First Citizens Bancorporation, Inc.

2008

Notice of Annual Meeting

Annual Report to Shareholders

First Citizens Bancorporation, Inc.

1230 Main Street
Columbia, South Carolina 29201

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of First Citizens Bancorporation, Inc. will be held at 2:00 p.m. on Thursday, April 23, 2009, in the 9th floor Board Room of the First Citizens Center located at 1230 Main Street, Columbia, South Carolina.

The purposes of the meeting are:

(1) ***Election of Directors*:** To elect 15 directors for one-year terms; and

(2) ***Other Business*:** To transact any other business properly presented for action at the meeting.

Only shareholders of record at the close of business on Monday, March 2, 2009, are entitled to notice of and to vote at the meeting.

The persons named below have been nominated by the Board of Directors for election at the Annual Meeting as directors of First Citizens Bancorporation, Inc. ("Bancorporation"). All of the nominees currently serve as a director of Bancorporation and are presented for re-election. Each nominee has been nominated for a term of one year or until his resignation, retirement, death, removal, or disqualification, or until his respective successor has been duly elected and qualified:

C. H. Ames, J. B. Apple, P. M. Bristow, D. E. Dukes, J. E. Furman, Jr., M. C. Garner, Jr., R. B. Haynes, W. E. Haynes, L. M. Henderson, F. B. Holding, K. B. Marsh, A. H. McIntyre, C. S. McLaurin III, E. P. Palmer and J. H. Terrell III.

All shareholders and proxy holders should be prepared to present photo identification to attend and vote at the meeting. If you are not a shareholder of record but hold your shares through a broker, trustee or nominee, you should provide proof of beneficial ownership on the record date noted above in the form of either an account statement or statements that shows your ownership of shares on the record date, or a letter from your broker, trustee or nominee confirming the number of shares you owned on the record date.

If you are unable to attend, you are entitled under South Carolina law to appoint a proxy holder to attend the meeting and vote for you. To reduce the potential for confusion about complying with the legal requirements for voting by proxy, we have prepared a form of proxy that we believe will satisfy those requirements if completed properly and signed by the shareholder of record. This form does not include any suggested names of proxy holders and we are not recommending or asking you to name anyone associated with Bancorporation's management or Board of Directors as proxy holder. You will need to make your own decision about whether to appoint a proxy holder and who to appoint, and make your own arrangements with the proxy holder.

If you have any questions concerning the annual meeting or would like to obtain a copy of a proxy appointment form, please contact our Corporate Secretary, Melissa A. Mendenall, by telephone at (803) 931-1320, by mail at 1230 Main Street, Columbia, South Carolina 29201, or by e-mail at *corpsecretary@firstcitizensonline.com*.

By Order of the Board of Directors

/s/ Melissa A. Mendenall

Melissa A. Mendenall
Corporate Secretary

First Citizens Bancorporation, Inc.

2008

Annual Report to Shareholders

To Our Shareholders:

While First Citizens faced a challenging year for our industry in 2008, we were able to grow our deposit base and loan portfolio profitably. We also expanded our franchise through strategic acquisitions of two banks, and we opened six de novo branches in South Carolina and Georgia. With our strong team of associates and solid financial position, we are positioned to meet the opportunities and headwinds facing us for 2009.

Highlighted below are a few of First Citizens' key accomplishments in 2008:

- First Citizens purchased Merchants and Farmers Bank of Comer, Georgia on June 1, 2008. This acquisition expanded First Citizens' presence into Madison county, Georgia, with $135.49 million in deposits and $95.47 million in loans.
- First Citizens purchased Community Bankshares, Inc., parent company of Community Resource Bank, N.A. on November 1, 2008. This in-market acquisition expanded First Citizens' presence in the Orangeburg, Fairfield, Richland, Florence, and Sumter markets with $474.23 million in deposits and $440.43 million in loans. Significant efficiencies and cost savings are being realized as we proceed with integration.
- We launched our "Position of Strength" campaign which was unique in the marketplace and resulted in new deposit relationships.
- First Citizens opened six new branches including three in Augusta, one in Camden, one in Conway and one in Myrtle Beach.
- Although loan losses and nonperforming loans increased, we continued to clearly outperform our national peer group on credit quality.
- Given that consumer credit was responsible for approximately two-thirds of our credit losses in 2008, we adjusted our lending standards in that area.

Please join us for the Annual Meeting of Shareholders on April 23, 2009. Attached to this letter is a notice regarding our 2009 Annual Meeting and a copy of the 2008 Audited Consolidated Financial Statements. Details about the meeting are more fully described in the notice.

Given our solid partnership with you—our valued shareholders—and the dedication of our leadership team and associates, we will continue to strive for success in 2009 in spite of a difficult economy and increased regulation. I look forward to seeing you at the annual meeting and appreciate your ongoing support of First Citizens.

Sincerely,

/s/ Jim B. Apple

Jim B. Apple
Chairman and Chief Executive Officer

REPORT OF MANAGEMENT

Financial Statements

First Citizens Bank and Trust Company, Inc. (the "Bank") is responsible for the preparation, integrity and fair presentation of its published financial statements as of December 31, 2008 and for the year then ended. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and as such, include certain amounts that are based on judgments and estimates of management.

Internal Control over Financial Reporting

Management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America, including controls over the safeguarding of assets. This internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management assessed the Bank's internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America, including controls over the safeguarding of assets, as of December 31, 2008. This assessment was based on criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2008, the Bank maintained effective internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America, including controls over the safeguarding of assets.

Compliance with Laws and Regulations

Management is also responsible for compliance with laws and regulations relating to safety and soundness which are designated by the FDIC and the appropriate federal banking agency. Management assessed its compliance with these designated laws and regulations relating to safety and soundness and believes that the Bank complied, in all significant respects, with such laws and regulations during the year ended December 31, 2008.

March 13, 2009

/s/ Jim B. Apple

Jim B. Apple
Chief Executive Officer

/s/ Craig L. Nix

Craig L. Nix
Chief Financial Officer

DIXON HUGHES PLLC
Certified Public Accountants and Advisors

Independent Auditors' Report

To the Board of Directors
First Citizens Bancorporation, Inc.
Columbia, South Carolina

We have audited the accompanying consolidated statements of condition of First Citizens Bancorporation, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Citizens Bancorporation, Inc. and subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2008, First Citizens Bancorporation, Inc. adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements.

Dixon Hughes PLLC

Charlotte, North Carolina
March 13, 2009

FIRST CITIZENS BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

	As of December 31,	
	2008	2007
	(dollars in thousands, except per share data)	
ASSETS		
Cash and due from banks	$ 160,810	$ 206,571
Federal funds sold	189,953	218,727
Investment securities:		
Held-to-maturity, at amortized cost (fair value of $9,780 in 2008 and $10,094 in 2007)	9,664	10,001
Available-for-sale, at fair value	1,141,701	1,051,173
Total investment securities	1,151,365	1,061,174
Loans and leases, net	5,026,848	4,205,277
Less: Allowance for loan losses	(72,381)	(52,748)
Net loans and leases	4,954,467	4,152,529
Premises and equipment, net	235,866	215,086
Interest receivable	29,095	28,307
Intangible assets	27,425	27,989
Goodwill	179,887	112,444
Other assets	94,095	56,401
Total assets	$7,022,963	$6,079,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	$ 918,468	$ 829,364
Time and savings	4,877,472	4,187,789
Total deposits	5,795,940	5,017,153
Securities sold under agreements to repurchase	342,463	313,926
Short-term borrowings	8,293	22,640
Long-term debt	296,527	191,518
Other liabilities	63,115	47,020
Total liabilities	6,506,338	5,592,257
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock	3,105	3,105
Non-voting common stock—$5.00 par value, authorized 1,000,000; 31,228 and 33,875 issued and outstanding at December 31, 2008 and at December 31, 2007, respectively.	156	169
Voting common stock—$5.00 par value, authorized 2,000,000; 817,424 and 817,424 issued and outstanding at December 31, 2008 and December 31, 2007, respectively	4,087	4,087
Surplus	65,081	65,081
Undivided profits	439,396	397,289
Accumulated other comprehensive income, net of deferred taxes of $2,585 at December 31, 2008 and $9,282 at December 31, 2007	4,800	17,240
Total stockholders' equity	516,625	486,971
Total liabilities and stockholders' equity	$7,022,963	$6,079,228

The accompanying notes are an integral part of these consolidated financial statements.

FIRST CITIZENS BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Year ended December 31,	
	2008	2007
	(dollars in thousands, except per share data)	
INTEREST INCOME:		
Interest and fees on loans	$302,287	$301,392
Interest on investment securities:		
Taxable	42,333	50,176
Non-taxable	345	182
Federal funds sold	7,095	17,739
Total interest income	352,060	369,489
INTEREST EXPENSE:		
Interest on deposits	111,163	130,435
Interest on securities sold under agreements to repurchase	4,071	13,728
Interest on borrowings	15,158	15,909
Total interest expense	130,392	160,072
Net interest income	221,668	209,417
Provision for loan losses	31,685	9,381
Net interest income after provision for loan losses	189,983	200,036
NONINTEREST INCOME:		
Service charges on deposits	44,467	39,176
Commissions and fees from fiduciary activities	8,870	7,581
Mortgage income	6,728	7,732
Bankcard discount and fees	8,805	8,634
Gain (loss) on sale of investment securities	2,241	(1,153)
Other	11,315	8,265
Total noninterest income	82,426	70,235
NONINTEREST EXPENSE:		
Salaries and employee benefits	105,293	94,045
Data processing fees	18,050	16,581
Net occupancy expense	15,295	14,928
Furniture and equipment expense	12,052	11,312
Bankcard processing fees	10,867	10,629
Amortization expense	7,418	7,292
Other	34,353	30,996
Total noninterest expense	203,328	185,783
Income before income tax expense	69,081	84,488
Income tax expense	24,427	30,669
Net income	$ 44,654	$ 53,819
Net income per common share	$ 52.37	$ 62.96
Weighted average common shares outstanding	849,421	852,149

The accompanying notes are an integral part of these consolidated financial statements.

