

**First
Citizens
Bancorporation, Inc.**

2007

**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 24, 2008, 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 3, 2008, 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., W. E. Hancock III,
R. B. Haynes, W. E. Haynes, L. M. Henderson, F. B. Holding, K. B. Marsh, A. H. McIntyre,
C. S. McLaurin III, and E. P. Palmer.

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, Charles D. Cook, by telephone at (803) 931-1036, by mail at 1230 Main Street, Columbia, South Carolina 29201, or by e-mail at charles.cook@firstcitizensonline.com.

By Order of the Board of Directors



Charles D. Cook
Corporate Secretary

**First
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Bancorporation, Inc.**

2007

Annual Report to Shareholders

To Our Shareholders:

First Citizens achieved earnings growth in 2007. This year marked the fourteenth year out of the past sixteen years of record earnings. While 2008 will be a challenging year given unpredictable market conditions, we believe that our business model positions us for continued growth and profitability.

As our bank grows, our relationship with our shareholders remains of great importance. We hope that you will be able to attend our Annual Meeting of Shareholders on April 24, 2008. Attached to this letter is a notice regarding our 2008 Annual Meeting and a copy of the 2007 Audited Consolidated Financial Statements. Details about the meeting are more fully described in the notice.

I would like to highlight a few of our key accomplishments.

- Net income for 2007 was \$53.82 million compared to \$51.21 million in 2006.
- We successfully unveiled our new corporate core values—Service, Accountability, and Common Sense. These were communicated to our associates and are at the heart of everything we do.
- First Citizens Securities Corporation, our broker-dealer subsidiary which was launched in the fourth quarter of 2006, contributed to our success in 2007 and provided improved investment and wealth management solutions to our customers.
- Our Mortgage Division increased production in what was a challenging environment for much of the year.
- We designed and rolled out a new corporate internet site with added features such as a search function, branch locator, and calculators to aid in financial planning.
- We launched the Visa PayWave Card which provides our customers with the speed of secure non-signature credit card transactions. First Citizens was the thirteenth company in the United States and the first South Carolina-based bank to present this option to its credit card customers.
- In the fourth quarter of 2007, First Citizens acquired a branch in Inman, South Carolina with \$13.03 million in deposits and \$3.10 million in loans.

Together, with our leadership team, dedicated associates and you, our valued shareholders, we will strive to continue to deliver solid financial results and to serve our customers and communities. Thank you for your ongoing support of First Citizens and I look forward to seeing you at the shareholder's meeting.

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, 2007 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, 2007. 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, 2007, 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, 2007.

March 10, 2008

/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, 2007 and 2006, 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, 2007 and 2006 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.

Dixon Hughes PLLC

Charlotte, North Carolina
March 10, 2008

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

	<u>As of December 31,</u>	
	<u>2007</u>	<u>2006</u>
	(dollars in thousands, except per share data)	
ASSETS		
Cash and due from banks	\$ 206,571	\$ 214,343
Federal funds sold	218,727	292,000
Investment securities:		
Held-to-maturity, at amortized cost (fair value of \$10,094 in 2007 and \$10,492 in 2006)	10,001	10,484
Available-for-sale, at fair value	1,051,173	1,079,344
Total investment securities	<u>1,061,174</u>	<u>1,089,828</u>
Loans and leases, net	4,205,277	3,839,990
Less: Allowance for loan losses	(52,748)	(49,427)
Net loans and leases	<u>4,152,529</u>	<u>3,790,563</u>
Premises and equipment, net	215,086	211,228
Interest receivable	28,307	26,116
Intangible assets	27,989	33,554
Goodwill	112,444	112,444
Other assets	56,401	55,832
Total assets	<u>\$6,079,228</u>	<u>\$5,825,908</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	\$ 829,364	\$ 854,221
Time and savings	4,187,789	3,975,960
Total deposits	5,017,153	4,830,181
Securities sold under agreements to repurchase	313,926	301,396
Short-term borrowings	22,640	3,256
Long-term debt	191,518	217,578
Other liabilities	47,020	44,576
Total liabilities	<u>5,592,257</u>	<u>5,396,987</u>
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; 33,875 and 34,409 issued and outstanding at December 31, 2007 and at December 31, 2006, respectively.	169	172
Voting common stock—\$5.00 par value, authorized 2,000,000; 817,424 and 818,449 issued and outstanding at December 31, 2007 and December 31, 2006, respectively.	4,087	4,092
Surplus	65,081	65,081
Undivided profits	397,289	345,039
Accumulated other comprehensive income, net of deferred taxes of \$9,282 at December 31, 2007 and \$6,155 at December 31, 2006	17,240	11,432
Total stockholders' equity	<u>486,971</u>	<u>428,921</u>
Total liabilities and stockholders' equity	<u>\$6,079,228</u>	<u>\$5,825,908</u>

