AMERICAN BANKER®

2024 TOP-PERFORMING BANKS

How First Citizens became the top-performing big bank

By Catherine Leffert | August 21, 2024

The Raleigh, North Carolina-based company has quadrupled in size since 2021, ballooning to $220 billion of assets. Through its high-profile acquisition of the failed Silicon Valley Bank, the bank expanded its footprint across the country and moved into lines of business it had never touched before. The deal came just over a year after First Citizens had already doubled in size with its acquisition of CIT Group.

But in an industry where speedy growth can be correlated with high risk, First Citizens has given investors confidence that it is prepared for the rapid increase in scale. In the last three years, the company's stock price has rocketed some 142%, more than any other publicly listed bank. Shares closed at $1,999.35 on Tuesday.

Buoyed by the SVB acquisition, First Citizens landed first on American Banker's ranking of top-performing large banks of 2023, jumping from 15th place the prior year. The list, which included 35 banks ranging from $50 billion to $4 trillion of assets, rated institutions based on their returns on average equity for the previous three years, per data compiled by Capital Performance Group.

Top of the pack

Among banks with at least $50 billion of assets, these 10 companies reported the highest returns on average equity between 2021 and 2023

Institution Name	City	State	Total Assets (billions of $)	Three-year ROAE
First Citizens BancShares	Raleigh	NC	213.76	28.96%
Western Alliance Bancorporation	Phoenix	AZ	70.86	18.55%
Raymond James Financial	St. Petersburg	FL	80.13	17.83%
East West Bancorp	Pasadena	CA	69.61	17.71%
Comerica Inc.	Dallas	TX	85.83	16.09%
JPMorgan Chase	New York	NY	3,875.39	15.42%
Cullen/Frost Bankers	San Antonio	TX	50.85	14.86%
Popular, Inc.	Hato Rey	PR	70.76	14.24%
Zions Bancorporation	Salt Lake City	UT	87.20	14.19%
Synovus Financial	Columbus	GA	59.81	14.06%

Source: Capital Performance Group

Although First Citizens has evolved into a dramatically bigger, more complex institution in recent years, its DNA has, literally, been consistent for nearly a century. It is the largest family-owned and-led bank in the country, which analysts and leaders say is key to the company's steady long-term outlook.

Casey Haire, an analyst at Jefferies, said that the acquisition of SVB shifted First Citizens' businesses and operations, but the titanic growth of the company has been tempered by the longtime leadership of Chairman and CEO Frank Holding Jr. and his kin.

"It is a fundamentally different bank," Haire said. "[But] the conservative approach of the Holding family has not changed at all. There has been no change in the conservative balance sheet culture at the top of the house. They are just now in a different business model, and in the innovation market."

Holding Jr., the third Holding at the reins since 1935, is no stranger to growing the company, having overseen dozens of acquisitions, including a spate of failed banks in the wake of the 2008 financial crisis.

But First Citizens' acquisition and integration of SVB has been unlike previous deals because of the failed bank's bread-and-butter business of catering to startups, venture capital funds and other technology industry clients. The biggest concern the bank's leadership had involved how to integrate an operation that First Citizens had minimal expertise in, Holding said in a recent interview.

"SVB has a unique strategy," Holding said. "So, we had a lot of questions about, 'How would we manage that? How would we deal with that?'... We came very quickly to the conclusion that the failure of SVB was not caused by its client base. It was much more a set of internal decisions that created its problems. And we thought that its core business strategy was very sound."

First Citizens kept SVB under its own brand, held onto many legacy employees with experience in the so-called innovation economy and tapped Marc Cadieux, a three-decade SVB veteran, as president of the unit's commercial banking business. In a world where the failed bank was the market leader for 40 years, First Citizens resolved to let SVB do its thing with respect to client-facing operations.

"The highest praise I think we get from any client or investor investing in those clients is, 'It seems like nothing has changed. It seems like it's still the same as it always was,'" Cadieux said.

Financial results have validated the strategy. In its second-quarter earnings report last month, First Citizens beat analysts' estimates by reeling in more deposits and loans, boosted by SVB. SVB's commercial deposits grew for the first time since the beginning of 2022. First Citizens raised its full-year guidance on loans, deposits, net interest income and credit quality.

First Citizens CEO Frank Holding Jr.

The second-quarter performance extended a recent run of strong financial results. Between 2021 and 2023, First Citizens had a return on average equity of 28.96%, more than 30% higher than Western Alliance Bancorp., which ranked second on American Banker's list of the top-performing large banks.