FIRST CITIZENS BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Number of Common Stock Shares	Preferred Stock	Non-Voting Common Stock	Voting Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income	Total Stock-holders' Equity
			(dollars in thousands, except per share data)					
Balance at December 31, 2006	852,858	$3,105	$172	$4,092	$65,081	$345,039	$11,432	$428,921
Comprehensive income:								
Net income						53,819		53,819
Other comprehensive income:								
Change in net unrealized gain on investment securities available-for-sale, net of taxes of $2,160							4,014	
Reclassification adjustment for gains on securities available-for-sale included in net income, net of tax benefit of $404							749	4,763
Change related to employee benefit plans, net of taxes of $563							1,045	1,045
Total comprehensive income								59,627
Adjustment to initially apply FASB Interpretation No. 48						744		744
Reacquired voting common stock	(1,559)		(3)	(5)		(954)		(962)
Common stock dividends ($1.40 per share)						(1,193)		(1,193)
Preferred stock dividends						(166)		(166)
Balance at December 31, 2007	851,299	$3,105	$169	$4,087	$65,081	$397,289	$17,240	$486,971
Comprehensive income:								
Net income						44,654		44,654
Other comprehensive income:								
Change in net unrealized gain on investment securities available-for-sale, net of taxes of $789							1,466	
Reclassification adjustment for gains on securities available-for-sale included in net income, net of taxes of $784							(1,457)	9
Change related to employee benefit plans, net of taxes of $6,703							(12,449)	(12,449)
Total comprehensive income								32,214
Reacquired non-voting common stock	(2,647)		(13)			(1,192)		(1,205)
Common stock dividends ($1.40 per share)						(1,189)		(1,189)
Preferred stock dividends						(166)		(166)
Balance at December 31, 2008	848,652	$3,105	$156	$4,087	$65,081	$439,396	$ 4,800	$516,625

The accompanying notes are an integral part of these consolidated financial statements.

FIRST CITIZENS BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year ended December 31,	
	2008	2007
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 44,654	$ 53,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	31,685	9,381
Depreciation and amortization	29,313	26,223
Net amortization (accretion) of premiums and discounts on investment securities	2,083	(3,541)
Accretion of discount on long-term debt	101	101
Deferred income tax benefit	(7,979)	(1,244)
Gain on sales of premises and equipment	(309)	(385)
Increase (decrease) in interest receivable	3,705	(2,178)
(Decrease) increase in interest payable	(4,249)	333
Origination of mortgage loans held-for-sale, net of principal collected	(417,302)	(468,103)
Proceeds from sales of mortgage loans held-for-sale	424,934	475,296
Gain on sale of mortgage loans held-for-sale	(6,535)	(5,235)
(Gain) loss on sale of investment securities	(2,241)	1,153
Increase in other assets	(19,486)	(1,553)
Increase in other liabilities	14,448	2,853
Net cash provided by operating activities	92,822	86,920
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans and leases	(323,454)	(374,102)
Calls, maturities and prepayments of investment securities held-to-maturity	7,317	7,063
Purchases of investment securities held-to-maturity	(3,093)	(6,250)
Proceeds from maturities and calls of investment securities available-for-sale	489,641	828,503
Proceeds from sales of investment securities available-for-sale	165,231	59,845
Purchases of investment securities available-for-sale	(644,576)	(850,792)
Proceeds from sales of premises and equipment	680	957
Purchases of premises and equipment	(20,352)	(21,244)
Decrease in other real estate owned	2,553	1,672
Net (increase) decrease in investment in Federal Home Loan Bank stock	(5,247)	637
Purchase of institutions, net of cash acquired	(53,927)	8,377
Net cash used in investing activities	(385,227)	(345,334)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	169,010	173,937
Increase in short term borrowings and securities under agreements to repurchase	20,825	12,530
Net advance (repayment) of Federal Home Loan Bank advances	41,985	(5,721)
Repayment of long-term debt	(11,390)	(1,056)
Dividends paid	(1,355)	(1,359)
Acquisition of common stock	(1,205)	(962)
Net cash provided by financing activities	217,870	177,369
Net decrease in cash and due from banks	(74,535)	(81,045)
Cash and cash equivalents due from banks at beginning of year	425,298	506,343
Cash and cash equivalents due from banks at end of year	$ 350,763	$ 425,298
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 134,640	$ 159,736
Income taxes paid	$ 26,953	$ 27,459

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Nature of Operations:

First Citizens Bancorporation, Inc. is a three-bank financial holding company whose principal subsidiaries are First Citizens Bank and Trust Company, Inc. ("First Citizens" or "the Bank"), The Exchange Bank of South Carolina, Inc. ("Exchange") and Merchants and Farmers Bank of Comer, Georgia ("Merchants"). First Citizens, Exchange, and Merchants are sometimes referred to collectively as the "Banks" herein.

Founded in 1964, First Citizens offers a complete array of commercial and retail banking services through its 176 offices in 106 communities in South Carolina and sixteen offices in thirteen communities in Georgia. The Bank provides a full range of financial services including deposit acceptance, corporate cash management, discount brokerage, IRA plans, trust services and secured and unsecured loans. Trust services provides estate planning, estate and trust administration, IRA trust and personal investment, and pension and profit sharing administration. The Bank also originates and services mortgage loans and provides financing for businesses.

Effective June 1, 2008, Merchants was acquired by Bancorporation. Merchants is headquartered in Comer, Georgia. The purpose of this acquisition was to expand Bancorporation's banking presence in Georgia.

Effective November 1, 2008, Community Bankshares, Inc. ("CBI") was acquired and merged into First Citizens. CBI was a bank holding company headquartered in Orangeburg, South Carolina, and was the parent company of Community Resource Bank, N.A. The purpose of this acquisition was to expand First Citizens' banking presence in the Orangeburg, Fairfield, Richland, Florence and Sumter markets.

Wateree Life Insurance Company ("Wateree"), a wholly-owned subsidiary of Wateree Enterprises, Inc., is incorporated as a stock life insurance company domiciled in South Carolina. Wateree Enterprises, Inc. is a wholly-owned subsidiary of First Citizens. Wateree writes credit life insurance through its affiliation with the Banks.

Founded in 1932, Exchange is a community-oriented financial institution that offers a variety of financial services through its four branches in Williamsburg and Georgetown counties in South Carolina. Exchange provides traditional commercial and consumer banking services with its principal activities taking demand and time deposits and making secured and unsecured loans.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The consolidated financial statements include the accounts of Bancorporation and those subsidiaries that are majority-owned by Bancorporation and over which Bancorporation exercises control. In consolidation, all significant intercompany accounts and transactions have been eliminated. Assets held by the Bank in trust or in other fiduciary capacities are not assets of the Bank and are not included in the accompanying consolidated financial statements.

Financial Accounting Standards Board ("FASB") Interpretation No. 46R ("FIN 46(R)") requires enterprises to evaluate variable interests in entities for which voting interests are not an effective means of identifying controlling financial interests. Variable interests are those in which the value of the interest changes with the fair value of the net assets of the entity exclusive of variable interests. If the results of the evaluation indicate the existence of a primary beneficiary and the entity does not effectively disperse risks among the parties involved, that primary beneficiary is required to consolidate the entity. Likewise, FIN 46(R) requires the deconsolidation of an entity if the evaluation indicates the requirements for consolidation are not met. Bancorporation has variable interests in certain entities including low-income housing partnership interests and trust preferred securities, none of which were required to be consolidated.

Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of goodwill and intangible assets, benefit plan obligations and related expenses, and income tax related items.

Goodwill and Other Intangible Assets:

Bancorporation accounts for its acquisitions using the purchase method of accounting. When applying purchase accounting, net assets of entities acquired are recorded at fair value at the date of acquisition. The reported income of Bancorporation includes the operations of the acquired company subsequent to the acquisition. Goodwill represents the cost in excess of the fair value of net assets acquired in transactions considered business combinations and is not amortized but is assessed for impairment. Goodwill recorded in purchase acquisitions is subject to periodic impairment tests requiring estimates of fair value. Bancorporation reviews goodwill for impairment at least once annually and whenever events or circumstances indicate the carrying value may not be recoverable. An impairment would be indicated if the carrying value of goodwill exceeds its fair value. Bancorporation recorded no impairment charges related to its goodwill in 2008 or 2007. Other intangible assets consist primarily of core deposit intangibles, which represent the excess of the fair value of deposits acquired over their carrying values and are amortized over the period in which Bancorporation expects to derive benefit from the deposits. Intangible assets other than goodwill, which are determined to have finite lives, are amortized over the period benefited, generally five to fifteen years and are periodically reviewed for reasonableness. The recoverability of other intangibles is evaluated if events or circumstances indicate possible impairment.

Investment Securities:

Bancorporation defines held-to-maturity securities as debt securities that management has the positive intent and ability to hold to maturity. Held-to-maturity securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Available-for-sale securities are defined as equity securities and debt securities not classified as trading securities or held-to-maturity securities. Available-for-sale securities are recorded at fair value with unrealized holding gains and losses, net of deferred taxes, presented as a separate component of stockholders' equity in accumulated other comprehensive income. Bancorporation determines the appropriate classification of debt securities at the time of purchase.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Bancorporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Bancorporation recorded no other-than-temporary impairment losses related to its investment portfolio in 2008 or 2007. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans and the Allowance for Loan Losses:

Loans are recorded at their principal amount outstanding, net of deferred loan fees and costs. Interest is accrued and recognized in operating income based upon the principal amount outstanding. Loan origination fees and direct loan origination costs are deferred and amortized over the estimated lives of the related loans as an adjustment to yield.

In many lending transactions, collateral is obtained to provide an additional measure of security. Generally, the cash flow and earning power of the borrower represent the primary source of repayment and collateral is considered as an additional safeguard on an acceptable credit risk. On other than real estate secured loans, the need for collateral is determined on a case-by-case basis after considering the current and prospective creditworthiness of the borrower, terms of the lending transaction and economic conditions.

The accrual of interest is generally discontinued, except for installment and credit card loans, when substantial doubt exists as to the collectibility of principal and interest or when a loan is 90 days past due as to interest or principal unless the loan is both adequately secured and in the process of collection. Generally, accrual of income on unsecured installment loans is discontinued and the loans are charged off after a delinquency of 120 days and 180 days for secured loans and credit card loans. Loans secured by real estate remain in accrual status until foreclosure is consummated, unless impairment is evident, in which case they are placed in nonaccrual status and written down accordingly.