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,	
	2007	2006
	(dollars in thousands, except per share data)	
INTEREST INCOME:		
Interest and fees on loans	\$301,392	\$271,523
Interest on investment securities:		
Taxable	50,176	41,489
Non-taxable	182	281
Federal funds sold	17,739	10,938
Total interest income	<u>369,489</u>	<u>324,231</u>
INTEREST EXPENSE:		
Interest on deposits	130,435	99,142
Interest on securities sold under agreements to repurchase	13,728	13,486
Interest on borrowings	15,909	15,008
Total interest expense	<u>160,072</u>	<u>127,636</u>
Net interest income	209,417	196,595
Provision for loan losses	9,381	5,571
Net interest income after provision for loan losses	<u>200,036</u>	<u>191,024</u>
NONINTEREST INCOME:		
Service charges on deposits	39,176	36,878
Commissions and fees from fiduciary activities	7,581	4,086
Mortgage income	7,732	5,540
Bankcard discount and fees	8,634	7,815
(Loss) gain on sale of investment securities	(1,153)	250
Other	8,265	7,294
Total noninterest income	<u>70,235</u>	<u>61,863</u>
NONINTEREST EXPENSE:		
Salaries and employee benefits	94,045	85,493
Data processing fees	16,581	15,298
Net occupancy expense	14,928	14,651
Furniture and equipment expense	11,312	10,915
Bankcard processing fees	10,629	8,985
Amortization expense	7,292	7,843
Other	30,996	29,368
Total noninterest expense	<u>185,783</u>	<u>172,553</u>
Income before income tax expense	84,488	80,334
Income tax expense	30,669	29,121
Net income	<u>\$ 53,819</u>	<u>\$ 51,213</u>
Net income per common share	<u>\$ 62.96</u>	<u>\$ 59.56</u>
Weighted average common shares outstanding	<u>852,149</u>	<u>857,019</u>

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, 2005	898,914	\$3,111	\$182	\$4,313	\$65,081	\$328,350	\$16,338	\$417,375
Comprehensive income:								
Net income						51,213		51,213
Change in net unrealized gain on investment securities available-for-sale, net of taxes of \$3,802							7,062	7,062
Reclassification adjustment for gains on securities available-for-sale included in net income, net of taxes of \$87							(163)	(163)
Total comprehensive income								58,112
Adjustment to initially apply SFAS No. 158, net of taxes of \$6,357							(11,805)	(11,805)
Reacquired preferred stock		(6)				1		(5)
Reacquired voting common stock	(46,056)		(10)	(221)		(33,161)		(33,392)
Common stock dividends (\$1.40 per share)						(1,198)		(1,198)
Preferred stock dividends						(166)		(166)
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
Unrealized gain on investment securities:								
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
Defined benefit pension plan:								
Net gain during the period, net of tax benefit of \$291							540	
Amortization of loss included in net pension expense, net of tax benefit of \$272							505	1,045
Total comprehensive income								59,627
Adjustment to initially apply FASB Interpretation No. 48						744		744
Reacquired preferred stock*								—
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

* Reacquired preferred stock is less than \$1.

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,	
	2007	2006
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 53,819	\$ 51,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,381	5,571
Depreciation and amortization	26,223	25,169
Net accretion of premiums and discounts on investment securities	(3,541)	(1,703)
Accretion of discount on long-term debt	101	101
Deferred income tax benefit	(1,244)	(1,882)
Gain on sales of premises and equipment	(385)	(114)
Increase in interest receivable	(2,178)	(3,692)
Increase in interest payable	333	7,622
Origination of mortgage loans held-for-sale, net of principal collected	(468,103)	(328,217)
Proceeds from sales of mortgage loans held-for-sale	475,296	308,977
Gain on sale of mortgage loans held-for-sale	(5,235)	(3,189)
Loss (gain) on sale of investment securities	1,153	(250)
Increase in other assets	(1,553)	(4,450)
Increase in other liabilities	2,853	3,078
Net cash provided by operating activities	86,920	58,234
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans and leases	(374,102)	(196,288)
Calls, maturities and prepayments of investment securities held-to-maturity	7,063	4,620
Purchases of investment securities held-to-maturity	(6,250)	(2,752)
Proceeds from maturities and calls of investment securities available-for-sale	828,503	363,093
Proceeds from sales of investment securities available-for-sale	59,845	1,417
Purchases of investment securities available-for-sale	(850,792)	(417,300)
Proceeds from sales of premises and equipment	957	208
Purchases of premises and equipment	(21,244)	(29,996)
Decrease in other real estate owned	1,672	3,428
Net decrease in investment in Federal Home Loan Bank stock	637	259
Purchase of branches, net of cash acquired	8,377	22,500
Net cash used in investing activities	(345,334)	(250,811)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	173,937	314,460
Increase in short term borrowings and securities under agreements to repurchase	12,530	46,662
Repayment of Federal Home Loan Bank advances	(5,721)	(16,374)
Repayment of long-term debt	(1,056)	—
Dividends paid	(1,359)	(1,364)
Acquisition of common stock	(962)	(33,392)
Acquisition of preferred stock	—	(5)
Net cash provided by financing activities	177,369	309,987
Net (decrease) increase in cash and due from banks	(81,045)	117,410
Cash and cash equivalents due from banks at beginning of year	506,343	388,933
Cash and cash equivalents due from banks at end of year	<u>\$ 425,298</u>	<u>\$ 506,343</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 159,736</u>	<u>\$ 121,106</u>
Income taxes paid	<u>\$ 27,459</u>	<u>\$ 31,120</u>