Most of the companies that were near the top of the list in 2023 were returning high-rankers from the previous year, including Western Alliance, East West Bancorp, Comerica and Zions Bancorp. JPMorgan Chase, which ranked in the top 10 in both 2022 and 2023, also reaped benefits from acquiring a failed institution. It bought First Republic Bank following the California company's collapse last May.

Claude Hanley, a partner at Capital Performance Group, said that most of the banks near the top of the list were playing defense in 2023. First Citizens and JPMorgan — the two buyers of failed banks — saw, by far, the strongest upticks in net income of the group.

But acquiring a failed bank isn't an automatic boon for earnings.

Like First Citizens, New York Community Bancorp in Long Island landed back-to-back deals in the last few years, purchasing Flagstar Bancorp and, later, a hefty chunk of the failed Signature Bank. New York Community's $100-plus billion-asset size moved it across a key regulatory threshold, testing its preparedness for the integration of its acquisitions and the larger scale that came with them.

Less than a year later, New York Community released a messy first-quarter earnings report that sent its stock down some 80% in six weeks, which triggered a $1 billion capital investment led by former Treasury Secretary Steven Mnuchin, a complete replacement of the bank's executive team and an overhaul of its long-term strategy.

Chris Marinac, an analyst at Janney Montgomery Scott, said that New York Community pushed its integration of Signature too hard too quickly, while First Citizens has been conservative in its expectations for SVB.

"It's a night and day difference between how [First Citizens] integrated Silicon Valley and treated Silicon Valley, and how New York Community handled Signature," Marinac said.

First Citizens has been investing in risk-management capabilities to meet the requirements for so-called Category IV institutions, those between $100 billion and $250 billion in assets, according to Holding. He added that the bank is building its risk-management capacities in a way that makes them scalable when First Citizens crosses the $250 billion-asset threshold and becomes a Category III bank.

Last month, First Citizens also announced a $3.5 billion share buyback program, which Marinac said is a testament to regulators' satisfaction with the bank and its risk management following its growth. The company has a history of buying back stock, Marinac added, having repurchased about $1.2 billion in shares in 2022. Between June 2018 and September 2020, it reduced its shares outstanding by over 18% through buybacks, according to Janney Research and S&P Capital IQ data.

The buyback plan is a good first step in reducing the bank's common equity

Bloomberg

tier 1 capital ratio, which has hovered around 13% for the last year, to 10.5% by the end of next year, Haire said.

While First Citizens is using excess capital to repurchase stock for now, Marinac said the company could continue to be a consolidator of regional banks that “don’t know who they want to be when they grow up” since the North Carolina institution has strong capital and good regulatory relationships.

Holding didn’t reject the possibility of future bank acquisitions.

“We are very focused on the continued integration effort of both CIT and SVB, but we have great muscle memory and great skill in M&A work,” he said.

Recently, internal conversations at First Citizens have shifted from the integration of SVB to execution, according to Holding.

Although SVB’s core market — the innovation economy — is going through “its most significant downturn” since the dot-com boom, First Citizens has focused on the years-long outlook instead of quarter-by-quarter performance, Cadieux said. Private equity and venture capital investments remain tepid, and many companies are still searching for solid footing, but Holding said the bank views the muted activity as temporary.

Jefferies’ Haire said SVB should be well-positioned when that business bounces back, adding that VC firms are sitting on some $320 billion of dry powder.

“I am a huge believer in the innovation ecosystem,” Haire said. “That is a super-dynamic sector that is always going to attract dollars. There are some cyclical headwinds with interest rates where they are. The VC community has alligator arms — they’re not throwing money around right now, but that will come back.”

Despite the bank’s jump into innovative business lines and new geographic markets, its far bigger balance sheet and the fact that it is now facing tougher regulations, Holding said First Citizens is still a family operation.

The CEO and his four sisters own more than 20% of the company, which is valued at nearly $31 billion, per public filings. One of Holding’s sisters, Hope Holding Bryant, serves as vice chairman of the company, while his brother-in-law, Peter Bristow, is president.

“We’ve been family-led and family-controlled for a very long time,” Holding said. “And I think that by all measures, my family wishes to remain relevant in our company for a long time to come.”

The family glue helps keep the bank more long-term oriented than peers, Marinac said.

“It’s definitely a different bank,” Marinac said. “But the business evolves. It’s like as you go from being a child to an adolescent to an early adult to more mature, you think of things differently. You’ve got more sophistication. That’s exactly how the company has evolved.”