

FIRST CITIZENS BANCSHARES INC /DE/  
Form 10-Q  
August 06, 2008  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number: 0-16471

**First Citizens BancShares, Inc**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

56-1528994  
(I.R.S. Employer Identification Number)

4300 Six Forks Road, Raleigh, North Carolina  
(Address of principle executive offices)

27609  
(Zip code)

(919) 716-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days.

Yes  No

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Class A Common Stock \$1 Par Value 8,756,778 shares

Class B Common Stock \$1 Par Value 1,677,675 shares

(Number of shares outstanding, by class, as of August 6, 2008)

**Table of Contents**

INDEX

|  | Page(s) |
|--|---------|
| PART I. <u>FINANCIAL INFORMATION</u>   |         |
| Item 1. <u>Financial Statements (Unaudited)</u>  |         |
| <u>Consolidated Balance Sheets at June 30, 2008, December 31, 2007 and June 30, 2007</u>   | 3       |
| <u>Consolidated Statements of Income for the three- and six-month periods ended June 30, 2008, and June 30, 2007</u>               | 4       |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the six-month periods ended June 30, 2008, and June 30, 2007</u> | 5       |
| <u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2008, and June 30, 2007</u>                      | 6       |
| <u>Notes to Consolidated Financial Statements</u>  | 7-11    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                               | 12-27   |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 28      |
| Item 4. <u>Controls and Procedures</u>   | 28      |
| <br><u>PART II. OTHER INFORMATION</u><br>  |         |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>   | 29      |
| Item 6. <u>Exhibits.</u>   | 29      |

**Table of Contents**

## PART I

## Item 1. Financial Statements (Unaudited)

**Consolidated Balance Sheets**

First Citizens BancShares, Inc. and Subsidiaries

| (thousands, except share data)                                    | June 30*<br>2008     | December 31#<br>2007 | June 30*<br>2007     |
|---|----------------------|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |                      |
| Cash and due from banks   | \$ 711,651           | \$ 793,788           | \$ 845,929           |
| Overnight investments   | 395,450              | 266,209              | 695,962              |
| Investment securities available for sale                          | 3,006,475            | 3,229,241            | 2,962,889            |
| Investment securities held to maturity                            | 6,957                | 7,594                | 60,910               |
| Loans and leases  | 11,313,155           | 10,963,904           | 10,513,041           |
| Less allowance for loan and lease losses                          | 144,533              | 136,974              | 129,276              |
| Net loans and leases  | 11,168,622           | 10,826,930           | 10,383,765           |
| Premises and equipment  | 780,762              | 757,694              | 736,137              |
| Income earned not collected                                       | 71,107               | 79,343               | 72,718               |
| Goodwill  | 102,625              | 102,625              | 102,625              |
| Other intangible assets   | 5,315                | 5,858                | 6,891                |
| Other assets  | 173,710              | 142,825              | 140,779              |
| <b>Total assets</b>   | <b>\$ 16,422,674</b> | <b>\$ 16,212,107</b> | <b>\$ 16,008,605</b> |
| <b>Liabilities</b>  |                      |                      |                      |
| Deposits:   |                      |                      |                      |
| Noninterest-bearing   | \$ 2,668,207         | \$ 2,519,256         | \$ 2,707,243         |
| Interest-bearing  | 10,407,204           | 10,409,288           | 10,065,079           |
| Total deposits  | 13,075,411           | 12,928,544           | 12,772,322           |
| Short-term borrowings   | 1,130,788            | 1,305,287            | 1,360,511            |
| Long-term obligations   | 609,277              | 404,392              | 405,314              |
| Other liabilities   | 119,916              | 132,676              | 102,478              |
| Total liabilities   | 14,935,392           | 14,770,899           | 14,640,625           |
| <b>Shareholders Equity</b>  |                      |                      |                      |
| Common stock:   |                      |                      |                      |
| Class A - \$1 par value (8,756,778 shares issued for all periods) | 8,757                | 8,757                | 8,757                |
| Class B - \$1 par value (1,677,675 shares issued for all periods) | 1,678                | 1,678                | 1,678                |
| Surplus   | 143,766              | 143,766              | 143,766              |
| Retained earnings   | 1,299,346            | 1,246,473            | 1,203,431            |
| Accumulated other comprehensive income                            | 33,735               | 40,534               | 10,348               |
| <b>Total shareholders equity</b>                                  | <b>1,487,282</b>     | <b>1,441,208</b>     | <b>1,367,980</b>     |
| <b>Total liabilities and shareholders equity</b>                  | <b>\$ 16,422,674</b> | <b>\$ 16,212,107</b> | <b>\$ 16,008,605</b> |