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

FIRST CITIZENS BANCORPORATION, INC. AND SUBSIDIARIES (“Bancorporation”)
FIRST CITIZENS BANCORPORATION, INC. (“Parent”)
FIRST CITIZENS BANK AND TRUST COMPANY, INC. AND SUBSIDIARIES (“First Citizens”)
THE EXCHANGE BANK OF SOUTH CAROLINA, INC. (“Exchange”)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Nature of Operations:

First Citizens Bancorporation, Inc. is a two-bank financial holding company whose principal subsidiaries are First Citizens Bank and Trust Company, Inc. (“First Citizens” or “the Bank”) and The Exchange Bank of South Carolina, Inc. (“Exchange”). First Citizens and Exchange 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 158 offices in 103 communities in South Carolina and seven offices in six 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 provide 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 small businesses. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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 2007 or 2006. 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 2007 or 2006. 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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. 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 \$26,732 and \$33,692 as of December 31, 2007 and 2006, 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, net of commitment fees paid, are deferred and recognized in mortgage income at the time of sale of the mortgage loans. Gain or loss on sales 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, 2007 and 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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 \$1,189,211 and \$1,079,646 at December 31, 2007 and 2006, 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 expense. Net costs of maintaining and operating foreclosed properties are expensed as incurred. Other real estate owned was \$1,496 and \$1,571 as of December 31, 2007 and 2006, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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 the Company'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 five 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 February 2006, the FASB issued SFAS No. 155 ("SFAS No. 155"), *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 amends SFAS Nos. 133 and 140 relating to embedded derivatives and hybrid financial instruments, interest-only and principal-only strips, and the types of derivatives a qualifying special-purpose entity may hold. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The implementation of SFAS No. 155 did not have a material impact on Bancorporation's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156 ("SFAS No. 156"), *Accounting for Servicing of Financial Assets*. SFAS No. 156 amends SFAS No. 140, requiring that servicing rights be initially measured at fair value and permitting subsequent measurement using either the amortization method or the fair value method. SFAS No. 156 also contains

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

additional disclosure requirements and is effective for fiscal years beginning after September 15, 2006. In accordance with SFAS No. 156, the Company is initially measuring servicing rights under the amortization method. The implementation of SFAS No. 156 did not have a material impact on Bancorporation's financial position or results of operations.

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 20 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 is not expected to have a material impact on Bancorporation's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement Nos. 87, 88, 106 and 132(R)*. SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of condition, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, Bancorporation adopted the recognition and disclosure provisions of SFAS No. 158. The effect of adopting SFAS No. 158 on Bancorporation's financial position at December 31, 2006 has been included in the accompanying consolidated financial statements. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans will not affect Bancorporation as Bancorporation already uses a measurement date of December 31 for its pension plan. See Note 14 on page 24 for further discussion of the effect of adopting SFAS No. 158 on the consolidated financial statements.

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.

NOTE 2—ACQUISITIONS

On September 15, 2006, First Citizens acquired a branch from an unrelated financial institution. First Citizens acquired deposits of \$27,852, loans of \$2,830, and other intangible assets of \$1,754 related to this branch acquisition.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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, 2007, the required balance was \$71,462, compared to \$68,693 as of December 31, 2006. Of this amount, \$64,798 and \$62,298 was met by vault cash and \$6,664 and \$6,395 was met with deposits at the Federal Reserve at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, approximately \$10,125 in cash and due from bank balances was restricted as to use as compensating balances with other financial institutions.

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.

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
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	<u>\$ 10,001</u>	<u>\$ 99</u>	<u>\$ 6</u>	<u>\$ 10,094</u>
Held-to-maturity at December 31, 2006:				
U.S. government treasuries and agencies	\$ 9,252	\$ —	\$ 71	\$ 9,181
Obligations of states and political subdivisions	1,015	17	—	1,032
Other	217	63	1	279
Total	<u>\$ 10,484</u>	<u>\$ 80</u>	<u>\$ 72</u>	<u>\$ 10,492</u>
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	<u>\$1,008,096</u>	<u>\$44,482</u>	<u>\$1,405</u>	<u>\$1,051,173</u>
Available-for-sale at December 31, 2006:				
U.S. government treasuries and agencies	\$ 983,761	\$ 169	\$5,876	\$ 978,054
Obligations of states and political subdivisions	5,083	28	54	5,057
Equity securities	9,502	42,495	1	51,997
Other	45,249	270	1,282	44,236
Total	<u>\$1,043,595</u>	<u>\$42,962</u>	<u>\$7,213</u>	<u>\$1,079,344</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