Loans are considered impaired if, based on current information and events, it is probable that Bancorporation will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is based on either the fair value of the underlying collateral, the present value of the future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, or the estimated market value of the loan. In measuring the fair value of the collateral, management uses a comparison to the recent selling price of similar assets, which is consistent with those that would be utilized by unrelated third parties.

The allowance for loan losses is management's estimate of probable inherent credit losses in Bancorporation's loan portfolio at the balance sheet date. Bancorporation determines the allowance for loan losses based on an ongoing estimation process. This estimation process is inherently subjective, as it requires material estimates, including the amounts and timing of cash flows expected to be received on impaired loans and losses incurred as of the balance sheet date in Bancorporation's loan portfolio. Those estimates may be susceptible to significant change. A description of the factors considered in the estimation process are discussed in the following paragraph. Increases to the allowance for loan losses are made by charges to the provision for loan losses, which is reflected in the Consolidated Statements of Income. Loans deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The allowance is the accumulation of various components that are calculated based on an independent estimation process. All components of the allowance for loan losses represent an estimation performed pursuant to either Statement of Financial Accounting Standards ("SFAS") No. 5—*Accounting for Contingencies* ("SFAS No. 5") or SFAS No. 114—*Accounting by Creditors for Impairment of a Loan* ("SFAS No. 114"), as amended. Management's estimate of each SFAS No. 5 component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends, recent loan loss experience, collateral type, loan volumes, seasoning of the loan portfolio, the findings of internal credit quality assessments and results from external bank regulatory examinations. Pursuant to SFAS No. 114, all impaired commercial loans in excess of a defined threshold are analyzed for specific reserves on a loan-by-loan basis based on management's evaluation of the exposure for each credit, the current payment status of the loan and the value of any underlying collateral.

While management uses the best information available to establish the allowance for loan losses, future adjustments may become necessary if conditions differ substantially from the assumptions used in making the estimates. In addition, regulatory examiners may require adjustments to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

Mortgage Banking Activities:

Mortgage loans held-for-sale are stated at the lower of aggregate cost or market, net of discounts and deferred loan fees. Mortgage loans held-for-sale were $19,200 and $26,732 as of December 31, 2008 and 2007, respectively, and are included in loans in the Consolidated Statements of Condition. Nonrefundable deferred origination fees and costs and discount points collected at loan closing are deferred and recognized in mortgage income at the time of sale of the mortgage loans. Gain or loss on the sale of mortgage loans is recognized based upon the difference between the selling price and the carrying amount of the mortgage loans sold. Other fees earned during the loan origination process are also included in net gain or loss on sales of mortgage loans. Gain or loss on the sale of mortgage loans is a component of mortgage income in the Consolidated Statements of Income.

Bancorporation uses mandatory forward and "best efforts" commitments to protect its mortgage loans held for sale from interest rate risk from the time of origination to the time of sale. In accordance with SFAS No. 133—*Accounting for Derivative Instruments and Hedging Activities*, these commitments are carried on the Consolidated Statements of Condition at fair market value. Unfunded residential mortgage loan commitments for loans to be sold are also accounted for at fair market value. These fair market value adjustments are included in mortgage income in the Consolidated Statements of Income and were insignificant as of and for the years ended December 31, 2008 and 2007.

After a transfer of loans held-for-sale to a third party under a sale contract (when control has been surrendered), Bancorporation recognizes the mortgage servicing rights ("MSRs") it retains and derecognizes the loans held-for-sale. The initial value of the MSR is included as a component of gain on sale within mortgage income. Any other related financial assets and liabilities would be recognized at that point as well. Currently, all transfers of loans held-for-sale are accounted for as sales of those loans as control over those loans is surrendered to a third party.

MSRs are included in intangible assets in the Consolidated Statements of Condition. The amount capitalized represents the discounted present value of future net cash flows that are expected to be received from the mortgage servicing portfolio. Fair value is determined using analyses of discounted anticipated future net cash flows, considering estimates of loan prepayments, interest rates and other economic factors. The amortization method is used to measure each class of servicing asset. Amortization of MSRs is based on a method which approximates the proportion of current net servicing income to the total estimated net servicing income expected to be recognized over the average remaining lives of the underlying loans. Servicing income, net of related amortization expense, is included as a component of mortgage income in the Consolidated Statements of Income. For purposes of impairment evaluation and measurement, MSRs are stratified based on predominant risk characteristics of the underlying loans, primarily loan type, amortization type (fixed or adjustable), and note rate. To the extent that the carrying value of the MSRs exceeds fair value by individual stratum, a valuation allowance is established which may be adjusted in the future as the value of MSRs increases or decreases. Changes in the valuation allowance are recognized as a component of mortgage income in the Consolidated Statements of Income. Bancorporation's portfolio of loans serviced for third parties approximated $1,278,116 and $1,189,211 at December 31, 2008 and 2007, respectively. Loans serviced for third parties are not included as assets in the accompanying consolidated financial statements.

Premises and Equipment:

Bank premises and equipment are reported at cost less accumulated depreciation. Depreciation is included in noninterest expense over the estimated useful lives of the assets (generally fifteen to forty years for buildings and improvements, and three to ten years for furniture and equipment). Leasehold improvements are capitalized and amortized to noninterest expense over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter. Depreciation and amortization are calculated using straight-line methods. Maintenance, repairs and minor improvements are included in noninterest expense as incurred. Major improvements are capitalized. Gains or losses upon retirement or other dispositions are included in other noninterest income in the Consolidated Statements of Income.

Other Real Estate Owned:

Other real estate owned consists of real property acquired through foreclosure. At the time of foreclosure, other real estate owned is carried at the current fair value of the property, less estimated selling costs. Subsequent to foreclosure, gains or losses on the sales or the periodic revaluation of other real estate owned are credited or charged to noninterest expense. Net costs of maintaining and operating foreclosed properties are expensed as incurred. Other real estate owned was $9,425 and $1,496 as of December 31, 2008 and 2007, respectively, and is included as a component of other assets in the Consolidated Statements of Condition.

Securities Sold Under Agreements to Repurchase:

Securities sold under agreements to repurchase represent overnight borrowings with the Banks' customers and are secured by investment securities. The terms of the repurchase agreements may require Bancorporation to provide additional collateral if the fair value of the securities underlying the borrowings declines during the term of the agreement.

Income Taxes:

Bancorporation recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

Statement of Cash Flows:

For purposes of the Consolidated Statements of Cash Flows, Bancorporation has defined cash on hand, amounts due from banks and federal funds sold as cash and cash equivalents.

Earnings Per Share:

Earnings per share are computed by dividing net income less preferred dividends noted in the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income by the weighted average number of voting and non-voting common shares outstanding. The premium or discount paid on redemption of preferred stock is treated as dividends on preferred stock and is included in the determination of net income available for common stockholders. As Bancorporation has no dilutive securities, there is no difference between basic and diluted earnings per share.

Comprehensive Income:

Accumulated other comprehensive income consists of unrealized gains and losses on investment securities available-for-sale and the net unrecognized prior service costs and actuarial losses relating to Bancorporation's pension plan, net of deferred income taxes.

Segment Information:

SFAS No. 131—*Disclosure about Segments of an Enterprise and Related Information*, requires that certain entities disclose information about products and services provided by operating segments, geographic areas and major customers, differences between the measurements used in reporting segment information and those used in the entity's general-purpose financial statements, and changes in the measurement of segment amounts from period to period.

Operating segments are components of an entity about which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources in evaluating performance. Bancorporation has determined that its one operating segment is providing general financial services to customers located in South Carolina and eight contiguous counties in Georgia. The various products are those generally offered by community banks and the allocation of resources is based on the overall performance of the institution versus individual branches or products.

Changes in Accounting Principles and Effects of New Accounting Pronouncements:

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 applies to all tax positions within the scope of SFAS No. 109. FIN 48 requires a "more-likely-than-not" threshold for initial recognition of a tax benefit and requires measurement of the amount of benefit to be recognized based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with the taxing authority. The cumulative effect of initially applying FIN 48 is recorded in beginning retained earnings of the year of adoption. FIN 48 is effective for years beginning after December 15, 2006. The implementation of FIN 48 did not have a material impact on Bancorporation's financial position or results of operations. Bancorporation and its subsidiaries file a consolidated federal income tax return and various separate company state returns. See Note 11 on page 22 for further discussion of the effect of adopting FIN 48 on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 ("SFAS No. 157"), *Fair Value Measurements*. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities and is applicable whenever other standards require or permit assets and liabilities to be measured at fair value. In February 2007, the FASB issued SFAS No. 159 ("SFAS No. 159"), *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to elect on an instrument-by-instrument basis to fair value certain financial assets and financial liabilities with changes in fair value recognized in earnings as they occur. The election to fair value is generally irrevocable. SFAS No. 157 and SFAS No. 159 are effective for years beginning after November 15, 2007. The implementation of SFAS No. 157 and SFAS No. 159 did not have a material impact on Bancorporation's financial position or results of operations.

In November 2007, in response to SFAS No.157, the SEC issued Staff Accounting Bulletin ("SAB") No. 109. SAB No. 109 is effective on a prospective basis for loan servicing activities related to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. Effective January 1, 2008, Bancorporation began including the value associated with the servicing of loans in the measurement of all written loan commitments issued after that date that are accounted for at fair value through earnings, and is expected to reduce the potential future liability of loan commitments. The adoption, net of other changes in the valuation of interest rate lock commitments ("IRLCs"), resulted in the acceleration of $1,197 in mortgage-related income.

In December 2007, the FASB issued SFAS No. 141R ("SFAS No. 141R"), *Business Combinations,* replacing SFAS No. 141, *Business Combinations.* SFAS 141R retains the fundamental requirement in SFAS No. 141 that purchase accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R improves the comparability of the information about business combinations provided in financial reports. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Bancorporation is currently evaluating the impact of implementing SFAS No. 141R on Bancorporation's financial position and results of operations.

In October 2008, the FASB issued FSP FAS 157-3 ("FSP FAS 157-3"), *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. The FSP FAS 157-3 applies to financial assets that are in the scope of SFAS No. 157, to clarify its application in an inactive market. FSP FAS 157-3 addresses how management's internal assumptions should be considered when measuring fair value in cases where relevant observable data does not exist, how observable market information in inactive markets should be considered when measuring fair value, and how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. The FSP FAS 157-3 clarifies that in inactive markets there may be more reliance placed upon the use of management's internal assumptions (a Level 3 fair value measurement), but regardless of the valuation technique, an entity should include the appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. The FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. The FSP FAS 157-3 is consistent with Bancorporation's application of SFAS No. 157, therefore the issuance of the standard did not impact Bancorporation's financial position or results of operations for the year ended December 31, 2008.