\* Unaudited

# Derived from the 2007 Annual Report on Form 10-K.

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated Statements of Income**

First Citizens BancShares, Inc. and Subsidiaries

| (thousands, except share and per share data; unaudited)  | Three Months Ended June 30 |            | Six Months Ended June 30 |            |
|--|----------------------------|------------|--------------------------|------------|
|  | 2008                       | 2007       | 2008                     | 2007       |
| <b>Interest income</b>                                   |                            |            |                          |            |
| Loans and leases   | \$ 167,145                 | \$ 179,387 | \$ 344,309               | \$ 355,987 |
| Investment securities:                                   |                            |            |                          |            |
| U. S. Government   | 32,266                     | 33,915     | 67,599                   | 66,659     |
| State, county and municipal                              | 53                         | 56         | 106                      | 114        |
| Other  | 826                        | 762        | 1,598                    | 1,536      |
| Total investment securities interest and dividend income | 33,145                     | 34,733     | 69,303                   | 68,309     |
| Overnight investments                                    | 2,285                      | 9,353      | 6,366                    | 16,814     |
| Total interest income                                    | 202,575                    | 223,473    | 419,978                  | 441,110    |
| <b>Interest expense</b>                                  |                            |            |                          |            |
| Deposits   | 64,857                     | 83,012     | 144,116                  | 163,023    |
| Short-term borrowings                                    | 3,859                      | 13,974     | 12,040                   | 26,656     |
| Long-term obligations                                    | 8,431                      | 6,898      | 15,817                   | 13,653     |
| Total interest expense                                   | 77,147                     | 103,884    | 171,973                  | 203,332    |
| Net interest income                                      | 125,428                    | 119,589    | 248,005                  | 237,778    |
| Provision for credit losses                              | 13,350                     | 934        | 23,468                   | 4,466      |
| Net interest income after provision for credit losses    | 112,078                    | 118,655    | 224,537                  | 233,312    |
| <b>Noninterest income</b>                                |                            |            |                          |            |
| Cardholder and merchant services income                  | 25,693                     | 24,502     | 48,743                   | 46,879     |
| Service charges on deposit accounts                      | 21,034                     | 19,312     | 41,015                   | 36,469     |
| Wealth management services                               | 12,746                     | 11,619     | 25,928                   | 23,316     |
| Fees from processing services                            | 8,950                      | 7,798      | 17,754                   | 15,985     |
| Other service charges and fees                           | 4,382                      | 3,935      | 8,472                    | 7,686      |
| Mortgage income  | 1,750                      | 1,760      | 3,740                    | 3,539      |
| Insurance commissions                                    | 1,734                      | 1,683      | 4,215                    | 3,811      |
| ATM income   | 1,774                      | 1,634      | 3,433                    | 3,221      |
| Securities gains   | -                          | -          | 8,051                    | -          |
| Other  | 962                        | 377        | 1,342                    | 745        |
| Total noninterest income                                 | 79,025                     | 72,620     | 162,693                  | 141,651    |
| <b>Noninterest expense</b>                               |                            |            |                          |            |
| Salaries and wages                                       | 63,627                     | 59,805     | 126,412                  | 118,399    |
| Employee benefits  | 13,016                     | 12,825     | 31,199                   | 26,002     |
| Occupancy expense  | 14,699                     | 14,007     | 30,048                   | 27,862     |
| Equipment expense  | 14,142                     | 13,905     | 28,102                   | 27,677     |
| Other  | 43,997                     | 42,336     | 79,361                   | 81,533     |
| Total noninterest expense                                | 149,481                    | 142,878    | 295,122                  | 281,473    |
| Income before income taxes                               | 41,622                     | 48,397     | 92,108                   | 93,490     |
| Income taxes   | 15,396                     | 17,546     | 33,497                   | 33,655     |
| <b>Net income</b>  | \$ 26,226                  | \$ 30,851  | \$ 58,611                | \$ 59,835  |
| Average shares outstanding                               | 10,434,453                 | 10,434,453 | 10,434,453               | 10,434,453 |
| Net income per share                                     | \$ 2.51                    | \$ 2.96    | \$ 5.62                  | \$ 5.73    |

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated Statements of Changes in Shareholders' Equity**

First Citizens BancShares, Inc. and Subsidiaries

|   | Class<br>A<br>Common<br>Stock  | Class B<br>Common<br>Stock | Surplus    | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Total<br>Shareholders<br>Equity |
|---|--------------------------------|----------------------------|------------|----------------------|--|---------------------------------|
|   | (thousands, except share data) |                            |            |                      |  |                                 |
| Balance at December 31, 2006  | \$ 8,757                       | \$ 1,678                   | \$ 143,766 | \$ 1,148,372         | \$ 8,246   | \$ 1,310,819                    |
| Adjustment resulting from adoption of FASB Interpretation No. 48                        | -                              | -                          | -          | 962                  | -  | 962                             |
| Comprehensive income:   |                                |                            |            |                      |  |                                 |
| Net income  | -                              | -                          | -          | 59,835               | -  | 59,835                          |
| Unrealized securities gains arising during period, net of \$409 deferred tax            | -                              | -                          | -          | -                    | 1,049  | 1,049                           |
| Change in unrecognized loss on cash flow hedge, net of \$687 deferred tax               | -                              | -                          | -          | -                    | 1,053  | 1,053                           |
| Total comprehensive income  |                                |                            |            |                      |  | 61,937                          |
| Cash dividends  | -                              | -                          | -          | (5,738)              | -  | (5,738)                         |
| Balance at June 30, 2007  | \$ 8,757                       | \$ 1,678                   | \$ 143,766 | \$ 1,203,431         | \$ 10,348  | \$ 1,367,980                    |
| Balance at December 31, 2007  | \$ 8,757                       | \$ 1,678                   | \$ 143,766 | \$ 1,246,473         | \$ 40,534  | \$ 1,441,208                    |
| Comprehensive income:   |                                |                            |            |                      |  |                                 |
| Net income  | -                              | -                          | -          | 58,611               | -  | 58,611                          |
| Unrealized securities losses arising during period, net of \$4,513 deferred tax benefit | -                              | -                          | -          | -                    | (6,998)  | (6,998)                         |
| Change in unrecognized loss on cash flow hedge, net of \$130 deferred tax               | -                              | -                          | -          | -                    | 199  | 199                             |
| Total comprehensive income  |                                |                            |            |                      |  | 51,812                          |
| Cash dividends  | -                              | -                          | -          | (5,738)              | -  | (5,738)                         |
| Balance at June 30, 2008  | \$ 8,757                       | \$ 1,678                   | \$ 143,766 | \$ 1,299,346         | \$ 33,735  | \$ 1,487,282                    |

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated Statements of Cash Flows**