The following table provides maturity information for investment securities at December 31, 2007 and 2006:

	2007		2006	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Investment securities held-to-maturity maturing in:				
One year or less	\$ 3,343	\$ 3,357	\$ 5,452	\$ 5,481
One through five years	6,524	6,601	4,862	4,840
Five to 10 years	125	127	160	160
Over 10 years	9	9	10	11
Total investment securities held-to-maturity	\$ 10,001	\$ 10,094	\$ 10,484	\$ 10,492
	2007		2006	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Investment securities available-for-sale maturing in:				
One year or less	\$ 316,080	\$ 317,667	\$ 409,364	\$ 407,504
One through five years	652,021	659,922	591,627	587,428
Five to 10 years	7,466	7,450	7,241	7,025
Over 10 years	21,830	21,497	25,861	25,390
Equity securities	10,699	44,637	9,502	51,997
Total investment securities available-for-sale	\$1,008,096	\$1,051,173	\$1,043,595	\$1,079,344

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

Securities with unrealized losses at December 31, 2006 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	\$557	\$268,271	\$5,390	\$499,553
Obligations of states and political subdivisions	— *	751	54	2,299
Equity securities	—	—	— *	—
Other	1	159	1,283	39,664
Total securities with unrealized losses	\$558	\$269,181	\$6,727	\$541,516

* - Gross unrealized loss is less than \$1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

At December 31, 2007, Bancorporation had 71 investments having a continuous unrealized loss position for more than 12 months. These temporary unrealized losses are due to market changes in interest rates and market changes in credit spreads and not credit quality. Bancorporation has both the intent and ability to hold these securities for the time necessary to recover its cost. Bancorporation has not recognized any other-than-temporary impairment in connection with these securities.

Proceeds from the sale of available-for-sale investments were \$59,845 and \$1,417 in 2007 and 2006, respectively. Gross realized gains were \$328 and \$343 in 2007 and 2006, respectively. Gross realized losses were \$1,481 and \$93 in 2007 and 2006, respectively.

Investment securities with an amortized cost of \$896,200 and \$888,520 at December 31, 2007 and 2006, 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,	
	2007	2006
Real estate—construction	\$ 534,526	\$ 232,923
Real estate—mortgage	1,822,092	1,821,600
Real estate—commercial	781,021	783,974
Commercial, financial and agricultural	358,717	318,563
Loans to individuals for household, family and other personal expenditures	546,467	550,478
Lease financing	63,269	45,170
Other loans	99,185	87,282
Total	<u>\$4,205,277</u>	<u>\$3,839,990</u>

NOTE 6—ALLOWANCE FOR LOAN LOSSES

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

	For the Year Ended December 31,	
	2007	2006
Balance at beginning of year	\$49,427	\$48,090
Loans charged off	(7,262)	(5,538)
Recoveries on loans previously charged off	1,202	1,304
Provision for loan losses	9,381	5,571
Balance at end of year	<u>\$52,748</u>	<u>\$49,427</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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 \$375 recorded on impaired loan balances of \$6,684 as of December 31, 2007 and specific reserves of \$1,502 recorded on impaired loan balances of \$4,723 as of December 31, 2006. Loans that were considered impaired under SFAS No. 114 at December 31, 2007 and 2006 held by Bancorporation are summarized below:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Nonaccrual loans at year end	\$10,221	\$8,367
Accruing loans past due 90 days or more at year end	6,175	5,331
Average investment in impaired loans for the year	8,115	9,996

At December 31, 2007 and 2006, 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.

NOTE 7—PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	<u>As of December 31,</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 72,708	\$ 66,983
Buildings and improvements	167,807	159,567
Furniture and equipment	61,775	61,536
Leasehold improvements	1,370	1,370
Construction in progress	8,023	6,914
Total	<u>311,683</u>	<u>296,370</u>
Less: Accumulated depreciation and amortization	<u>(96,597)</u>	<u>(85,142)</u>
Total premises and equipment	<u>\$215,086</u>	<u>\$211,228</u>

Provisions for depreciation included in noninterest expense were \$17,432 and \$15,983 for the years ended December 31, 2007 and 2006, 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 \$787 and \$627 for the years ended December 31, 2007 and 2006, respectively. Bancorporation recognized rental income of \$3,237 and \$2,076 for the years ended December 31, 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

At December 31, 2007, future minimum rental commitments under noncancellable operating leases that have a remaining life in excess of one year are summarized as follows:

2008	\$ 880
2009	670
2010	571
2011	519
2012	310
2013 and thereafter	<u>188</u>
Total minimum obligation	<u><u>\$3,138</u></u>

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, 2007 and 2006. 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 2007 and determined there was no impairment of goodwill. There were no changes in the carrying amount of goodwill of \$112,444 for the years ended December 31, 2007 and 2006.