Effective January 1, 2008, Bancorporation adopted SFAS No. 157, *Fair Value Measurements*, in accordance with the delayed provision of adoption for non-financial assets and liabilities under FSP SFAS No. 157-2. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances discloses about fair value measurements. Fair value is defined under SAFS No. 157 as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

(Dollars in thousands, except per share data)

NOTE 2—ACQUISITIONS

On December 14, 2007, First Citizens acquired a branch from an unrelated financial institution. First Citizens acquired deposits of $13,035, loans of $3,099, and other intangible assets of $928 related to this branch acquisition.

On June 1, 2008, Bancorporation acquired 100% of the outstanding shares of Merchants. As a result of this acquisition, Bancorporation expects to gain market share in Madison county, Georgia.

Bancorporation paid $3,828.13 per share in cash and notes for 9,600 shares of Merchants' common stock for an aggregate purchase price of $36,750. The breakdown of the purchase price was $21,750 paid in cash and $15,000 of 10 year Bancorporation subordinated notes at an interest rate of 8.00%. The purchase price resulted in $15,813 in goodwill and $1,608 in core deposit intangible. The core deposit intangible is being amortized over 74 months using straight-line amortization.

On November 1, 2008, First Citizens acquired 100% of the outstanding shares of CBI, parent of Community Resource Bank, N.A. As a result of this acquisition, First Citizens expects to gain market share in Orangeburg, Fairfield, Richland, Florence and Sumter counties.

First Citizens paid $21.00 per share in cash for 4,544,968 shares of CBI's common stock for an aggregate purchase price of $95,444. The purchase price resulted in $51,630 in goodwill and $6,907 in core deposit intangible. The core deposit intangible is being amortized over 72 months using straight-line amortization.

Goodwill recorded on both of these acquisitions will not be amortized, but instead evaluated for impairment at least annually. First Citizens also incurred $486 of incremental costs that were capitalized into goodwill related to these acquisitions. Any future write-down of goodwill and the amortization of intangible assets are not deductible for tax purposes.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisitions of Merchants and CBI:

	Merchants	CBI	Combined
Cash and due from banks	$ 24,227	$ 39,522	$ 63,749
Investment securities	30,888	72,438	103,326
Loans and leases, net	94,358	429,252	523,610
Premises and equipment, net	3,574	14,958	18,532
Goodwill	15,813	51,630	67,443
Other intangible assets	1,608	6,907	8,515
Other assets	5,126	10,245	15,371
Total assets acquired	175,594	624,952	800,546
Deposits	135,252	474,525	609,777
Short-term borrowings	—	7,712	7,712
Federal Home Loan Bank advances	2,000	32,656	34,656
Long-term debt	—	10,310	10,310
Other liabilities	1,592	4,305	5,897
Total liabilities assumed	138,844	529,508	668,352
Net assets acquired	**$ 36,750**	**$ 95,444**	**$132,194**

(Dollars in thousands)

Operating results of Merchants and CBI are included in the consolidated financial statements since the date of the respective acquisitions. The following table presents pro forma information as if the above acquisitions had occurred on January 1, 2007 and 2008. The pro forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transaction, interest expense on deposits assumed, interest expense on subordinated debt issued, and the related income tax effects.

The pro forma financial information below is required in accordance with SFAS No. 141—"Business Combinations" and is not necessarily indicative of the results of operations as they would have been had the transactions been affected on the assumed dates.

	For the Year Ended December 31,	
	2008	2007
Net interest income	$241,445	$231,332
Net income	49,816	56,339
Earnings per share	$ 58.45	$ 65.92

Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* ("SOP 03-03") addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality including loans acquired in purchase business combinations. SOP 03-03 does not apply to loans originated by the entity. As part of the CBI acquisition on November 1, 2008, Bancorporation identified $13,957 in loans to which the application of the provisions of SOP 03-03 was required. The carrying amount of these loans was reduced to $10,578 on November 1, 2008, representing a nonaccretable adjustment of $3,379. Because Bancorporation could not reasonably estimate cash flows expected to be collected from these loans, interest income is only recognized when cash payments are received on such loans. At December 31, 2008, the carrying value of these loans had been reduced to $10,060 due to cash payments received from the borrowers.

NOTE 3—CASH AND DUE FROM BANKS

The Bank is required to maintain reserve balances with the Federal Reserve or in vault cash. As of December 31, 2008, the required balance was $78,465 compared to $69,798 as of December 31, 2007. Of the required balance, $73,465 and $64,798 was met by vault cash and $5,000 and $5,000 was met with deposits at the Federal Reserve at December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, approximately $11,125 and $10,125, respectively, in cash and due from bank balances was restricted as to use as compensating balances with other financial institutions.

(Dollars in thousands)

NOTE 4—INVESTMENT SECURITIES

The cost and the estimated fair value of investment securities held-to-maturity and available-for-sale at December 31 along with gross unrealized gains and losses determined on an individual security basis are presented below.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity at December 31, 2008:				
U. S. government treasuries and agencies	$ 9,339	$ 107	$ —	$ 9,446
Obligations of states and political subdivisions	265	4	—	269
Other	60	5	—	65
Total	$ 9,664	$ 116	$ —	$ 9,780
Held-to-maturity at December 31, 2007:				
U. S. government treasuries and agencies	$ 9,258	$ 87	$ 6	$ 9,339
Obligations of states and political subdivisions	610	9	—	619
Other	133	3	—	136
Total	$ 10,001	$ 99	$ 6	$ 10,094
Available-for-sale at December 31, 2008:				
U.S. government treasuries and agencies	$ 974,128	$16,777	$ 83	$ 990,822
Obligations of states and political subdivisions	14,837	156	186	14,807
Equity securities	10,643	30,062	2,366	38,339
Other	99,002	1,876	3,145	97,733
Total	$1,098,610	$48,871	$5,780	$1,141,701
Available-for-sale at December 31, 2007:				
U.S. government treasuries and agencies	$ 954,284	$ 9,764	$ 140	$ 963,908
Obligations of states and political subdivisions	3,421	29	25	3,425
Equity securities	10,699	34,528	590	44,637
Other	39,692	161	650	39,203
Total	$1,008,096	$44,482	$1,405	$1,051,173

The following table provides maturity information for investment securities at December 31, 2008 and 2007:

	2008		2007	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Investment securities held-to-maturity maturing in:				
One year or less	$6,517	$6,583	$ 3,343	$ 3,357
One through five years	3,086	3,132	6,524	6,601
Five to 10 years	53	56	125	127
Over 10 years	8	9	9	9
Total investment securities held-to-maturity	$9,664	$9,780	$10,001	$10,094

(Dollars in thousands)

	2008		2007	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Investment securities available-for-sale maturing in:				
One year or less	$ 553,418	$ 562,384	$ 316,080	$ 317,667
One through five years	438,665	446,398	652,021	659,922
Five to 10 years	30,272	30,336	7,466	7,450
Over 10 years	65,612	64,244	21,830	21,497
Equity securities	10,643	38,339	10,699	44,637
Total investment securities available-for-sale	$1,098,610	$1,141,701	$1,008,096	$1,051,173

Securities with unrealized losses at December 31, 2008 were as follows:

	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U. S. government treasuries and agencies	$ 83	$28,502	$ —	$ —
Obligations of states and political subdivisions	186	5,113	— *	197
Equity securities	732	1,520	1,634	1,549
Other	2,266	9,547	879	6,061
Total securities with unrealized losses	$3,267	$44,682	$2,513	$7,807

* Gross unrealized losses less than $1.

Securities with unrealized losses at December 31, 2007 were as follows:

	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U. S. government treasuries and agencies	$—	$ —	$146	$40,330
Obligations of states and political subdivisions	—	—	25	2,007
Equity securities	590	2,593	—	—
Other	3	1,035	647	31,860
Total securities with unrealized losses	$593	$3,628	$818	$74,197

At December 31, 2008, Bancorporation had 30 investments having a continuous unrealized loss position for more than 12 months. Market changes in interest rates and credit spreads will result in temporary unrealized losses as the market price of securities fluctuate. The turmoil and illiquidity in the financial markets during 2008 increased market yields on securities as a result of credit spreads widening. Bancorporation has the intent and ability to hold these securities until maturity and has reviewed them for other-than-temporary impairment in accordance with the accounting policies outlined in Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements. Bancorporation has not recognized any other-than-temporary impairment in connection with these securities.

Proceeds from the sale of available-for-sale investments were $165,231 and $59,845 in 2008 and 2007, respectively. Gross realized gains were $2,275 and $328 in 2008 and 2007, respectively. Gross realized losses were $34 and $1,481 in 2008 and 2007, respectively.

(Dollars in thousands)

Investment securities with an amortized cost of $883,306 and $896,200 at December 31, 2008 and 2007, respectively, were pledged to secure public deposits as collateral for securities sold under agreements to repurchase and for other purposes as required by law.

NOTE 5—LOANS AND LEASES

Loans and leases, net of deferred fees and costs, are composed of the following:

	As of December 31,	
	2008	2007
Real estate—mortgage	$2,211,503	$1,822,092
Real estate—commercial	1,072,530	781,021
Real estate—construction, land development, and other land	517,163	534,526
Commercial, financial and agricultural	445,332	358,717
Loans to individuals for household, family and other personal expenditures	589,521	546,467
Lease financing	62,249	63,269
Other loans	128,550	99,185
Total	$5,026,848	$4,205,277

NOTE 6—ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses is summarized as follows:

	For the Year Ended December 31,	
	2008	2007
Balance at beginning of year	$ 52,748	$49,427
Loans charged off	(22,116)	(7,262)
Recoveries on loans previously charged off	1,575	1,202
Provision for loan losses	31,685	9,381
Allowance for loans acquired in purchase transactions	8,489	—
Balance at end of year	$ 72,381	$52,748

Impaired loans are loans for which it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. Bancorporation had specific reserves of $2,171 recorded on impaired loan balances of $23,817 as of December 31, 2008 and specific reserves of $375 recorded on impaired loan balances of $6,684 as of December 31, 2007. Loans that were considered impaired under SFAS No. 114 at December 31, 2008 and 2007 held by Bancorporation are summarized below:

	December 31,	
	2008	2007
Nonaccrual loans at year end	$44,749	$10,221
Accruing loans past due 90 days or more at year end	11,314	6,175
Average investment in impaired loans for the year	17,679	8,115

At December 31, 2008, nonaccrual loans of $14,832 are attributable to the CBI and Merchants acquisitions.