First Citizens BancShares, Inc. and Subsidiaries

|   | Six months ended June 30, |            |
|---|---------------------------|------------|
|   | 2008                      | 2007       |
|   | (thousands)               |            |
| <b>OPERATING ACTIVITIES</b>   |                           |            |
| Net income  | \$ 58,611                 | \$ 59,835  |
| Adjustments to reconcile net income to cash provided by operating activities: |                           |            |
| Amortization of intangibles   | 1,027                     | 1,109      |
| Provision for credit losses   | 23,468                    | 4,466      |
| Deferred tax (benefit) expense  | (5,460)                   | 6,360      |
| Change in current taxes payable   | 1,953                     | (14,629)   |
| Depreciation  | 26,669                    | 25,621     |
| Change in accrued interest payable  | (16,991)                  | (2,446)    |
| Change in income earned not collected   | 8,236                     | (1,156)    |
| Securities gains  | (8,051)                   | -          |
| Origination of loans held for sale  | (296,568)                 | (278,678)  |
| Proceeds from sale of loans   | 282,341                   | 277,788    |
| Loss (gain) on sale of loans  | 531                       | (1,094)    |
| Net amortization of premiums and discounts                                    | (1,164)                   | (2,294)    |
| Net change in other assets  | (21,527)                  | (31,075)   |
| Net change in other liabilities   | 2,417                     | (2,419)    |
| Net cash provided by operating activities                                     | 55,492                    | 41,388     |
| <b>INVESTING ACTIVITIES</b>   |                           |            |
| Net change in loans outstanding   | (351,274)                 | (238,287)  |
| Purchases of investment securities available for sale                         | (745,977)                 | (759,441)  |
| Proceeds from maturities of investment securities held to maturity            | 637                       | 158,248    |
| Proceeds from maturities of investment securities available for sale          | 966,448                   | 802,194    |
| Net change in overnight investments   | (129,241)                 | (347,365)  |
| Dispositions of premises and equipment  | -                         | 1,080      |
| Additions to premises and equipment   | (49,737)                  | (55,754)   |
| Net cash used by investing activities   | (309,144)                 | (439,325)  |
| <b>FINANCING ACTIVITIES</b>   |                           |            |
| Net change in time deposits   | (221,195)                 | 127,680    |
| Net change in demand and other interest-bearing deposits                      | 368,062                   | (98,682)   |
| Net change in short-term borrowings   | (174,614)                 | 209,622    |
| Origination of long-term obligations  | 205,000                   | -          |
| Cash dividends paid   | (5,738)                   | (5,738)    |
| Net cash provided by financing activities                                     | 171,515                   | 232,882    |
| Change in cash and due from banks   | (82,137)                  | (165,055)  |
| Cash and due from banks at beginning of period                                | 793,788                   | 1,010,984  |
| Cash and due from banks at end of period                                      | \$ 711,651                | \$ 845,929 |
| <b>CASH PAYMENTS FOR:</b>   |                           |            |
| Interest  | \$ 188,964                | \$ 200,886 |
| Income taxes  | 46,981                    | 33,655     |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b> |                           |            |
| Unrealized securities (losses) gains  | \$ (11,510)               | \$ 1,458   |
| Unrealized gain on cash flow hedge  | 328                       | 1,740      |

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents**

**Notes to Consolidated Financial Statements**

(Dollars in thousands, except per share amounts)

**Note A**

**Accounting Policies and Other Matters**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, the consolidated financial statements contain all material adjustments necessary to present fairly the financial position of First Citizens BancShares, Inc. as of and for each of the periods presented, and all such adjustments are of a normal recurring nature. 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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2007 First Citizens BancShares, Inc. Form 10-K. Certain amounts for prior periods have been reclassified to conform with statement presentations for 2008. However, the reclassifications have no effect on shareholders' equity or net income as previously reported.

At June 30, 2008, loans totaling \$1,366,493 were pledged to secure debt obligations, compared to \$255,010 at June 30, 2007. IronStone Bank's home equity loans and residential mortgage loans were pledged to the Federal Home Loan Bank of Atlanta (FHLB) during both periods. At June 30, 2008, IronStone Bank had also pledged its commercial real estate loans to the FHLB.

**Note B**

**Operating Segments**

BancShares conducts its banking operations through its two wholly-owned subsidiaries, First-Citizens Bank & Trust Company (FCB) and IronStone Bank (ISB). Although FCB and ISB offer similar products and services to customers, each entity operates in distinct geographic markets and each entity operates under a separate charter. The financial results and trends of ISB reflect the impact of the de novo nature of its growth.

FCB is a mature banking institution that operates under a state bank charter from its branch network in North Carolina, Virginia, West Virginia, Maryland and Tennessee. ISB began operations in 1997 and currently operates in Georgia, Florida, Texas, Arizona, California, New Mexico, Colorado, Oregon, Washington, Oklahoma, Missouri and Kansas under a federal thrift charter.

In the aggregate, FCB and its consolidated subsidiaries, which are integral to its branch operation, and ISB account for more than 90 percent of consolidated assets, revenues and net income. Other includes activities of the parent company and Neuse, Incorporated, a subsidiary that owns real property used in the banking operation.

The adjustments in the accompanying tables represent the elimination of the impact of certain inter-company transactions. The adjustments to interest income and interest expense neutralize the earnings and cost of inter-company borrowings. The adjustments to noninterest income and noninterest expense reflect the elimination of management fees and other service fees paid by one company to another within BancShares consolidated group.



**Table of Contents**

|   | As of and for the six months ended June 30, 2008 |               |              |               |                |               |
|---|--|---------------|--------------|---------------|----------------|---------------|
|   | ISB  | FCB           | Other        | Total         | Adjustments    | Consolidated  |
| Interest income                                       | \$ 70,570  | \$ 344,559    | \$ 14,348    | \$ 429,477    | \$ (9,499)     | \$ 419,978    |
| Interest expense                                      | 38,707   | 123,781       | 18,984       | 181,472       | (9,499)        | 171,973       |
| Net interest income                                   | 31,863   | 220,778       | (4,636)      | 248,005       | -              | 248,005       |
| Provision for credit losses                           | 11,478   | 11,990        | -            | 23,468        | -              | 23,468        |
| Net interest income after provision for credit losses | 20,385   | 208,788       | (4,636)      | 224,537       | -              | 224,537       |
| Noninterest income                                    | 6,188  | 161,394       | 508          | 168,090       | (5,397)        | 162,693       |
| Noninterest expense                                   | 42,107   | 257,225       | 1,187        | 300,519       | (5,397)        | 295,122       |
| Income (loss) before income taxes                     | (15,534)   | 112,957       | (5,315)      | 92,108        | -              | 92,108        |
| Income tax expense (benefit)                          | (4,988)  | 40,339        | (1,854)      | 33,497        | -              | 33,497        |
| Net income (loss)                                     | \$ (10,546)                                      | \$ 72,618     | \$ (3,461)   | \$ 58,611     | \$ -           | \$ 58,611     |
| Total assets  | \$ 2,651,340                                     | \$ 13,535,501 | \$ 2,605,523 | \$ 18,792,364 | \$ (2,369,690) | \$ 16,422,674 |
| Loans and leases                                      | 2,189,835  | 9,123,320     | -            | 11,313,155    | -              | 11,313,155    |
| Allowance for loan and lease losses                   | 28,341   | 116,192       | -            | 144,533       | -              | 144,533       |
| Deposits  | 2,065,989  | 11,059,080    | -            | 13,125,069    | (49,658)       | 13,075,411    |

