arising from their normal business activities in which damages in various amounts are claimed. BancShares is also exposed to litigation risk relating to the prior business activities of banks from which assets were acquired and liabilities assumed in merger transactions. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, any such liability will not have a material effect on BancShares' consolidated financial statements.

NOTE U
PARENT COMPANY FINANCIAL STATEMENTS

Parent Company
Condensed Balance Sheets

(Dollars in thousands)	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 49,716	$ 4,573
Overnight investments	1,607	2,547
Investments in marketable equity securities	91,680	82,333
Investment securities available for sale	2,010	3,015
Investment in banking subsidiaries	4,621,676	3,763,947
Investment in other subsidiaries	3,241	3,555
Due from subsidiaries	786	—
Other assets	48,591	45,164
Total assets	$ 4,819,307	$ 3,905,134
Liabilities and Shareholders' Equity		
Subordinated debentures	$ 452,350	$ 105,677
Other borrowings	128,125	201,702
Due to subsidiaries	—	1,670
Other liabilities	9,564	9,901
Shareholders' equity	4,229,268	3,586,184
Total liabilities and shareholders' equity	$ 4,819,307	$ 3,905,134

Parent Company
Condensed Income Statements

(Dollars in thousands)	Year ended December 31 2020	2019	2018
Interest and dividend income	$ 3,952	$ 1,327	$ 1,362
Interest expense	16,817	7,187	5,154
Net interest loss	(12,865)	(5,860)	(3,792)
Dividends from banking subsidiaries	229,685	149,819	242,910
Marketable equity securities gains (losses), net	29,395	20,625	(7,610)
Other income	574	257	347
Other operating expense	13,168	9,497	11,127
Income before income tax benefit and equity in undistributed net income of subsidiaries	233,621	155,344	220,728
Income tax expense (benefit)	879	892	(5,184)
Income before equity in undistributed net income of subsidiaries	232,742	154,452	225,912
Equity in undistributed net income of subsidiaries	258,981	302,919	174,401
Net income	491,723	457,371	400,313
Less: Preferred stock dividends	14,062	—	—
Net income available to common shareholders	$ 477,661	$ 457,371	$ 400,313

Parent Company
Condensed Statements of Cash Flows

(Dollars in thousands)	Year ended December 31 2020	2019	2018
OPERATING ACTIVITIES			
Net income	$ 491,723	$ 457,371	$ 400,313
Adjustments			
Undistributed net income of subsidiaries	(258,981)	(302,919)	(174,401)
Net amortization of premiums and discounts	824	119	88
Marketable equity securities (gains) losses, net	(29,395)	(20,625)	7,610
Gain on extinguishment of debt	—	—	(160)
Realized gains (losses) on investment securities available for sale, net	—	(20)	—
Net change in due to/from subsidiaries	(2,456)	(2,185)	(381)
Change in other assets	(3,074)	(2,001)	3,657
Change in other liabilities	(694)	981	(2,595)
Net cash provided by operating activities	197,947	130,721	234,131
INVESTING ACTIVITIES			
Net change in loans	—	100,000	(100,000)
Net change in overnight investments	940	2,162	14,091
Purchases of marketable equity securities	(333,140)	(26,166)	(2,818)
Proceeds from sales of marketable equity securities	352,835	56,749	9,528
Purchases of investment securities	—	—	(6,438)
Proceeds from sales, calls, and maturities of securities	1,000	3,477	9,997
Investment in subsidiaries	(422,500)	—	—
Net cash provided by (used in) investing activities	(400,865)	136,222	(75,640)
FINANCING ACTIVITIES			
Net change in short-term borrowings	(40,277)	40,277	(15,000)
Repayment of long-term obligations	(33,300)	(3,575)	(1,840)
Origination of long-term obligations	—	165,000	—
Net proceeds from subordinated notes issuance	345,849	—	—
Net proceeds from preferred stock issuance	339,937	—	—
Repurchase of common stock	(333,755)	(453,123)	(163,095)
Cash dividends paid	(30,393)	(18,137)	(16,779)
Net cash provided by (used in) financing activities	248,061	(269,558)	(196,714)
Net change in cash	45,143	(2,615)	(38,223)
Cash balance at beginning of year	4,573	7,188	45,411
Cash balance at end of year	$ 49,716	$ 4,573	$ 7,188
CASH PAYMENTS FOR:			
Interest	$ 13,338	$ 7,187	$ 5,154
Income taxes	106,618	78,345	73,806