At December 31, 2008 and 2007, Bancorporation did not have any significant loans for which terms had been modified in troubled debt restructurings. Interest income which would have been recorded pursuant to the original terms of nonaccrual loans was not significant for any of the years presented.

(Dollars in thousands)

NOTE 7—PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	As of December 31,	
	2008	2007
Land	$ 87,530	$ 72,708
Buildings and improvements	184,000	167,807
Furniture and equipment	65,756	61,775
Leasehold improvements	1,535	1,370
Construction in progress	5,342	8,023
Total	344,163	311,683
Less: Accumulated depreciation and amortization	(108,297)	(96,597)
Total premises and equipment	$ 235,866	$215,086

Provisions for depreciation included in noninterest expense were $17,733 and $17,432 for the years ended December 31, 2008 and 2007, respectively.

Bancorporation has entered into various noncancellable operating leases for land and buildings used in its operations. The leases expire over the next 10 years, and most contain renewal options from 1 to 20 years. Certain leases provide for periodic rate negotiation or escalation. The leases generally provide for payment of property taxes, insurance and maintenance costs by Bancorporation. Rental expense, including month-to-month leases, reported in net occupancy expense in the Consolidated Statements of Income was $1,053 and $787 for the years ended December 31, 2008 and 2007, respectively. Bancorporation recognized rental income of $4,065 and $3,237 for the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008, future minimum rental commitments under noncancellable operating leases that have a remaining life in excess of one year are summarized as follows:

2009	$1,347
2010	1,079
2011	1,008
2012	790
2013	467
2014 and thereafter	1,304
Total minimum obligation	$5,995

(Dollars in thousands)

NOTE 8—GOODWILL AND OTHER INTANGIBLES

Goodwill

In accordance with SFAS No. 142—*Goodwill and Other Intangible Assets* ("SFAS No. 142"), no goodwill amortization was recorded for the years ended December 31, 2008 and 2007. Under the provisions of SFAS No. 142, goodwill is tested for impairment on an annual basis to determine if the fair value of the reporting unit is below its carrying amount. Bancorporation completed its annual impairment analysis during the fourth quarter of 2008 and determined there was no impairment of goodwill. There were no changes in the carrying amount of goodwill of $112,444 for the year ended December 31, 2007. Changes in the carrying amount for goodwill for the year ended December 31, 2008 are as follows:

Balance at January 1, 2008	$112,444
Merchants acquisition	15,813
CBI acquisition	51,630
Balance at December 31, 2008	$179,887

The changes in the carrying amounts of core deposit and other intangibles and mortgage servicing rights for the years ended December 31, 2007 and 2008 were as follows:

	Core Deposit and Other Intangibles	Mortgage Servicing Rights*	Total
Balance at January 1, 2007	$24,454	$ 9,100	$ 33,554
Amortization	(7,292)	(1,499)	(8,791)
Branch acquisition	928	—	928
Servicing rights originated	—	2,298	2,298
Balance at December 31, 2007	$18,090	$ 9,899	$ 27,989
Amortization	(7,418)	(4,162)	(11,580)
Merchants acquisition	1,608	—	1,608
CBI acquisition	6,907	—	6,907
Purchase price adjustments	(5)	—	(5)
Servicing rights originated	—	2,506	2,506
Balance at December 31, 2008	$19,182	$ 8,243	$ 27,425

* Valuation allowance for MSRs was $2,631 and $308 as of December 31, 2008 and 2007, respectively.

As of December 31, 2008 and 2007, the fair market values of MSRs were $8,381 and $11,139, respectively. Contractually specified mortgage servicing fees, late fees and ancillary fees earned for the year ended December 31, 2008 and 2007 were $4,462 and $4,114, respectively. These amounts are included in mortgage income in the Consolidated Statements of Income.

Amortization expense on core deposit intangibles was $7,418 and $7,292 for the years ended December 31, 2008 and 2007, respectively. The amortization expense related to mortgage servicing rights, included as a reduction of mortgage income in the Consolidated Statements of Income, was $4,162 and $1,499 for the years ended December 31, 2008 and 2007, respectively. Amortization expense included impairment of $2,323 for the year ended December 31, 2008. Amortization expense was reduced by a net recapture of mortgage servicing rights impairment of $98 for the year ended December 31, 2007.

(Dollars in thousands)

Key economic assumptions used to value mortgage servicing rights as of December 31, 2008 were as follows:

Weighted-average remaining life	3.15 years
Weighted-average discount rate	7.31%
Weighted-average prepayment speed	26.95%
Weighted-average coupon	5.89%

Bancorporation projects the following aggregate amortization expense based on existing core deposit and other intangibles for each of the next five years:

For the year ended December 31:

2009	7,156
2010	5,368
2011	2,242
2012	1,754
2013	1,550

NOTE 9—FEDERAL HOME LOAN BANK STOCK

First Citizens is a member of the Federal Home Loan Bank of Atlanta ("FHLB"). As a condition of membership, First Citizens purchased capital stock of the FHLB. The capital stock cannot be sold as long as First Citizens is a member of the FHLB. The amount of the investment will increase or decrease based upon the level of borrowings from the FHLB. Due to the redemptive provisions of the FHLB, this stock is carried at cost. As of December 31, 2008 and December 31, 2007, an investment in FHLB of $16,185 and $10,938, respectively, is reflected in other assets in the Consolidated Statements of Condition.

NOTE 10—DEPOSITS

Deposits and related interest expense are summarized as follows:

	Deposits December 31,		Interest Expense For the Year Ended December 31,	
	2008	2007	2008	2007
Demand	$ 918,468	$ 829,364	$ —	$ —
NOW accounts	1,267,650	1,218,361	8,701	20,854
Money market accounts	935,320	724,798	18,621	20,947
Savings	312,075	283,138	2,201	2,673
Time	2,362,427	1,961,492	81,640	85,961
Total	$5,795,940	$5,017,153	$111,163	$130,435

Time deposits with a minimum denomination of one hundred thousand dollars totaled $632,757 and $485,348 at December 31, 2008 and 2007, respectively.

(Dollars in thousands)

At December 31, 2008 the scheduled maturities of time deposits were:

2009	$2,188,458
2010	86,074
2011	30,285
2012	54,876
2013	2,734
Thereafter	—
Total time deposits	$2,362,427

NOTE 11—INCOME TAXES

Effective January 1, 2007, Bancorporation adopted FIN 48 which provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As a result of the implementation of FIN 48, Bancorporation recognized an adjustment of $744 which was accounted for as an increase to the January 1, 2007 balance of retained earnings. As of December 31, 2008, Bancorporation had no unrecognized tax benefits related to federal or state income tax matters.

The components of consolidated income tax expense are as follows:

	For the Year Ended December 31,	
	2008	2007
Current:		
Federal	$30,306	$29,100
State	2,100	2,813
	32,406	31,913
Deferred—Federal	(7,979)	(1,244)
Total income tax expense	$24,427	$30,669

The significant components of Bancorporation's deferred tax assets and liabilities, which are included in other assets in the Consolidated Statements of Condition, are as follows:

	As of December 31,	
	2008	2007
Deferred tax assets:		
Allowance for loans losses	$26,491	$18,487
Employee benefits	3,293	2,758
Book depreciation over tax	4,221	2,885
Amortization—intangibles	4,545	8,615
Adjustment to apply SFAS No. 158	12,497	5,794
Other	6,432	4,495
Total deferred tax assets	57,479	43,034
Deferred tax liabilities:		
Pension costs	10,346	10,093
Mark-to-market of available-for-sale securities	15,082	15,077
Other	2,646	3,136
Total deferred tax liabilities	28,074	28,306
Net deferred tax asset	$29,405	$14,728

(Dollars in thousands)

Bancorporation has no valuation allowance for deferred tax assets based on management's belief that it is more likely than not that the deferred tax assets will be realized.

Total income tax expense differs from the amount of income tax determined by applying the U. S. statutory federal income tax rate (35%) to pretax income as a result of the following differences:

	For the Year Ended December 31,	
	2008	**2007**
Tax expense at statutory rate	$24,178	$29,571
Increase (decrease) in taxes resulting from:		
Non-taxable interest	(800)	(543)
State income taxes, net of federal income tax benefit	1,343	1,829
Other, net	(294)	(188)
Total income tax expense	$24,427	$30,669

NOTE 12—SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings

Bancorporation had advances outstanding from the FHLB with maturities of one year or less of $7,300 and $11,250, respectively, as of December 31, 2008 and December 31, 2007. FHLB advances represent borrowings from the FHLB pursuant to a line of credit collateralized by a blanket lien on qualifying loans secured by first mortgages on 1-4 family residences, home equity lines of credit, multi-family real estate, and commercial real estate. Advances have various maturity dates, terms and repayment schedules with fixed or variable rates of interest, payable monthly on maturities of one year or less and payable quarterly on maturities over one year. These advances and advances in the long-term debt section were collateralized by qualifying loans held by First Citizens. Total qualifying loans of First Citizens available to pledge to the FHLB for advances and letters of credit at December 31, 2008 were approximately $642,869. Additional borrowings are available by pledging additional collateral and purchasing additional stock in the FHLB. The advances are subject to prepayment penalties and convertible advances are subject to call at the option of the FHLB.

As of December 31, 2008, $993 of subordinated notes payable is due within the next twelve months.

As of December 31, 2007, a $25,000 committed unsecured revolving line of credit with an unrelated financial institution provided an interest rate indexed to the London Interbank Offered Rate ("LIBOR") plus 70 basis points. This line of credit contained certain restrictive covenants including limits on indebtedness, encumbrances, dividends and minimum net worth. Bancorporation was in compliance with the covenants at December 31, 2007. The line of credit had no outstanding balance as of December 31, 2008. The line of credit was not renewed as of December 31, 2008.