|   | As of and for the six months ended June 30, 2007 |               |              |               |                |               |
|---|--|---------------|--------------|---------------|----------------|---------------|
|   | ISB  | FCB           | Other        | Total         | Adjustments    | Consolidated  |
| Interest income                                       | \$ 68,272  | \$ 368,312    | \$ 20,795    | \$ 457,379    | \$ (16,269)    | \$ 441,110    |
| Interest expense                                      | 36,704   | 155,127       | 27,770       | 219,601       | (16,269)       | 203,332       |
| Net interest income                                   | 31,568   | 213,185       | (6,975)      | 237,778       | -              | 237,778       |
| Provision for credit losses                           | 1,156  | 3,310         | -            | 4,466         | -              | 4,466         |
| Net interest income after provision for credit losses | 30,412   | 209,875       | (6,975)      | 233,312       | -              | 233,312       |
| Noninterest income                                    | 6,767  | 140,754       | 422          | 147,943       | (6,292)        | 141,651       |
| Noninterest expense                                   | 38,763   | 248,496       | 506          | 287,765       | (6,292)        | 281,473       |
| Income (loss) before income taxes                     | (1,584)  | 102,133       | (7,059)      | 93,490        | -              | 93,490        |
| Income tax expense (benefit)                          | (297)  | 36,398        | (2,446)      | 33,655        | -              | 33,655        |
| Net income (loss)                                     | \$ (1,287)                                       | \$ 65,735     | \$ (4,613)   | \$ 59,835     | \$ -           | \$ 59,835     |
| Total assets  | \$ 2,220,696                                     | \$ 13,392,661 | \$ 2,538,766 | \$ 18,152,123 | \$ (2,143,518) | \$ 16,008,605 |
| Loans and leases                                      | 1,965,056  | 8,547,985     | -            | 10,513,041    | -              | 10,513,041    |
| Allowance for loan and lease losses                   | 22,418   | 106,858       | -            | 129,276       | -              | 129,276       |
| Deposits  | 1,814,522  | 11,001,074    | -            | 12,815,596    | (43,274)       | 12,772,322    |

**Table of Contents****Note C****Employee Benefits**

BancShares recognized pension expense totaling \$2,957 and \$5,250, respectively, in the six-month periods ended June 30, 2008 and 2007. Pension expense is included as a component of employee benefit expense.

| Components of Net Periodic Benefit Cost | Six month periods ended June 30, |          |
|---|----------------------------------|----------|
|   | 2008                             | 2007     |
| Service cost                            | \$ 6,087                         | \$ 8,471 |
| Interest cost                           | 10,560                           | 10,501   |
| Expected return on assets               | (14,302)                         | (14,886) |
| Amortization of prior service cost      | 109                              | 118      |
| Amortization of net actuarial loss      | 503                              | 1,046    |
| Total net periodic benefit cost         | \$ 2,957                         | \$ 5,250 |

The expected long-term rate of return on plan assets for 2008 is 8.50 percent, and the assumed discount rate is 6.25 percent.

**Note D****Fair Value Disclosures**

BancShares adopted the provisions of SFAS No. 157 *Fair Value Measurements* (Statement 157) and SFAS No. 159 *The Fair Value Option for Financial Assets and Liabilities* (Statement 159) on January 1, 2008.

Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. Statement 157 creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

Statement 157 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, BancShares considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. Fair values determined using level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based on level 3 inputs, which are considered to be unobservable.

Among BancShares' assets and liabilities, investment securities available for sale and an interest rate swap accounted for as a cash flow hedge are reported at their fair values on a recurring basis. Certain other assets are adjusted to their fair value on a nonrecurring basis, including loans held for sales, which are carried at the lower of cost or market, and goodwill and other intangible assets, which are periodically tested for impairment. Loans held for investment, deposits, short-term borrowings and long-term obligations are not reported at fair value.

For assets and liabilities carried at fair value, the following table provides fair value information as of June 30, 2008:

**Table of Contents**

| Description                                      | Fair value measurements at June 30, 2008 using: |   |   |  |
|--|---|---|---|--|
|  | Fair value at June 30, 2008                     | Quoted prices in active markets for identical assets and liabilities (Level 1 inputs) | Quoted prices for similar assets and liabilities (Level 2 inputs) | Significant unobservable inputs (Level 3 inputs) (thousands) |
| <b><u>Assets measured at fair value</u></b>      |   |   |   |  |
| Investment securities available for sale         | \$ 3,006,475                                    | \$ 2,882,608  | \$ 75,825   | \$ 48,042  |
| <b><u>Liabilities measured at fair value</u></b> |   |   |   |  |
| Cash flow hedge                                  | 5,025   | -   | 5,025   | -  |

Prices for US Treasury and government agency securities are readily available in the active markets in which those securities are traded, and the resulting fair values are shown in the Level 1 input column. Prices for mortgage-backed securities and for state, county and municipal securities are obtained for similar securities, and the resulting fair values are shown in the Level 2 input column. Prices for all other securities, which include a residual interest that was retained from a securitization transaction and other non-marketable investments, are determined based on various assumptions that are not observable. The fair values for these investment securities are shown in the Level 3 input column. With respect to the residual interest in the asset securitization, the assumed prepayment speed, discount rate and credit spread are not observable in the market due to illiquidity and the uniqueness of the underlying assets. Non-marketable investment securities, which are carried at their purchase price, include those that may only be redeemed by the issuer.

Under the terms of the existing cash flow hedge, BancShares pays a fixed payment to the counterparty in exchange for receipt of a variable payment that is determined based on the 3-month LIBOR rate. The fair value of the cash flow hedge is therefore based on projected LIBOR rates for the duration of the hedge, values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument.

For those investment securities available for sale with fair values that are determined by reliance on significant unobservable inputs, the following table identifies the factors causing the change in fair value from January 1, 2008 to June 30, 2008:

| Description                                      | Investment securities available for sale with fair values based on significant unobservable inputs (thousands) |
|--|--|
| Beginning balance, January 1, 2008               | \$ 40,016  |
| Total gains (losses), realized or unrealized:    |  |
| Included in earnings                             | -  |
| Included in other comprehensive income           | 192  |
| Purchases, sales, issuances and settlements, net | 7,834  |
| Transfers in/out of Level 3                      | -  |
| Ending balance, June 30, 2008                    | \$ 48,042  |

No gains or losses were reported for the six-month period ended June 30, 2008 that relate to fair values estimated based on significant unobservable inputs.

Some assets and liabilities are carried at fair value on a nonrecurring basis. Loans held for sale are carried at the lower of aggregate cost or fair value and are therefore carried at fair value only when fair value is less than the asset cost. Certain impaired loans are also carried at fair value.