The changes in the carrying amounts of core deposit and other intangibles and mortgage servicing rights for the years ended December 31, 2006 and 2007 were as follows:

	<u>Core Deposit and Other Intangibles</u>	<u>Mortgage Servicing Rights*</u>	<u>Total</u>
Balance at January 1, 2006	\$30,543	\$ 8,330	\$38,873
Amortization	(7,843)	(1,343)	(9,186)
Branch acquisition	1,754	—	1,754
Servicing rights originated	—	2,100	2,100
Reversal of valuation related to sale of servicing	—	13	13
Balance at December 31, 2006	<u>\$24,454</u>	<u>\$ 9,100</u>	<u>\$33,554</u>
Amortization	(7,292)	(1,499)	(8,791)
Branch acquisition	928	—	928
Servicing rights originated	—	2,298	2,298
Balance at December 31, 2007	<u><u>\$18,090</u></u>	<u><u>\$ 9,899</u></u>	<u><u>\$27,989</u></u>

* Valuation allowance for MSRs was \$308 and \$406 as of December 31, 2007 and 2006, respectively.

As of December 31, 2007 and 2006, the fair market values of MSRs were \$11,139 and \$10,479, respectively. Contractually specified mortgage servicing fees, late fees and ancillary fees earned for the year ended December 31, 2007 and 2006 were \$4,114 and \$3,809, respectively. These amounts are included in mortgage income in the Consolidated Statements of Income.

Amortization expense on core deposit intangibles was \$7,292 and \$7,843 for the years ended December 31, 2007 and 2006, respectively. The amortization expense related to mortgage servicing rights, included as a reduction of mortgage income in the Consolidated Statements of Income, was \$1,499 and \$1,343 for the years ended December 31, 2007 and 2006, respectively. During 2007 and 2006, amortization expense was reduced by a net recapture of mortgage servicing rights impairment of \$98 and \$58, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

Key economic assumptions used to value mortgage servicing rights as of December 31, 2007 were as follows:

Weighted-average remaining life	5.54 years
Weighted-average discount rate	9.15%
Weighted-average prepayment speed	13.29%
Weighted-average coupon	5.91%

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:

2008	7,074
2009	5,744
2010	3,956
2011	830
2012	342

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, 2007 and December 31, 2006, an investment in FHLB of \$10,938 and \$11,575 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		Interest Expense	
	December 31,		For the Year Ended	
	2007	2006	2007	2006
Demand	\$ 829,364	\$ 854,221	\$ —	\$ —
NOW accounts	1,218,361	1,288,833	20,854	19,350
Money market accounts	724,798	611,403	20,947	14,398
Savings	283,138	321,477	2,673	3,138
Time	1,961,492	1,754,247	85,961	62,256
Total	<u>\$5,017,153</u>	<u>\$4,830,181</u>	<u>\$130,435</u>	<u>\$99,142</u>

Time deposits with a minimum denomination of one hundred thousand dollars totaled \$485,348 and \$426,242 at December 31, 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

At December 31, 2007 the scheduled maturities of time deposits were:

2008	\$1,862,898
2009	71,064
2010	13,600
2011	9,761
2012	4,169
Thereafter	—
Total time deposits	<u>\$1,961,492</u>

NOTE 11—INCOME TAXES

Effective January 1, 2007, the Company 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, the Company recognized an adjustment of \$744 which was accounted for as an increase to the January 1, 2007 balance of retained earnings.

The components of consolidated income tax expense are as follows:

	For the Year Ended December 31,	
	2007	2006
Current:		
Federal	\$29,100	\$28,274
State	2,813	2,729
	<u>31,913</u>	<u>31,003</u>
Deferred—Federal	(1,244)	(1,882)
Total income tax expense	<u>\$30,669</u>	<u>\$29,121</u>

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,	
	2007	2006
Deferred tax assets:		
Allowance for loans losses	\$18,487	\$17,343
Employee benefits	2,758	2,737
Book depreciation over tax	2,885	1,248
Amortization—intangibles	8,615	8,601
Adjustment to apply SFAS No. 158	5,794	6,357
Other	4,495	2,536
Total deferred tax assets	<u>43,034</u>	<u>38,822</u>
Deferred tax liabilities:		
Pension costs	10,093	6,863
Mark-to-market of available-for-sale securities	15,077	12,512
Other	3,136	2,836
Total deferred tax liabilities	<u>28,306</u>	<u>22,211</u>
Net deferred tax asset	<u>\$14,728</u>	<u>\$16,611</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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,	
	2007	2006
Tax expense at statutory rate	\$29,571	\$28,116
Increase (decrease) in taxes resulting from:		
Non-taxable interest	(543)	(445)
State income taxes, net of federal income tax benefit	1,829	1,774
Other, net	(188)	(324)
Total income tax expense	<u>\$30,669</u>	<u>\$29,121</u>

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 \$11,250 and \$2,200, respectively, as of December 31, 2007 and December 31, 2006. 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 pledged to the FHLB for advances and letters of credit at December 31, 2007 were approximately \$392,595. 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, 2007, \$11,390 of subordinated notes payable is due within the next twelve months.