(Dollars in thousands)

Long-term debt

Components of long-term debt as of December 31 were as follows:

	2008	2007
Guaranteed Preferred Beneficial Interest in Bancorporation's Junior Subordinated Deferrable Interest Debenture 8.25%, due March 15, 2028	$ 51,547	$ 51,547
Guaranteed Preferred Beneficial Interest in Bancorporation's Junior Subordinated Deferrable Interest Debenture Floating Rate (4.25% as of December 31, 2008), due June 15, 2034	51,547	51,547
Guaranteed Preferred Beneficial Interest in Junior Subordinated Deferrable Interest Debenture Floating Rate acquired through the CBI acquisition (7.62% as of December 31, 2008), due April 7, 2034	10,310	—
	113,404	103,094
Subordinated notes payable:		
7.75% maturing August 20, 2009	—	873
7.75% maturing October 1, 2009	—	120
7.75% maturing April 1, 2010 (issued by First Citizens)	3,208	3,208
8.00% maturing April 1, 2013 (issued by First Citizens)	5,620	5,620
6.80% maturing April 1, 2015	74,367	74,266
8.00% maturing June 1, 2018	15,000	—
	98,195	84,087
Other debt:		
Federal Home Loan Bank Advances	84,928	4,337
Total long-term debt	$296,527	$191,518

Principal amounts due for the next five years on long-term debt at December 31, 2008 are: 2009—$8,293; 2010—$61,408; 2011—none; 2012—$9,500; and 2013— $14,423.

At December 31, 2008, fixed rate FHLB advances had initial maturities from one to twenty years. At December 31, 2008, advances totaling $33,700 are subject to call provisions at the option of the FHLB with call dates ranging from March 2009 through February 2010. Call provisions are more likely to be exercised by the FHLB when prevailing interest rates rise.

FCB/SC Capital Trust I, a statutory business trust ("Cap Trust I") created by Bancorporation, had outstanding at December 31, 2008, $50,000 (par value) of 8.25% Capital Securities which will mature on March 15, 2028. The balance of the securities can be prepaid, subject to regulatory approval, in whole or part at any time on or after March 15, 2008. Additionally, Cap Trust I has issued $1,547 in liquidation amount of its Common Securities, which constitute all of its outstanding Common Securities to Bancorporation.

FCB/SC Capital Trust II, a statutory business trust ("Cap Trust II") created by Bancorporation, had outstanding at December 31, 2008, $50,000 (par value) of floating rate Capital Securities based on 3 month LIBOR plus 2.25% which resets quarterly. The principal assets of Cap Trust II will mature on June 15, 2034. The balance of the securities can be prepaid, subject to regulatory approval, in whole or part at any time on or after June 15, 2009. Additionally, Cap Trust II has issued $1,547 in liquidation amount of its Common Securities, which constitute all of its outstanding Common Securities to Bancorporation.

The Capital Securities and the Common Securities of Cap Trust I and Cap Trust II are included in Tier 1 capital for regulatory capital adequacy purposes. The obligations of Bancorporation with respect to the issuance of the Capital Securities and the Common Securities constitute a full and unconditional guarantee by Bancorporation of the Trust's obligations with respect to the Capital Securities and Common Securities. Subject to certain exceptions and limitations, Bancorporation may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of distribution payments on the related Capital Securities or Common Securities.

SCB Capital Trust I, a statutory business trust ("SCB Cap Trust I") acquired in the CBI acquisition by First Citizens, had outstanding at December 31, 2008, $10,000 (par value) of floating rate Capital Securities based on 3 month LIBOR plus 2.80% which resets quarterly. The principal assets of SCB Cap Trust I will mature on April 7, 2034. The balance of the securities can be prepaid, subject to regulatory approval, in whole or part at any time on or after April 7, 2009. Additionally, SCB Cap Trust I has issued $310 in liquidation amount of its Common Securities, which constitute all of its outstanding Common Securities to First Citizens.

The Capital Securities and the Common Securities of SCB Cap Trust I are included in Tier 1 capital for regulatory capital adequacy purposes. The obligations of First Citizens with respect to the issuance of the Capital Securities and the Common Securities constitute a full and unconditional guarantee by First Citizens of the Trust's obligations with respect to the Capital Securities and Common Securities. Subject to certain exceptions and limitations, First Citizens may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of distribution payments on the related Capital Securities or Common Securities.

NOTE 13—STOCKHOLDERS' EQUITY

Each share of voting common and voting preferred stock is entitled to one vote on all matters on which stockholders vote. In certain cases, South Carolina law provides for class voting of shares and for voting rights for non-voting shares. Holders of shares of non-voting common stock have no right to vote on any matter on which stockholders are entitled to vote except in such instances as South Carolina law may require that they vote as a class, in which event, holders of non-voting shares have one vote for each share. In all other respects, holders of non-voting common stock have the same rights, privileges and limitations (including lack of preemptive rights) as holders of voting common stock. Dividend rights of each series of preferred stock are cumulative, and upon liquidation, each preferred stockholder is entitled to payment of par value or call amount for each share owned before any distribution to holders of common stock.

Holders of Series C preferred stock are entitled to be paid, when declared by the Board of Directors, cash dividends (the "regular dividend") at the rate of $2.00 per share annually, payable quarterly. In addition to such regular dividends, holders of Series C preferred stock are entitled to be paid when declared by the Board of Directors, a special dividend (the "special dividend") in December of each year in which the regular dividend per share paid on Series C preferred stock is less than twice the amount per share paid by Bancorporation on its common shares. The special dividend shall be that amount per share which equals the difference between the regular dividend paid per share on the Series C preferred stock during such year and twice the amount of cash dividends per share paid on the common stock during such year.

Series A, B, and F preferred stock may be redeemed by Bancorporation, at its option, at par or stated value. Series C, Series E, and G preferred stock may be redeemed by Bancorporation, at its option, at a call price of $100, $200 and $50 per share, respectively. Series E preferred stock has no par value and is considered non-voting. Par value, number of shares authorized and outstanding, and dividends paid for each series of redeemable preferred stock at December 31, 2008 and 2007 follows:

		2008			2007		
Series	**Par Value**	**Authorized And Outstanding**	**Amount**	**Cash Dividend Per Share (1)**	**Authorized And Outstanding**	**Amount**	**Cash Dividend Per Share (1)**
		(dollars in thousands, except per share and par value data)					
A	$ 50	6,490	$ 324	$ 2.50	6,490	$ 324	$2.50
B	50	11,810	591	2.50	11,810	591	2.50
C	20	5,819	117	2.80	5,819	117	2.80
E	N/A	498	100	10.00	498	100	10.00
F	50	31,365	1,567	2.50	31,365	1,567	2.50
G	N/A	8,113	406	2.50	8,113	406	2.50
			$3,105			$3,105	

(1) The cash dividend amounts represent annual dividend payments which are paid on a quarterly basis.

Under South Carolina law, Bancorporation is authorized to pay dividends such as are declared by its Board of Directors subject to certain legal and regulatory restrictions. Bancorporation's dividends may be restricted by the requirements of the unsecured line of credit described in Note 12, which requires that the Bank maintain a regulatory leverage capital ratio of 4.00%. The Bank and Exchange are subject to dividend limitations mandated by the South Carolina State Board of Financial Institutions. Merchants is subject to dividend limitations mandated by the Georgia Department of Banking and Finance. At December 31, 2008, the Bank's leverage capital ratio was 7.24%.

NOTE 14—EMPLOYEE BENEFITS

The Bank has a noncontributory defined benefit pension plan (the "Plan") which covers substantially all of its employees. On July 19, 2007, First Citizens' Board of Directors approved an amendment to the Plan to provide that any employee who is hired or rehired on or after September 1, 2007 will not be eligible to participate in the Plan. In addition, all current participants of the Plan were eligible to irrevocably opt out of accruing further benefits in the Plan in order to participate in an enhanced contributory savings plan discussed below. Participants who did not elect the enhanced contributory savings plan will continue to accrue benefits in the Plan and the existing contributory savings plan. Retirement benefits under the Plan are based on an employee's length of service and highest average annual compensation for five consecutive years during the last ten years of employment. Contributions to the Plan are based upon the projected unit credit actuarial funding method and are limited to the amounts that are currently deductible for tax reporting purposes. Employees must be employed by the Bank for at least one year to participate in the Plan. The employees fully vest in the Plan after five years of service. The Bank uses a December 31 measurement date for this Plan.

(Dollars in thousands)

The following table details the changes both in the actuarial present value of the projected pension benefit obligation and in the Plan's assets, presents the funded status of the Plan at each year end and identifies the related amounts recognized and unrecognized in Bancorporation's Consolidated Statements of Condition. The table also presents the weighted-average assumptions used to determine the benefit obligation at each year end.

	December 31,	
	2008	**2007**
Change in benefit obligation:		
Benefit obligation at beginning of year	$77,057	$74,244
Service cost	3,601	4,130
Interest cost	4,507	4,114
Actuarial gain/(loss)	1,359	(3,036)
Reduction in liability related to approved Plan amendment	(1,735)	—
Benefits paid	(2,505)	(2,395)
Benefit obligation at end of year	$82,284	$77,057

The accumulated benefit obligation was $69,074 and $63,900 at December 31, 2008 and 2007, respectively. These accumulated benefit obligations differ from the projected benefit obligations above in that they reflect no assumptions about future compensation levels.

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 82,369	$ 75,690
Actual return on plan assets	(13,671)	4,074
Employer contribution	5,000	5,000
Benefits paid	(2,505)	(2,395)
Fair value of plan assets at end of year	$ 71,193	$ 82,369
Funded status at end of year:	$(11,091)	$ 5,312
Accumulated other comprehensive income, excluding income taxes:		
Actuarial loss	$(37,267)	$(16,554)
Less prior service cost	1,561	—
Accumulated other comprehensive income, excluding income taxes	$(35,706)	$(16,554)
Weighted-average assumptions used to determine benefit obligations, end of year:		
Discount rate	6.00%	5.75%
Rate of future compensation increases	4.00%	4.00%

(Dollars in thousands)

Expected Cash Flows

Information regarding the expected cash flows for the Plan is as follows:

Employer Contributions	
2009 (expected)*	$ 5,000
Expected Benefit Payments	
2009	$ 2,601
2010	2,814
2011	2,899
2012	3,219
2013	3,489
2014—2018	24,006
Expected Amortization in 2009 (to be included in net periodic pension cost):	
Amortization of loss	$ 2,900
Amortization of prior service costs	(173)

* Bancorporation is not required to make a contribution in 2009.