Item 9A. Controls and Procedures

BancShares' management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of BancShares' disclosure controls and procedures as of the end of the period covered by this Annual Report, in accordance with Rule 13a-15 of the Securities Exchange Act of 1934 ("Exchange Act"). Based upon the evaluation, as of the end of the period covered by this report, the Chief Executive Officer and the Chief Financial Officer concluded BancShares' disclosure controls and procedures were effective to provide reasonable assurance it is able to record, process, summarize and report information required to be disclosed in the reports it files under the Exchange Act in a timely and accurate manner.

During the first quarter of 2020, BancShares adopted ASC 326 which resulted in a material change to our methodology for estimating credit losses on the loan portfolio. As a result, the Company implemented changes to policies, processes, and controls over estimating the allowance for credit losses. Many of these controls are similar to those previously used for estimating the allowance for loan and lease losses under legacy GAAP, however, there were changes implemented to account for the additional complexity of the credit loss models, review of economic forecasts and other assumptions used in the estimation process.

During the second quarter of 2020, BancShares originated over $3.2 billion of loans as part of the SBA-PPP. As a result, BancShares enhanced existing as well as implemented new controls over financial reporting related to the origination, disbursement, recording and reporting processes involving this portfolio.

There have been no changes in BancShares' internal control over financial reporting during the fourth quarter of 2020 which have materially affected, or are reasonably likely to materially affect, BancShares' internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of First Citizens BancShares, Inc. ("BancShares") is responsible for establishing and maintaining adequate internal control over financial reporting. BancShares' internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. As permitted by guidance provided by the Staff of U.S. Securities and Exchange Commission, the scope of management's assessment of internal control over financial reporting as of December 31, 2020, has excluded Community Financial Holding Company, Inc., acquired on February 1, 2020, which represented 0.34% and 0.22% of consolidated revenue (total interest income and total noninterest income) and consolidated total assets, respectively, as of December 31, 2020.

BancShares' management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2020. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (2013). Based on that assessment, BancShares' management believes, as of December 31, 2020, BancShares' internal control over financial reporting is effective.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

BancShares' independent registered public accounting firm has issued an audit report on the company's internal control over financial reporting. This report appears on page 56.