For assets and liabilities carried at fair value on a nonrecurring basis, the following table provides fair value information as of June 30, 2008:

**Table of Contents**

| Description         | Fair value measurements at June 30, 2008 using: |   |  |  |
|---------------------|---|---|--|--|
|                     | Fair value at<br>June 30, 2008                  | Quoted prices in<br>active markets for<br>identical assets and<br>liabilities<br>(Level 1 inputs) | Quoted prices for<br>similar assets and<br>liabilities<br>(Level 2 inputs) | Significant<br>unobservable inputs<br>(Level 3 inputs) |
| Loans held for sale | \$ 89,517                                       | \$ -  | \$ -   | \$ 89,517  |
| Impaired loans      | 18,597  | -   | -  | 18,597   |

The values of loans held for sale are based on prices observed for similar pools of loans, appraisals provide by third parties and prices determined based on terms of investor purchase commitments. The value of impaired loans is determined by either the collateral value or by the discounted present value of the expected cash flows.

Statement 159 allows an entity to elect to measure certain financial assets and liabilities at fair value with changes in fair value recognized in the income statement each period. The statement also requires additional disclosures to identify the effects of an entity's fair value election on its earnings. Upon the adoption of Statement 159, BancShares did not elect to report any assets and liabilities at fair value.

**Note E****Contingencies**

As previously reported, on February 24, 2006, DataTreasury Corporation (DataTreasury) filed a lawsuit in the United States District Court for the Eastern District of Texas against 54 defendants, including BancShares and FCB and a number of other large financial institutions, alleging that the defendants are infringing six patents covering check processing that DataTreasury claims to own. DataTreasury alleges that BancShares and FCB have infringed four of the six patents and seeks to recover damages, including royalty payment for checks processed since February 2000 and in the future. All four patents have been subject to reexamination by the United States Patent and Trademark office, which has issued reexamination certificates with respect to two of the patents. BancShares and FCB challenge the validity of the patents and claim that, even if the patents are valid, they are not liable because BancShares does not process checks and FCB's check processing system does not infringe the patents. BancShares and FCB strenuously deny liability and are vigorously defending their positions. They have placed certain software and equipment vendors on notice of a claim for their defense costs (and currently are pursuing such a claim against one vendor) and a contingent claim for indemnification in the event DataTreasury prevails in the lawsuit.

In July 2008, DataTreasury and a number of the defendants, including BancShares and FCB, were directed by the Court to participate in mediation in an attempt to settle the lawsuit. The mediation was not successful.

Based on information currently available, a contingency accrual was recorded during the second quarter of 2008 in an amount that management deems appropriate. At this time, it is impossible to determine whether and, if so, what amount may be recovered through claims and contingent claims that have been and may be asserted against software and equipment vendors.

BancShares and various subsidiaries have been named as defendants in various other legal actions arising from their normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to those other matters cannot be determined, in the opinion of management, any such liability will not have a material effect on BancShares' consolidated financial statements.

## **Table of Contents**

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### INTRODUCTION

Management's discussion and analysis of earnings and related financial data are presented to assist in understanding the financial condition and results of operations of First Citizens BancShares, Inc. and Subsidiaries (BancShares). This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and related notes presented within this report. Intercompany accounts and transactions have been eliminated. Although certain amounts for prior years have been reclassified to conform to statement presentations for 2008, the reclassifications have no effect on shareholders' equity or net income as previously reported.

#### OVERVIEW

BancShares is a financial holding company with two wholly owned banking subsidiaries: First-Citizens Bank & Trust Company (FCB), a North Carolina-chartered bank, and IronStone Bank (ISB), a federally-chartered thrift institution. FCB operates branches in North Carolina, Virginia, West Virginia, Maryland and Tennessee. ISB operates in Georgia, Florida, Texas, New Mexico, Arizona, California, Oregon, Washington, Colorado, Oklahoma, Missouri and Kansas.

BancShares' earnings and cash flows are derived primarily from the commercial banking activities conducted by its banking subsidiaries. These activities include commercial and consumer lending, deposit and cash management products, cardholder, merchant, wealth management services, as well as various other products and services typically offered by commercial banks. FCB and ISB gather interest-bearing and noninterest-bearing deposits from retail and commercial customers. BancShares and its subsidiaries also secure funding through various non-deposit sources. We invest the liquidity generated from these funding sources in various types of interest-earning assets such as loans and leases, investment securities and overnight investments. We also invest in bank premises, furniture and equipment used to conduct the subsidiaries' commercial banking business.

Various external factors influence customer demand for our loan, lease and deposit products. In an effort to stimulate and control the rate of growth of economic activity, monetary actions by the Federal Reserve are significant to the interest rate environment in which we operate. At any point in time, both the existing level and anticipated movement of interest rates have a material impact on customer demand for our products, our pricing of those products and on our profitability.

In addition to the interest rate environment, the general strength of the economy influences the demand for as well as the quality and collectibility of our loan and lease portfolio. External economic indicators such as consumer bankruptcy rates and business debt service capacity closely follow trends in the economic cycle.

Although we are unable to control the external factors that influence our business, through the utilization of various liquidity, interest rate and credit risk management tools, we seek to minimize the potentially adverse risks of unforeseen and potentially unfavorable economic trends and take advantage of favorable economic conditions when appropriate.