A \$25,000 committed unsecured revolving line of credit with an unrelated financial institution provides an interest rate indexed to the London Interbank Offered Rate (“LIBOR”) plus 70 basis points. This line of credit contains certain restrictive covenants including limits on indebtedness, encumbrances, dividends and minimum net worth. Bancorporation was in compliance with the covenants at December 31, 2007 and 2006, respectively. The line of credit had no outstanding balance as of December 31, 2007 and 2006. The line of credit was extended to December 15, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

Long-term debt

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

	<u>2007</u>	<u>2006</u>
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 (7.24% as of December 31, 2007), due June 15, 2034	51,547	51,547
	<u>103,094</u>	<u>103,094</u>
Subordinated notes payable:		
7.50% maturing April 1, 2008 (issued by First Citizens)	—	11,390
7.75% maturing August 20, 2009	873	873
7.75% maturing October 1, 2009	120	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	74,266	74,165
	<u>84,087</u>	<u>95,376</u>
Other debt:		
Federal Home Loan Bank advances	4,337	19,108
Total long-term debt	<u>\$191,518</u>	<u>\$217,578</u>

Principal amounts due for the next five years on long-term debt at December 31, 2007 are: 2008—none; 2009—\$1,893; 2010—\$4,208; 2011—none; and 2012—none.

At December 31, 2007, fixed rate FHLB advances had initial maturities from one to ten years. At December 31, 2007, advances totaling \$1,000 are subject to call provisions at the option of the FHLB with a call date of March 2008. 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, 2007, \$50,000 (par value \$50,000) 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, 2007, \$50,000 (par value \$50,000) 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

On April 5, 2005, Bancorporation completed the issuance and sale of an aggregate of \$75,000 principal amount of 6.80% Subordinated Notes. The notes are unsecured and subordinated in right of payment to all of Bancorporation's senior indebtedness, and call for payment in full at maturity on April 1, 2015, with interest payable semi-annually (at an annual rate of 6.80%) on April 1 and October 1 each year, beginning October 1, 2005.

NOTE 13—STOCKHOLDERS' EQUITY

On January 12, 2006, the shareholders of Bancorporation approved, and Bancorporation consummated, a plan of reorganization enabling Bancorporation to terminate its reporting obligations with the Securities and Exchange Commission (the "SEC"). The plan reduced the number of record holders of Bancorporation's voting common stock below the threshold required for SEC deregistration through Bancorporation's purchase of the shares of voting common stock held by shareholders owning 170 or fewer shares. Bancorporation purchased a total of 42,956 shares of voting common stock at a purchase price of \$735.00 per share, or an aggregate of \$31,573. Bancorporation funded the purchase out of available cash.

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, 2007 and 2006 follows:

Series	Par Value	2007			2006		
		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	5,829	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
			<u>\$3,105</u>			<u>\$3,105</u>	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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. At December 31, 2007, the Bank's leverage capital ratio was 8.16%.

NOTE 14—EMPLOYEE BENEFITS

The Bank has a noncontributory defined benefit pension plan (the "Plan") which covers substantially all of its employees. 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.

Adoption of SFAS No. 158

On December 31, 2006, Bancorporation adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required Bancorporation to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2007 Statement of Condition, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining prior to the adoption of SFAS No. 158, all of which were previously netted against the Plan's funded status in Bancorporation's Statement of Condition pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to Bancorporation's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

The incremental effects of adopting the provisions of SFAS No. 158 on Bancorporation's Statement of Condition at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no effect on Bancorporation's Consolidated Statement of Income for the year ended December 31, 2006, or for any prior period presented, and it will not affect Bancorporation's operating results in future periods. The effect of recognizing the additional minimum liability is included in the table below in the column labeled "Prior to Adopting FASB 158".

	<u>At December 31, 2006</u>		
	<u>Prior to Adopting FASB 158</u>	<u>Effect of Adopting FASB 158</u>	<u>As Reported at December 31, 2006</u>
Other assets (pension)	\$19,608	\$(18,162)	\$ 1,446
Deferred income taxes	22,968	6,357	16,611
Accumulated other comprehensive income	23,237	(11,805)	11,432

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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.

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$74,244	\$71,638
Service cost	4,130	4,162
Interest cost	4,114	3,866
Actuarial gain	(3,036)	(3,114)
Benefits paid	(2,395)	(2,308)
Benefit obligation at end of year	<u>\$77,057</u>	<u>\$74,244</u>

The accumulated benefit obligation was \$63,900 and \$63,136 at December 31, 2007 and 2006, respectively. These accumulated benefit obligations differ from the projected benefit obligations above in that they reflect no assumptions about future compensation levels.