Item 15. Exhibits and Financial Statement Schedules

EXHIBIT INDEX

2.1	Purchase and Assumption Agreement between Registrant's subsidiary First-Citizens Bank & Trust Company and Federal Deposit Insurance Corporation dated January 29, 2010 (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K/A dated January 29, 2010 and filed June 9, 2010)
2.2	Purchase and Assumption Agreement between Registrant's subsidiary First-Citizens Bank & Trust Company and Federal Deposit Insurance Corporation dated January 21, 2011 (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K dated January 21, 2011)
2.3	Agreement and Plan of Merger, dated April 23, 2019, by and among First Citizens BancShares, Inc., First Citizens Bank & Trust Company, FC Merger Subsidiary VII, Inc., and Entegra Financial Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K dated April 23, 2019)
2.4	Agreement and Plan of Merger, dated October 15, 2020, by and among CIT Group Inc., First Citizens BancShares, Inc., First-Citizens Bank & Trust Company, and FCB Merger Subsidiary IX, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K dated October 20, 2020)
3.1	Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-K for the year ended December 31, 2014)
3.2	Certificate of Designation of 5.375% Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 8-A, filed on March 12, 2020)
3.3	Bylaws of the Registrant, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K dated July 28, 2015)
4.1	Specimen of Registrant's Class A Common Stock certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-K for the year ended December 31, 2008)
4.2	Specimen of Registrant's Class B Common Stock certificate (incorporated by reference to Exhibit 4.2 to the Registrant's Form 10-K for the year ended December 31, 2008)
4.3	Specimen of Registrant's 5.375% Non-Cumulative Perpetual Preferred Stock, Series A Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A, filed on March 12, 2020)
4.4	Deposit Agreement, dated as of March 12, 2020, among Registrant, Broadridge Corporate Issuer Solutions, Inc., as depositary, and the holders from time to time of the depositary receipts described therein (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form 8-A, filed on March 12, 2020)
4.5	Form of Depositary Receipt (included as Exhibit A in Exhibit 4.4 hereto)
4.6	Indenture, dated as of March 4, 2020, by and between First Citizens BancShares, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K dated February 27, 2020)
4.7	First Supplemental Indenture, dated as of March 4, 2020, by and between First Citizens BancShares, Inc. and U.S. Bank National, as trustee (incorporated by reference to Exhibit 4.2 to Registrant's Form 8-K dated February 27, 2020)
4.8	Form of 3.375% Fixed-to-Floating Subordinated Notes due 2030 (included as Exhibit A in Exhibit 4.7 hereto)
4.9	Description of the Registrant's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 (filed herewith)
4.10	Amended and Restated Trust Agreement of FCB/NC Capital Trust III (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2006)
4.11	Guarantee Agreement relating to Registrant's guarantee of the capital securities of FCB/NC Capital Trust III (incorporated by reference to Exhibit 4.2 to the Registrant's Form 10-Q for the quarter ended June 30, 2006)
4.12	Junior Subordinated Indenture dated May 18, 2006 between Registrant and Wilmington Trust Company, as Debenture Trustee (incorporated by reference to Exhibit 4.3 to the Registrant's Form 10-Q for the quarter ended June 30, 2006)
4.13	Form of Guaranty Agreement between First Citizens Bancorporation, Inc., as Guarantor, and Deutsche Bank Trust Company Americas, as Guarantee Trustee, dated as of May 7, 2004 (previously filed as Exhibit 4.2 to Bancorporation's (Commission File No. 0-11172) Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2004, and incorporated herein by reference)
4.14	Junior Subordinated Indenture between First Citizens Bancorporation, Inc., and Deutsche Bank Trust Company Americas, as Debenture Trustee, dated as of May 7, 2004 (previously filed as Exhibit 4.3 to Bancorporation's (Commission File No. 0-11172) Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2004, and incorporated herein by reference)