**Table of Contents****Financial Summary**

Table 1

| (thousands, except share data and ratios)                | 2008           |               |                | 2007          |                | Six Months Ended June 30 |               |
|--|----------------|---------------|----------------|---------------|----------------|--------------------------|---------------|
|  | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | 2008                     | 2007          |
| <b>Summary of Operations</b>                             |                |               |                |               |                |                          |               |
| Interest income  | \$ 202,575     | \$ 217,403    | \$ 230,826     | \$ 232,120    | \$ 223,473     | \$ 419,978               | \$ 441,110    |
| Interest expense   | 77,147         | 94,826        | 109,197        | 111,185       | 103,884        | 171,973                  | 203,332       |
| Net interest income                                      | 125,428        | 122,577       | 121,629        | 120,935       | 119,589        | 248,005                  | 237,778       |
| Provision for credit losses                              | 13,350         | 10,118        | 11,795         | 17,333        | 934            | 23,468                   | 4,466         |
| Net interest income after provision for credit losses    | 112,078        | 112,459       | 109,834        | 103,602       | 118,655        | 224,537                  | 233,312       |
| Noninterest income                                       | 79,025         | 83,668        | 76,534         | 77,285        | 72,620         | 162,693                  | 141,651       |
| Noninterest expense                                      | 149,481        | 145,641       | 146,285        | 146,906       | 142,878        | 295,122                  | 281,473       |
| Income before income taxes                               | 41,622         | 50,486        | 40,083         | 33,981        | 48,397         | 92,108                   | 93,490        |
| Income taxes   | 15,396         | 18,101        | 13,920         | 11,362        | 17,546         | 33,497                   | 33,655        |
| Net income   | \$ 26,226      | \$ 32,385     | \$ 26,163      | \$ 22,619     | \$ 30,851      | \$ 58,611                | \$ 59,835     |
| Net interest income-taxable equivalent                   | \$ 127,143     | \$ 124,430    | \$ 123,666     | \$ 122,980    | \$ 121,409     | \$ 251,573               | \$ 241,373    |
| <b>Selected Quarterly Averages</b>                       |                |               |                |               |                |                          |               |
| Total assets   | \$ 16,396,288  | \$ 16,307,994 | \$ 16,276,649  | \$ 16,092,009 | \$ 15,725,976  | \$ 16,354,991            | \$ 15,649,720 |
| Investment securities                                    | 3,238,028      | 3,183,636     | 3,272,015      | 3,162,011     | 3,047,753      | 3,210,832                | 3,069,884     |
| Loans and leases   | 11,154,400     | 10,961,706    | 10,831,571     | 10,623,247    | 10,360,913     | 11,058,053               | 10,296,245    |
| Interest-earning assets                                  | 14,841,431     | 14,691,141    | 14,655,309     | 14,476,247    | 14,118,884     | 14,766,286               | 14,014,334    |
| Deposits   | 12,969,423     | 12,905,651    | 12,876,549     | 12,728,527    | 12,524,786     | 12,940,377               | 12,513,558    |
| Interest-bearing liabilities                             | 12,281,649     | 12,309,132    | 12,216,067     | 12,052,307    | 11,698,285     | 12,295,390               | 11,628,500    |
| Long-term obligations                                    | 609,301        | 475,732       | 404,367        | 405,101       | 405,339        | 542,516                  | 406,800       |
| Shareholders equity                                      | \$ 1,484,143   | \$ 1,466,411  | \$ 1,420,348   | \$ 1,385,284  | \$ 1,353,739   | \$ 1,473,741             | \$ 1,337,864  |
| Shares outstanding                                       | 10,434,453     | 10,434,453    | 10,434,453     | 10,434,453    | 10,434,453     | 10,434,453               | 10,434,453    |
| <b>Selected Quarter-End Balances</b>                     |                |               |                |               |                |                          |               |
| Total assets   | \$ 16,422,674  | \$ 16,746,518 | \$ 16,212,107  | \$ 16,311,870 | \$ 16,008,605  | \$ 16,422,674            | \$ 16,008,605 |
| Investment securities                                    | 3,013,432      | 3,206,137     | 3,236,835      | 3,266,150     | 3,023,799      | 3,013,432                | 3,023,799     |
| Loans and leases   | 11,313,155     | 11,029,937    | 10,963,904     | 10,763,158    | 10,513,041     | 11,313,155               | 10,513,041    |
| Interest-earning assets                                  | 14,722,037     | 15,039,574    | 14,466,948     | 14,542,241    | 14,232,802     | 14,722,037               | 14,232,802    |
| Deposits   | 13,075,411     | 13,226,991    | 12,928,544     | 12,980,447    | 12,772,322     | 13,075,411               | 12,772,322    |
| Interest-bearing liabilities                             | 12,147,269     | 12,566,799    | 12,118,967     | 12,170,559    | 11,830,904     | 12,147,269               | 11,830,904    |
| Long-term obligations                                    | 609,277        | 609,335       | 404,392        | 404,266       | 405,314        | 609,277                  | 405,314       |
| Shareholders equity                                      | \$ 1,487,282   | \$ 1,486,034  | \$ 1,441,208   | \$ 1,401,575  | \$ 1,367,980   | \$ 1,487,282             | \$ 1,367,980  |
| Shares outstanding                                       | 10,434,453     | 10,434,453    | 10,434,453     | 10,434,453    | 10,434,453     | 10,434,453               | 10,434,453    |
| <b>Profitability Ratios (averages)</b>                   |                |               |                |               |                |                          |               |
| Rate of return (annualized) on:                          |                |               |                |               |                |                          |               |
| Total assets   | 0.64%          | 0.80%         | 0.64%          | 0.56%         | 0.79%          | 0.72%                    | 0.77          |
| Shareholders equity                                      | 7.11           | 8.88          | 7.31           | 6.48          | 9.14           | 8.00                     | 9.02          |
| Dividend payout ratio                                    | 10.96          | 8.87          | 10.96          | 12.67         | 9.29           | 9.79                     | 9.60          |
| <b>Liquidity and Capital Ratios (averages)</b>           |                |               |                |               |                |                          |               |
| Loans and leases to deposits                             | 86.01%         | 84.94%        | 84.12%         | 83.46%        | 82.72%         | 85.45%                   | 82.28         |
| Shareholders equity to total assets                      | 9.05           | 8.99          | 8.73           | 8.61          | 8.61           | 9.01                     | 8.55          |
| Time certificates of \$100,000 or more to total deposits | 18.26          | 18.13         | 18.04          | 17.67         | 16.95          | 18.38                    | 16.80         |
| <b>Per Share of Stock</b>                                |                |               |                |               |                |                          |               |
| Net income   | \$ 2.51        | \$ 3.10       | \$ 2.51        | \$ 2.17       | \$ 2.96        | \$ 5.62                  | \$ 5.73       |

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|                                   |        |        |        |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash dividends                    | 0.275  | 0.275  | 0.275  | 0.275  | 0.275  | 0.55   | 0.55   |
| Book value at period end          | 142.54 | 142.42 | 138.12 | 134.32 | 131.10 | 142.54 | 131.10 |
| Tangible book value at period end | 132.24 | 132.07 | 127.72 | 123.88 | 120.61 | 132.24 | 120.61 |

## **Table of Contents**

Financial institutions frequently focus their strategic and operating emphasis on maximizing profitability and therefore measure their relative success by reference to profitability measures such as return on average assets or return on average shareholders' equity. BancShares' profitability measures have historically compared unfavorably to the returns of similar-sized financial holding companies. Instead, we place primary emphasis upon asset quality, balance sheet liquidity and capital conservation, even when those priorities may be detrimental to short-term profitability.

Based on our organization's strengths and competitive position within the financial services industry, we believe opportunities for significant growth and expansion exist. We operate in diverse and growing geographic markets and believe that through competitive products and superior customer service, we can increase our business volumes and profitability. In recent years, we have focused our efforts on businesses owners, medical and other professionals and financially active individuals.