	<u>For the Year Ended December 31, 2007</u>	<u>For the Year Ended December 31, 2006</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 75,690	\$ 65,683
Actual return on plan assets	4,074	5,215
Employer contribution	5,000	7,100
Benefits paid	(2,395)	(2,308)
Fair value of plan assets at end of year	<u>\$ 82,369</u>	<u>\$ 75,690</u>
Funded status at end of year (included in other assets):	<u>\$ 5,312</u>	<u>\$ 1,446</u>
Accumulated other comprehensive income, excluding income taxes:		
Net loss	\$(16,554)	\$(18,162)
Less prior service cost	—	—
Accumulated other comprehensive income, excluding income taxes	<u>\$(16,554)</u>	<u>\$(18,162)</u>
Weighted-average assumptions used to determine benefit obligations, end of year:		
Discount rate	5.50%	5.75%
Rate of future compensation increases	4.00%	4.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

Expected Cash Flows

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

Employer Contributions	
2008 (expected)	\$ 5,000
Expected Benefit Payments	
2008	\$ 2,417
2009	2,537
2010	2,667
2011	2,798
2012	2,939
2013—2017	16,989

Expected Amortizations in 2008 (to be included in net periodic pension cost):

Amortization of Loss	\$ 760
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The following table details the components of pension expense recognized in Bancorporation's Consolidated Statements of Income:

	For the Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Service costs	\$ 4,130	\$ 4,162
Interest costs	4,114	3,866
Expected return on plan assets	(6,279)	(5,559)
Recognized net actuarial loss	<u>777</u>	<u>1,374</u>
Net pension expense	<u>\$ 2,742</u>	<u>\$ 3,843</u>

Bancorporation used the following weighted-average assumptions in determining the net pension expense for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Discount rate	5.75%	5.50%
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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equity securities	41.4%	41.4%
Debt securities	45.2%	51.1%
Cash and equivalents	13.4%	7.5%
Total	<u>100.00%</u>	<u>100.00%</u>

The investment policy for this Plan establishes an asset allocation whereby fixed income securities including cash and cash equivalents must comprise no less than 50% of Plan assets and whereby equity securities cannot exceed 50% of Plan assets. Equity securities include \$1,900 and \$2,005 of Cap Trust I's Capital Securities and \$5,330 and \$5,629 of Bancorporation's common stock as of December 31, 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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.

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.

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 immediately 100% vested. Matching contributions provided by Bancorporation were \$2,513 and \$2,276 for the years ended December 31, 2007, and 2006, 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 and 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 immediately 100% vested.

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,	
	2007	2006
Commitments to extend credit	\$1,211,246	\$1,158,284
Letters of credit and financial guarantees	21,276	19,947
Total	<u>\$1,232,522</u>	<u>\$1,178,231</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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.

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, 2007, Bancorporation had issued \$21,276 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, 2007, 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:

	<u>December 31,</u> <u>2007</u>
Balance at beginning of year	\$2,798
New loans and additions	1,349
Payments and other deductions	<u>(848)</u>
Balance at end of year	<u>\$3,299</u>

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 \$18,795 and \$17,088 for the years ended December 31, 2007 and 2006, respectively. Investment securities available-for-sale includes an investment in FCBNC with a carrying value of \$34,129 and \$43,372 at December 31, 2007 and 2006, 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, 2007 and 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

NOTE 17—DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

For Bancorporation, approximately 95% of its assets and liabilities are considered financial instruments, as defined in SFAS No. 107. Many of Bancorporation’s financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. It is not the intent of Bancorporation to liquidate and therefore realize the difference between market value and carrying value and, even if it were, there is no assurance that the estimated market values could be realized. Therefore, significant estimates and present value calculations were used by Bancorporation for the purposes of this disclosure. Such estimates involve judgment as to economic conditions, risk characteristics and future expected loss experience of various financial instruments and other factors that cannot be determined with precision. Thus, the information presented is not particularly relevant to predicting Bancorporation’s future earnings or cash flow.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

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.

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and federal funds sold	\$ 425,298	\$ 425,298	\$ 506,343	\$ 506,343
Investment securities	1,061,174	1,061,267	1,089,828	1,089,836
Loans	4,205,277	4,178,712	3,839,990	3,782,051
Interest receivable	28,307	28,307	26,116	26,116
Federal Home Loan Bank stock	10,938	10,938	11,575	11,575
Financial liabilities:				
Deposits	5,017,153	5,016,208	4,830,181	4,829,428
Securities sold under agreements to repurchase	313,926	313,926	301,396	301,396
Short-term borrowings	22,640	22,694	3,256	3,231
Interest payable	21,971	21,971	21,636	21,636
Long-term debt	191,518	194,728	217,578	221,603

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, 2007, that Bancorporation and its banking subsidiaries meet all capital adequacy requirements to which it is subject.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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, 2007 that management believes would change the capital amounts and ratios presented below for Bancorporation, Bank and Exchange.