The following table details the components of pension expense recognized in Bancorporation's Consolidated Statements of Income:

	For the Year Ended December 31,	
	2008	2007
Service costs	$ 3,600	$ 4,130
Interest costs	4,507	4,114
Expected return on plan assets	(6,897)	(6,279)
Recognized net actuarial loss	1,213	777
Amortization of prior service costs	(173)	—
Net pension expense	$ 2,250	$ 2,742

Bancorporation used the following weighted-average assumptions in determining the net pension expense for the years ended December 31, 2008 and 2007:

	2008	2007
Discount rate	5.75%	5.75%
Rate of future compensation increases	4.00%	4.00%
Expected long-term return on plan assets	8.00%	8.00%

The following table presents the percentage allocation of Plan assets by investment category at December 31, 2008 and 2007:

	2008	2007
Equity securities	35.2%	41.4%
Debt securities	41.8%	45.2%
Cash and equivalents	23.0%	13.4%
Total	100.00%	100.00%

(Dollars in thousands)

The investment policy for this Plan establishes guidelines for asset allocation whereby fixed income securities including cash and cash equivalents should comprise no less than 50% of Plan assets and whereby equity securities cannot exceed 50% of Plan assets. Equity securities include $1,254 and $1,900 of Cap Trust I's Capital Securities and $2,863 and $5,330 of Bancorporation's common stock as of December 31, 2008 and 2007, respectively.

Bancorporation's pension investment committee establishes investment policies and strategies and regularly monitors the performance of the funds. Bancorporation's investment strategy with respect to pension assets is to invest the assets in accordance with ERISA and fiduciary standards. The long-term primary objectives for the Plan are to provide for a reasonable amount of long-term growth of capital, without undue exposure to risk, and to provide investment results that meet or exceed the Plan's expected long-term rate of return.

The weighted average expected long-term rate of return on Plan assets represents the average rate of return expected to be earned on Plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, Bancorporation considers the actual historical and current returns on Plan assets. Using this reference information, Bancorporation develops forward-looking return expectations for the Plan.

Bancorporation has a contributory savings plan covering employees who elect to participate prior to September 1, 2007. Bancorporation matches 100% of the employees' contribution of up to 3% of compensation and 50% of the employees' contribution over 3% but not to exceed 6% of compensation. The matching funds contributed by Bancorporation are 100% vested immediately.

Matching contributions provided by Bancorporation were $4,412 and $2,513 for the years ended December 31, 2008, and 2007, respectively, and are included in salaries and employee benefits in the Consolidated Statements of Income.

On July 19, 2007, First Citizens' Board of Directors approved an enhanced contributory savings plan covering employees hired or rehired on or after September 1, 2007. Participants will receive benefits beginning January 1, 2008. Bancorporation matches 100% of the employees' contributions of up to 6% of compensation and will contribute a profit sharing contribution equal to 3% of a participant's compensation regardless of whether the participant is making contributions. The matching funds contributed by Bancorporation are 100% vested immediately.

NOTE 15—COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Financial instruments with off-balance sheet risk include commitments to extend credit, standby letters of credit and commitments on mortgage loans held for resale. Generally, Bancorporation charges a fee to the customer to extend these commitments as part of its normal banking activities. These fees are initially deferred and included in loans in the Consolidated Statements of Condition. Ultimately, such fees are recorded as an adjustment to yield over the life of the loan or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

A summary of the significant financial instruments with off-balance sheet risk follows:

	Contract Amount at December 31,	
	2008	**2007**
Commitments to extend credit	$1,283,599	$1,211,246
Letters of credit and financial guarantees	22,275	21,276
Total	$1,305,874	$1,232,522

Commitments to extend credit are agreements to lend to a borrower as long as there are no violations of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. Bancorporation evaluates each borrower's credit worthiness on a case-by-case basis using the same credit policies for on-balance sheet financial instruments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. The type of collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income producing property.

(Dollars in thousands)

Letters of credit and financial guarantees are conditional commitments issued by Bancorporation to guarantee the performance of a borrower to a third party. As of December 31, 2008, Bancorporation had issued $22,275 in such guarantees predominantly for terms of one year or less and represent the maximum exposure under such instruments. These guarantees are primarily issued to support public and private borrowing arrangements. The evaluations of credit worthiness, consideration of need for collateral, and credit risk involved in issuing letters of credit are essentially the same as that involved in extending loans to borrowers.

Most of Bancorporation's business activity is with customers located in South Carolina. A significant economic downturn in South Carolina could have a material adverse impact on the operations of Bancorporation. As of December 31, 2008, Bancorporation had no other significant concentrations of credit risk in the loan portfolio.

Bancorporation is a defendant in litigation arising out of normal banking activities. In the opinion of management and Bancorporation's counsel, the ultimate resolution of these matters will not have a material effect on Bancorporation's financial condition or results of operations.

NOTE 16—RELATED PARTY TRANSACTIONS

Bancorporation has, and expects to have in the future, transactions in the ordinary course of business with its directors, officers, principal stockholders and their associates on substantially the same terms (including interest rates and collateral on loans) as those prevailing for comparable transactions with others. However, subject to the completion of length of service requirements and credit approval, all employees are eligible to receive reduced interest rates on extensions of credit. The transactions do not involve more than the normal risk of collectibility.

Aggregate balances and activity related to extensions of credit to officers, directors and their associates were as follows:

	December 31, 2008
Balance at beginning of year	$3,299
New loans and additions	1,910
Payments and other deductions	(817)
Balance at end of year	$4,392

First-Citizens Bank & Trust Company, Raleigh, North Carolina ("FCBNC") is the wholly-owned subsidiary of First Citizens BancShares, Inc. ("BancShares"). Bancorporation's Vice Chairman and one of its principal shareholders are directors and executive officers of BancShares and FCBNC. Bancorporation has a contract with FCBNC for the purpose of outsourcing data processing and other services to include item processing, deposits, loans, general ledger and statement rendering functions. Total expenses paid under this contract as well as reimbursements to FCBNC for services provided by Bancorporation's Vice Chairman were $19,819 and $18,795 for the years ended December 31, 2008 and 2007, respectively. Investment securities available-for-sale includes an investment in FCBNC with a carrying value of $33,343 and $34,129 at December 31, 2008 and 2007, respectively. Bancorporation also has a correspondent banking relationship with FCBNC, which also acts as an investment custodian. Fees paid for this service were minimal for the years ended December 31, 2008 and 2007.

(Dollars in thousands)

NOTE 17— FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The carrying amounts and estimated fair values of Bancorporation's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and federal funds sold	$ 350,763	$ 350,763	$ 425,298	$ 425,298
Investment securities	1,151,365	1,151,481	1,061,174	1,061,267
Loans	5,026,848	4,955,894	4,205,277	4,178,712
Interest receivable	29,095	29,095	28,307	28,307
Federal Home Loan Bank stock	16,185	16,185	10,938	10,938
Financial liabilities:				
Deposits	5,795,940	5,817,357	5,017,153	5,016,208
Securities sold under agreements to repurchase	342,463	342,463	313,926	313,926
Short-term borrowings	8,293	8,336	22,640	22,694
Interest payable	17,729	17,729	21,971	21,971
Long-term debt	296,527	221,806	191,518	194,728

SFAS No. 107, *Disclosure About Fair Value of Financial Instruments* ("SFAS No. 107") extends existing fair value disclosure practices for some instruments by requiring entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the Consolidated Statements of Condition.

Following is a description of the methods and assumptions used to estimate the fair value of each class of Bancorporation's financial instruments:

Short-term financial instruments:

Short-term financial instruments are valued at their carrying amounts reported in the Consolidated Statements of Condition, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents, short-term investments, interest receivable and interest payable.

Investment securities:

Fair value is based upon quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans:

For mortgage loans held for resale, fair value is estimated using the quoted market prices for securities backed by similar loans. The fair value of loans is estimated by discounting the expected future cash flows using Bancorporation's current interest rates at which loans would be made to borrowers with similar credit risk.

Federal Home Loan Bank stock:

The fair value for FHLB stock approximates carrying value, based on the redemptive provisions of the Federal Home Loan Bank.

Deposits:

Deposits with no defined maturity such as demand deposits, NOW, Money Market accounts and savings accounts have a fair value equal to the amount payable on demand at the reporting date, i.e., their carrying amounts. Fair values for certificates of deposit are estimated using a discounted cash flow that applies current interest rates to a schedule of aggregated expected maturities.

Securities sold under agreements to repurchase:

Securities sold under agreements to repurchase are valued at their carrying amounts reported in the Consolidated Statements of Condition, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

Short-term borrowings:

Short-term borrowings are based on discounted cash flows using the current market rate.

Long-term debt:

Rates currently available to Bancorporation for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to extend credit and standby letters of credit:

The fair values of commitments to extend credit and standby letters of credit are generally based upon fees charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The estimated fair value of Bancorporation's commitments to extend credit and standby letters of credit is nominal.

Under SFAS No. 157, Bancorporation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair values. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques included use of discounted cash flow models and similar techniques.

Among Bancorporation's assets and liabilities, investment securities available for sale are reported at their fair values on a recurring basis Bancorporation reports no liabilities at their fair values on a recurring basis in accordance with SFAS No. 157.

(Dollars in thousands)

For assets carried at fair value, the following table provides fair value information as of December 31, 2008:

	Fair Value at December 31, 2008	Fair value measurements at December 31, 2008: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value				
Investment securities available-for-sale	$1,141,701	$1,029,161	$112,540	$—

Fair value measurement of investment securities available-for-sale is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing modes or other model-based valuation techniques such as present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities included those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in an active over-the-counter markets and money market funds. Level 2 securities included mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Some assets and liabilities are carried at fair value on a nonrecurring basis. Loans held for sale are carried at the lower of aggregate cost or fair value and are therefore carried at fair value only when fair value is less than the asset cost. Certain impaired loans and mortgage servicing rights are also carried at fair value. Bancorporation reports no liabilities at their fair values on a nonrecurring basis in accordance with SFAS No. 157. For assets carried at fair value on a nonrecurring basis, the following table provides fair value information as of December 31, 2008:

	Fair Value at December 31, 2008	Fair value measurements at December 31, 2008 using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage loans held for resale	$19,200	$—	$19,200	$ —
Impaired loans	26,042	—	—	26,042
Mortgage servicing rights	8,112	—	—	8,112

The values of mortgage loans held for resale are based on prices observed for similar pools of loans, appraisals provide by third parties and prices determined based on terms of investor purchase commitments.