We seek to increase fee income in areas such as cardholder services, merchant processing, insurance, cash management, wealth management and other private banking services. We also focus on opportunities to generate income by providing various processing services to other banks.

We attempt to mitigate certain of the risks that can endanger our profitability and growth prospects. While we are attentive to all areas of risk, economic factors are uniquely problematic due to the lack of control and the potential material impact upon our financial results. Specific economic risks include recession, rapid movements in interest rates, changes in the yield curve and significant shifts in inflation expectations.

## **PERFORMANCE SUMMARY**

BancShares' earnings declined during the second quarter of 2008 compared to the second quarter of 2007. Consolidated net income during the second quarter of 2008 equaled \$26.2 million, compared to \$30.9 million earned during the corresponding period of 2007. The annualized return on average assets was 0.64 percent during the second quarter of 2008, compared to 0.79 percent during the same period of 2007. The annualized return on average equity was 7.11 percent during 2008, compared to 9.14 percent during the same period of 2007. Net income per share during the second quarter of 2008 totaled \$2.51, compared to \$2.96 during the second quarter of 2007. The \$4.6 million or 15.0 percent earnings decrease resulted from a significant increase in the provision for credit losses and higher noninterest expense. Net interest income and noninterest income improved moderately.

For the first six months of 2008, BancShares recorded net income of \$58.6 million, compared to \$59.8 million earned during the first six months of 2007. The \$1.2 million or 2.0 percent decrease was attributable to higher provision for credit losses and noninterest expense, partially offset by increased levels of net interest income and noninterest income. Net income per share for the first six months of 2008 amounted to \$5.62, compared to \$5.73 during the same period of 2007. On an annualized basis, BancShares returned 0.72 percent on average assets during the first six months of 2008, compared to 0.77 percent from the corresponding period of 2007. Annualized return on average equity for the first six months of 2008 was 8.00 percent, down from 9.02 percent during the same period of 2007.



**Table of Contents****Loans and Leases**

Table 2

| (thousands)                              | 2008           |               |                | 2007          |                |
|--|----------------|---------------|----------------|---------------|----------------|
|  | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter |
| Real estate:                             |                |               |                |               |                |
| Construction and land development        | \$ 815,005     | \$ 817,832    | \$ 810,818     | \$ 816,328    | \$ 784,960     |
| Commercial mortgage                      | 4,164,592      | 4,053,773     | 3,982,496      | 3,899,289     | 3,815,113      |
| Residential mortgage                     | 985,513        | 1,027,469     | 1,029,030      | 1,037,460     | 1,038,602      |
| Revolving mortgage                       | 1,638,049      | 1,521,191     | 1,494,431      | 1,454,659     | 1,374,212      |
| Other mortgage                           | 147,424        | 147,082       | 145,552        | 153,487       | 159,421        |
| Total real estate loans                  | 7,750,583      | 7,567,347     | 7,462,327      | 7,361,223     | 7,172,308      |
| Commercial and industrial                | 1,797,042      | 1,721,927     | 1,707,394      | 1,615,550     | 1,589,519      |
| Consumer                                 | 1,337,820      | 1,308,269     | 1,368,228      | 1,375,001     | 1,362,356      |
| Lease financing                          | 335,877        | 340,620       | 340,601        | 329,535       | 315,965        |
| Other                                    | 91,833         | 91,774        | 85,354         | 81,849        | 72,893         |
| Total loans and leases                   | 11,313,155     | 11,029,937    | 10,963,904     | 10,763,158    | 10,513,041     |
| Less allowance for loan and lease losses | 144,533        | 141,591       | 136,974        | 133,576       | 129,276        |
| Net loans and leases                     | \$ 11,168,622  | \$ 10,888,346 | \$ 10,826,930  | \$ 10,629,582 | \$ 10,383,765  |

**INTEREST-EARNING ASSETS**

Interest-earning assets include loans and leases, investment securities and overnight investments, all of which reflect varying interest rates based on the risk level and maturity of the underlying asset. Riskier investments typically carry a higher interest rate, but expose the investor to potentially higher levels of default. We have historically focused on maintaining exceptional asset quality, which results in a loan and lease portfolio subjected to strenuous underwriting and monitoring procedures. United States Treasury and U.S. government agency securities represent approximately 95 percent of our investment securities portfolio. Generally, the investment securities portfolio grows and shrinks based on loan, lease and deposit trends. When deposit growth exceeds loan and lease demand, we invest excess funds in the securities portfolio. Conversely, when loan and lease demand exceeds deposit growth, we use proceeds from maturing securities to fund loan and lease demand. Overnight investments are selectively made with other financial institutions that are within our risk tolerance.

**Loans and leases.** At June 30, 2008 and 2007, loans and leases totaled \$11.31 billion and \$10.51 billion, respectively. The \$800.1 million or 7.6 percent growth from June 30, 2007 to June 30, 2008 resulted from growth within the commercial and revolving mortgage portfolios and commercial and industrial loans.

Commercial mortgage loans totaled \$4.16 billion at June 30, 2008, representing 36.8 percent of the total loan and lease portfolio. This represents an increase of \$349.5 million or 9.2 percent since June 30, 2007. Demand for loans secured by owner-occupied medical and professional facilities remained strong during the second quarter, particularly in expansion markets. These loans are underwritten based primarily upon the cash flow from the operation of the business rather than the value of the real estate collateral.

At June 30, 2008, revolving mortgage loans totaled \$1.64 billion, representing 14.5 percent of total loans and leases outstanding, an increase of \$263.8 million or 19.2 percent since June 30, 2007. Origination of new credit lines has been robust during 2008.

Commercial and industrial loans totaled \$1.80 billion or 15.9 percent of total loans and leases outstanding. These loans increased \$247.5 million or 16.0 percent since June 30, 2007, primarily the result of continuing customer demand and sales efforts in expansion markets.

Construction and land development loans totaled \$815.0 million or 7.2 percent of total loans at June 30, 2008, an increase of \$30.0 million or 3.8 percent since June 30, 2007. Given the continuing softening of real estate markets, we have reduced our emphasis on this area of lending, particularly in the Atlanta, Georgia and Southwest Florida markets.

## Table of Contents

Residential mortgage loans totaled \$985.5 million or 8.7 percent of total loans and leases at June 30, 2008, down \$53.1 million or 5.1 percent from June 30, 2007. We continue to sell on a servicing released basis substantially all of our current production of residential mortgage loans.