	<u>Actual</u>		<u>Required For Capital Adequacy Purposes</u>		<u>Required To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio (%)</u>	<u>Amount</u>	<u>Ratio (%)</u>	<u>Amount</u>	<u>Ratio (%)</u>
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
As of December 31, 2006						
Total capital to risk weighted assets:						
Bancorporation	\$510,954	13.72%	\$297,858	8.00%	\$372,322	10.00%
Bank	474,160	12.98	292,177	8.00	365,221	10.00
Exchange	19,200	29.06	5,285	8.00	6,606	10.00
Tier I capital to risk weighted assets:						
Bancorporation	380,590	10.22	148,929	4.00	223,393	6.00
Bank	418,613	11.46	146,089	4.00	219,133	6.00
Exchange	18,371	27.81	2,642	4.00	3,964	6.00
Tier I capital to average assets:						
Bancorporation	380,590	6.80	223,941	4.00	279,926	5.00
Bank	418,613	7.67	218,251	4.00	272,814	5.00
Exchange	18,371	17.00	4,322	4.00	5,403	5.00

NOTE 19—SUBSEQUENT EVENTS

On January 24, 2008, Bancorporation’s Board of Directors declared a \$.35 dividend on voting common stock to shareholders of record on February 15, 2008, payable February 25, 2008.

On March 5, 2008, Bancorporation announced that it had signed a definitive agreement to acquire Merchants and Farmers Bank of Comer, Georgia (“MFB”). Bancorporation will acquire 9,600 shares of outstanding common stock of MFB for a total purchase price of \$36,750. The acquisition is subject to receipt of required regulatory approvals and other customary closing conditions. The acquisition is expected to be completed during the second quarter of 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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 23, the Bank and Exchange 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,	
	2007	2006
Assets:		
Cash	\$ 10,431	\$ 7,988
Investments in subsidiaries	618,170	561,736
Other assets	53,909	59,964
Total assets	<u>\$682,510</u>	<u>\$629,688</u>
Liabilities and stockholders' equity:		
Long-term debt	\$178,353	\$179,308
Other liabilities	17,186	21,459
Stockholders' equity	486,971	428,921
Total liabilities and stockholders' equity	<u>\$682,510</u>	<u>\$629,688</u>

STATEMENTS OF INCOME

	For the Year Ended	
	December 31,	
	2007	2006
Income:		
Dividends received from banking subsidiaries	\$17,400	\$33,093
Other	942	1,399
	<u>18,342</u>	<u>34,492</u>
Expenses:		
Interest	13,547	12,290
Other	757	708
	<u>14,304</u>	<u>12,998</u>
Income before equity in undistributed earnings of subsidiaries and income taxes	4,038	21,494
Equity in undistributed earnings of the subsidiaries and associated companies	44,930	25,514
Income before income taxes	48,968	47,008
Applicable income tax benefit	(4,851)	(4,205)
Net income	<u>\$53,819</u>	<u>\$51,213</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands)

STATEMENTS OF CASH FLOWS

	2007	2006
Cash flows from operating activities:		
Net income	\$ 53,819	\$ 51,213
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of the subsidiaries and associated companies	(44,930)	(25,514)
Accretion of discount on investment securities	(90)	(90)
Increase in other assets	(1,420)	(1,447)
(Decrease) increase in other liabilities	(463)	2,629
Net cash provided by operating activities	6,916	26,791
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,198)	(138)
Sales of available-for-sale securities	—	32
Investments in subsidiaries	—	(1,093)
Net cash used in investing activities	(1,198)	(1,199)
Cash flows from financing activities:		
(Decrease) increase in long-term debt, net	(954)	101
Acquisition of common and preferred stock	(962)	(33,397)
Cash dividends paid	(1,359)	(1,364)
Net cash used in financing activities	(3,275)	(34,660)
Net increase (decrease) in cash	2,443	(9,068)
Cash at beginning of year	7,988	17,056
Cash at end of year	\$ 10,431	\$ 7,988
Supplemental disclosure of cash flows information:		
Interest paid	\$ 13,328	\$ 12,030

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. Apple¹
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. Bristow¹
Executive Vice President and Chief Operating Officer
First Citizens Bancorporation, Inc.
President and Chief Operating Officer
First Citizens Bank and Trust Company, Inc., Columbia

Walter C. Cottingham, DVM
Cottingham Veterinary Hospital, Kingstree

David E. Dukes³
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

William E. Hancock, III
President
Hancock Buick Company, 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. Holding¹
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 BancShares, Inc., Raleigh, NC

Allen H. McIntyre
Consultant

Charles S. McLaurin, III¹
Vice Chairman
The Exchange Bank of South Carolina, Inc., Kingstree

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

Kevin B. Marsh^{2,3}
President
South Carolina Electric & Gas Company, Columbia

Tommy B. Wessinger
Consultant
Wessinger Consulting

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

Charles D. Cook
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, Charles D. Cook, by telephone at (803) 931-1036, by mail at 1230 Main Street, Columbia, South Carolina 29201, or by e-mail at charles.cook@firstcitizensonline.com. The Company and our banking subsidiaries 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/.