10.1	Executive Consultation, Separation from Service and Death Benefit Agreement between Registrant's subsidiary First-Citizens Bank & Trust Company and Frank B. Holding, Jr. (incorporated by reference to Exhibit 9.1 to the Registrant's Form 8-K dated February 18, 2011)
10.2	Executive Consultation, Separation from Service and Death Benefit Agreement between Registrant's subsidiary First-Citizens Bank & Trust Company and Hope Holding Bryant (incorporated by reference to Exhibit 9.5 to the Registrant's Form 8-K dated February 18, 2011)
10.3	Employee Consultation, Post-Retirement, Non-Competition and Death Benefit Agreement between Registrant's subsidiary, First-Citizens Bank & Trust Company, as successor by merger to First Citizens Bank and Trust Company, Inc., and Peter M. Bristow. (incorporated by reference to Exhibit 10.10 to the Registrant's Form 10-K for the year ended December 31, 2014)
10.4	Employee Consultation, Post-Retirement, Non-Competition and Death Benefit Agreement between Registrant's subsidiary, First-Citizens Bank & Trust Company as successor by merger to First Citizens Bank and Trust Company, Inc., and Craig L. Nix. (incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-K for the year ended December 31, 2014)
10.5	Executive Consultation, Separation from Service and Death Benefit Agreement between Registrant's subsidiary First-Citizens Bank & Trust Company and Jeffery L. Ward (filed herewith)
10.6	409A Deferred Compensation Plan of Registrant's subsidiary, First-Citizens Bank & Trust Company, as successor by merger to First Citizens Bank and Trust Company, Inc. (incorporated by reference to Exhibit 10.12 to the Registrant's Form 10-K for the year ended December 31, 2014)
10.7	Deferred Compensation Plan of Registrant's subsidiary, First-Citizens Bank & Trust Company, as successor by merger to First-Citizens Bank and Trust Company, Inc. (incorporated by reference to Exhibit 10.13 to the Registrant's Form 10-K for the year ended December 31, 2014)
10.8	Amended and Restated Long-Term Incentive Plan of Registrant's subsidiary, First-Citizens Bank & Trust Company (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated October 30, 2019)
10.9	Form of Long-Term Incentive Plan Award Agreement (filed herewith)
10.10	Voting Agreement, dated as of October 15, 2020 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated October 15, 2020)
10.11	Nonqualified Deferred Compensation Plan of Registrant's subsidiary, First-Citizens Bank & Trust Company (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated February 24, 2021)
21	Subsidiaries of the Registrant (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm (filed herewith)
24	Power of Attorney (filed herewith)
31.1	Certification of Chief Executive Officer (filed herewith)
31.2	Certification of Chief Financial Officer (filed herewith)
32.1	Certification of Chief Executive Officer (filed herewith)
32.2	Certification of Chief Financial Officer (filed herewith)
*101.INS	Inline XBRL Instance Document (filed herewith)
*101.SCH	Inline XBRL Taxonomy Extension Schema (filed herewith)
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase (filed herewith)
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase (filed herewith)
*101.DEF	Inline XBRL Taxonomy Definition Linkbase (filed herewith)
*104	Cover Page Interactive Data File (embedded within the Inline XBRL document filed as Exhibit 101)

* Interactive data files are furnished but not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 24, 2021

FIRST CITIZENS BANCSHARES, INC. (Registrant)

/S/ FRANK B. HOLDING, JR.

Frank B. Holding, Jr.
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the Registrant and in the capacities indicated on February 24, 2021.

Signature	Title	Date
/s/ FRANK B. HOLDING, JR. **Frank B. Holding, Jr.**	Chairman and Chief Executive Officer	February 24, 2021
/s/ CRAIG L. NIX **Craig L. Nix**	Chief Financial Officer (principal financial officer and principal accounting officer)	February 24, 2021
/s/ JOHN M. ALEXANDER, JR. * **John M. Alexander, Jr.**	Director	February 24, 2021
/s/ VICTOR E. BELL, III * **Victor E. Bell, III**	Director	February 24, 2021
/s/ HOPE HOLDING BRYANT * **Hope Holding Bryant**	Director	February 24, 2021
/s/ PETER M. BRISTOW * **Peter M. Bristow**	Director	February 24, 2021
/s/ H. LEE DURHAM, JR. * **H. Lee Durham, Jr.**	Director	February 24, 2021
/s/ DANIEL L. HEAVNER * **Daniel L. Heavner**	Director	February 24, 2021
/s/ ROBERT R. HOPPE * **Robert R. Hoppe**	Director	February 24, 2021

Signature	Title	Date
/s/ FLOYD L. KEELS * **Floyd L. Keels**	Director	February 24, 2021
/s/ ROBERT E. MASON, IV * **Robert E. Mason, IV**	Director	February 24, 2021
/s/ ROBERT T. NEWCOMB * **Robert T. Newcomb**	Director	February 24, 2021

* Craig L. Nix hereby signs this Annual Report on Form 10-K on February 24, 2021, on behalf of each of the indicated persons for whom he is attorney-in-fact pursuant to a Power of Attorney filed herewith.

By: /S/ CRAIG L. NIX

Craig L. Nix
As Attorney-In-Fact