Bancorporation does not record loans at fair value on a recurring basis. However, from time to time a loan is considered impaired and a specific reserve is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS No. 114. The fair value of impaired loans is estimated using either the collateral value or by the discounted present value of the expected cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2008, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, Bancorporation records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, Bancorporation records the impaired loan as nonrecurring Level 3.

The fair values of MSRs are determined by using models which depend on estimates of prepayment rates, the weighted average lives, and the weighted average coupon rate of the MSRs. See Note 8 on page 20 for more information on MSRs.

NOTE 18—CAPITAL MATTERS

Bancorporation and its banking subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Bancorporation and its banking subsidiaries' consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bancorporation and its banking subsidiaries must meet specific capital guidelines that involve quantitative measures of Bancorporation and its banking subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Bancorporation and its banking subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Bancorporation and its banking subsidiaries to maintain minimum amounts and ratios of Total and Tier I capital to risk weighted assets, and of Tier I capital to average assets (leverage ratio). Management believes, as of December 31, 2008, that Bancorporation and its banking subsidiaries meet all capital adequacy requirements to which it is subject.

(Dollars in thousands)

To be categorized as "well-capitalized", Bancorporation and its banking subsidiaries must maintain minimum Total risk-based and Tier I risk-based ratios as set forth in the table below. As seen below, Bancorporation and its banking subsidiaries are considered to be "well-capitalized" institutions per regulatory definitions. There are no conditions or events subsequent to December 31, 2008 that management believes would change the capital amounts and ratios presented below for Bancorporation, Bank and Exchange.

	Actual		Required For Capital Adequacy Purposes		Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
	As of December 31, 2008					
Total capital to risk weighted assets:						
Bancorporation	$585,124	12.19%	$384,038	8.00%	$480,048	10.00%
Bank	522,666	11.34	368,831	8.00	461,038	10.00
Exchange	20,502	27.60	5,944	8.00	7,430	10.00
Merchant and Farmers	22,314	19.99	8,930	8.00	11,162	10.00
Tier I capital to risk weighted assets:						
Bancorporation	430,377	8.97	192,019	4.00	288,029	6.00
Bank	459,670	9.97	184,415	4.00	276,623	6.00
Exchange	19,572	26.34	2,972	4.00	4,458	6.00
Merchant and Farmers	20,930	18.75	4,465	4.00	6,697	6.00
Tier I capital to average assets:						
Bancorporation	430,377	6.47	265,989	4.00	332,487	5.00
Bank	459,670	7.24	253,849	4.00	317,311	5.00
Exchange	19,572	16.78	4,665	4.00	5,832	5.00
Merchant and Farmers	20,930	13.40	6,249	4.00	7,812	5.00
	As of December 31, 2007					
Total capital to risk weighted assets:						
Bancorporation	$572,160	13.79%	$331,860	8.00%	$414,825	10.00%
Bank	526,803	12.93	325,901	8.00	407,376	10.00
Exchange	20,070	28.75	5,585	8.00	6,981	10.00
Tier I capital to risk weighted assets:						
Bancorporation	439,197	10.59	165,930	4.00	248,895	6.00
Bank	468,926	11.51	162,950	4.00	244,426	6.00
Exchange	19,196	27.50	2,793	4.00	4,189	6.00
Tier I capital to average assets:						
Bancorporation	439,197	7.45	235,866	4.00	294,832	5.00
Bank	468,926	8.16	230,002	4.00	287,502	5.00
Exchange	19,196	17.36	4,422	4.00	5,528	5.00

NOTE 19—SUBSEQUENT EVENTS

On January 22, 2009, Bancorporation's Board of Directors declared a $.35 dividend on voting common stock to shareholders of record on February 13, 2009, payable February 27, 2009.

(Dollars in thousands)

NOTE 20—BANCORPORATION (PARENT COMPANY INFORMATION ONLY)

Bancorporation's principal asset is its investments in its wholly-owned subsidiaries, the Bank and Exchange, and its principal source of income is dividends from the Banks. As discussed in Note 13 on page 25, the Bank, Exchange and Merchants have dividend limitations regulated by the applicable state regulatory agencies.

Bancorporation's condensed Statements of Condition and the related condensed Statements of Income and of Cash Flows are as follows:

STATEMENTS OF CONDITION

	As of December 31, 2008	As of December 31, 2007
Assets:		
Cash	$ 4,870	$ 10,431
Investments in subsidiaries	673,340	618,170
Other assets	46,337	53,909
Total assets	$724,547	$682,510
Liabilities and stockholders' equity:		
Long-term debt	$193,454	$178,353
Other liabilities	14,468	17,186
Stockholders' equity	516,625	486,971
Total liabilities and stockholders' equity	$724,547	$682,510

STATEMENTS OF INCOME

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Income:		
Dividends received from banking subsidiaries	$26,850	$17,400
Other	783	942
	27,633	18,342
Expenses:		
Interest	13,047	13,547
Other	629	757
	13,676	14,304
Income before equity in undistributed earnings of subsidiaries and income taxes	13,957	4,038
Equity in undistributed earnings of the subsidiaries and associated companies	26,138	44,930
Income before income taxes	40,095	48,968
Applicable income tax benefit	(4,559)	(4,851)
Net income	$44,654	$53,819

(Dollars in thousands)

STATEMENTS OF CASH FLOWS

	2008	2007
Cash flows from operating activities:		
Net income	$ 44,654	$ 53,819
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of the subsidiaries and associated companies	(26,138)	(44,930)
Accretion of discount on investment securities	(23)	(90)
Gain on sale of investment securities	(85)	—
Increase in other assets	(1,141)	(1,420)
Decrease in other liabilities	(358)	(463)
Net cash provided by operating activities	16,909	6,916
Cash flows from investing activities:		
Purchases of available-for-sale securities	—	(1,198)
Proceeds on calls and sales of available-for-sale securities	2,112	—
Investments in subsidiaries	(37,122)	—
Net cash used in investing activities	(35,010)	(1,198)
Cash flows from financing activities:		
Increase (decrease) in long-term debt, net	15,000	(954)
Acquisition of common and preferred stock	(1,205)	(962)
Cash dividends paid	(1,355)	(1,359)
Other, net	100	—
Net cash provided (used) in financing activities	12,540	(3,275)
Net (decrease) increase in cash	(5,561)	2,443
Cash at beginning of year	10,431	7,988
Cash at end of year	$ 4,870	$ 10,431
Supplemental disclosure of cash flows information:		
Interest paid	$ 12,901	$ 13,328

FIRST CITIZENS BANCORPORATION, INC. BOARD OF DIRECTORS

(Directors of First Citizens Bank and Trust Company, Inc. are identical to those of First Citizens Bancorporation, Inc.)

Carmen H. Ames
Raleigh, NC

Jim B. Apple[1]
Chairman of the Board, Chief Executive Officer and President
First Citizens Bancorporation, Inc.
Chairman of the Board and Chief Executive Officer
First Citizens Bank and Trust Company, Inc., Columbia

Peter M. Bristow[1]
Executive Vice President and Chief Operating Officer
First Citizens Bancorporation, Inc.
President and Chief Operating Officer
First Citizens Bank and Trust Company, Inc., Columbia

David E. Dukes[3]
Attorney and Managing Partner
Nelson Mullins Riley & Scarborough, L.L.P., Columbia

J. Earle Furman, Jr.
Managing Member
NAI Earle Furman LLC, Greenville

M. Craig Garner, Jr.[2]
Attorney
McNair Law Firm, P.A., Columbia

Robert B. Haynes
Chairman of the Board, Vice President and Secretary
C. W. Haynes and Company, Inc., Columbia

Wycliffe E. Haynes[1,3]
Vice President and Treasurer
C. W. Haynes and Company, Inc., Columbia

Lewis M. Henderson[1,2]
Henderson and Associates, CPAs, Columbia

Frank B. Holding[1]
Vice Chairman
First Citizens Bancorporation, Inc.
First Citizens Bank and Trust Company, Inc., Columbia
Executive Vice Chairman
First-Citizens Bank & Trust Company, Raleigh, NC
First Citizens The Bank, Inc., Raleigh, NC

Allen H. McIntyre
Consultant

Charles S. McLaurin, III[1]
Vice Chairman
The Exchange Bank of South Carolina, Inc., Kingstree

Kevin B. Marsh [2,3]
President
South Carolina Electric & Gas Company, Columbia

E. Perry Palmer
President
E. P. Palmer Corporation
Palmer Memorial Chapel, Columbia

John H. Terrell, III
Chief Executive Officer and President
Merchants and Farmers Bank of Comer, Georgia

[1] Member of the Executive Committee, First Citizens Bancorporation and First Citizens Bank
[2] Member of the Audit Committee, First Citizens Bancorporation and First Citizens Bank
[3] Member of the Compensation Committee, First Citizens Bank

FIRST CITIZENS BANCORPORATION EXECUTIVE OFFICERS

Jim B. Apple
Chairman/Chief Executive Officer/President

Frank B. Holding
Vice Chairman

Peter M. Bristow
Executive Vice President/Chief Operating Officer

Craig L. Nix
Executive Vice President/Chief Financial Officer/Treasurer

Melissa A. Mendenall
Corporate Secretary

Jay D. Weir
Executive Vice President/General Auditor

Press releases and quarterly earnings information are located on the First Citizens Bank and Trust Company, Inc. website at *www.firstcitizensonline.com/.* If you are a shareholder and do not have access to the internet and would like for us to mail copies of press releases and quarterly earnings information to you, please contact our corporate secretary, Melissa A. Mendenall, by telephone at (803) 931-1320, by mail at 1230 Main Street, Columbia, South Carolina 29201, or by e-mail at *corpsecretary@firstcitizensonline.com* also file detailed quarterly call reports with our primary regulators that are available on the internet. Reports for the Company are available at *www.ffiec.gov/.* Reports for the Banks are available at *www.fdic.gov/.*

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