We anticipate moderate increases in commercial mortgage and commercial and industrial loans in the second half of 2008, as we continue to build our customer base in new markets. We expect revolving mortgage loans will continue to grow due to sustained demand among retail and commercial customers. All growth projections are subject to change as a result of economic deterioration or improvement, competitive forces and other external factors.

Investment securities. Investment securities available for sale totaled \$3.01 billion at June 30, 2008, compared to \$2.96 billion at June 30, 2007. Available-for-sale securities are reported at their aggregate fair value. During the first quarter 2008, we suspended acquisition of U.S. Government agency securities in favor of directing all new security purchases to U.S. Treasury instruments. Table 3 presents detailed information relating to the investment securities portfolio.

Income on interest-earning assets. Interest income amounted to \$202.6 million during the second quarter of 2008, a \$20.9 million or 9.4 percent decrease from the second quarter of 2007. The impact of falling asset yields more than offset the impact of growth in interest-earning assets. The taxable-equivalent yield on interest-earning assets for the second quarter of 2008 equaled 5.53 percent, compared to 6.40 percent for the corresponding period of 2007.

Loan and lease interest income for the second quarter of 2008 equaled \$167.1 million, a reduction of \$12.2 million or 6.8 percent from the second quarter of 2007. The taxable-equivalent yield on the loan and lease portfolio equaled 6.04 percent during the second quarter of 2008, down 92 basis points from the same period of 2007. The lower yield resulted from origination of new loans and leases and adjustments of variable rate loans to current market rates. The impact of the declining loan yields more than offset the impact of the \$793.5 million or 7.7 percent increase in average loans and leases during the second quarter of 2008.

Interest income earned on the investment securities portfolio amounted to \$33.1 million during the second quarter of 2008 versus \$34.7 million during the same period of 2007, a decrease of \$1.6 million or 4.6 percent. This decrease is the net result of lower yields and higher average volume. The taxable-equivalent yield decreased 48 basis points from 4.74 percent in the second quarter of 2007 to 4.26 percent in the second quarter of 2008 due to the reinvestment of maturing securities at lower yields. Average investment securities increased \$190.3 million or 6.2 percent from \$3.05 billion during the second quarter of 2007 to \$3.24 billion during the second quarter of 2008.

Interest income from overnight investments amounted to \$2.3 million during the second quarter of 2008, a decrease of \$7.1 million from the \$9.4 million earned during the second quarter of 2007, the combined result of a 323 basis point yield decrease and \$261.2 million reduction in average balances.

Interest income amounted to \$420.0 million during the first six months of 2008, a \$21.1 million or 4.8 percent decrease from the same period of 2007, the net result of lower yields and growth in interest-earning assets. The taxable-equivalent yield declined 63 basis points from 6.39 percent for the first six months of 2007 to 5.76 percent during the same period of 2008, caused by lower market interest rates during 2008.

For the six months ended June 30, 2008, loan and lease interest income equaled \$344.3 million, a decrease of \$11.7 million or 3.3 percent from the same period of 2007. The deterioration in interest income reflects the unfavorable effect of a 72 basis point decrease in loan and lease yields, the impact of which more than offset the benefit of a \$761.8 million or 7.4 percent increase in average loans and leases.

For the six months ended June 30, 2008, income earned on the investment securities portfolio amounted to \$69.3 million, compared to \$68.3 million during the same period of 2007, an increase of \$994,000 or 1.5 percent. This increase was the result of modest portfolio growth, offset by lower interest rates. The yield on average investment securities declined 15 basis points resulting from the reinvestment of proceeds arising from maturing securities to current market rates. Average investment securities increased \$140.9 million or 4.6 percent from \$3.07 billion in 2007 to \$3.21 billion in 2008.

Interest earned on overnight investments totaled \$6.4 million during the first six months of 2008 compared to \$16.8 million during the same period of 2007, a \$10.4 million or 62.1 percent decrease. Average balances declined by \$150.8 million while the yield fell by 266 basis points.

**Table of Contents****Investment Securities**

Table 3

| (thousands)                                      | June 30, 2008 |              |                              |                          | June 30, 2007 |              |                              |                          |
|--|---------------|--------------|------------------------------|--------------------------|---------------|--------------|------------------------------|--------------------------|
|  | Cost          | Fair Value   | Average Maturity (Yrs./Mos.) | Taxable Equivalent Yield | Cost          | Fair Value   | Average Maturity (Yrs./Mos.) | Taxable Equivalent Yield |
| <b>Investment securities available for sale:</b> |               |              |                              |                          |               |              |                              |                          |
| U.S. Government:                                 |               |              |                              |                          |               |              |                              |                          |
| Within one year                                  | \$ 1,452,932  | \$ 1,468,966 | 0/6                          | 4.87 %                   | \$ 1,494,905  | \$ 1,488,881 | 0/6                          | 4.49 %                   |
| One to five years                                | 1,381,116     | 1,386,603    | 1/7                          | 3.08                     | 1,332,903     | 1,328,558    | 1/7                          | 4.92                     |
| Five to ten years                                | 3,362         | 3,329        | 6/3                          | 4.76                     | 6,333         | 6,035        | 6/1                          | 4.88                     |
| Over ten years                                   | 72,863        | 71,818       | 26/6                         | 5.47                     | 68,362        | 65,782       | 27/2                         | 5.45                     |
| Total  | 2,910,273     | 2,930,716    | 1/8                          | 4.04                     | 2,902,503     | 2,889,256    | 1/8                          | 4.71                     |
| State, county and municipal:                     |               |              |                              |                          |               |              |                              |                          |
| Within one year                                  | 1,702         | 1,709        | 0/10                         | 3.90                     | 714           | 709          | 0/10                         | 3.84                     |
| One to five years                                | 1,419         | 1,415        | 3/5                          | 4.69                     | 2,142         | 2,103        | 2/7                          | 4.08                     |
| Five to ten years                                | -             | -            |                              |                          | 470           | 467          | 5/8                          | 4.90                     |
| Over ten years                                   | 66            | 65           | 20/5                         | 4.44                     | 211           | 211          | 24/1                         | 3.46                     |
| Total  | 3,187         | 3,189        | 2/4                          | 4.26                     | 3,537         | 3,490        | 3/11                         | 4.10                     |
| Other  |               |              |                              |                          |               |              |                              |                          |
| Over ten years                                   | 5,385         | 7,196        | 12/1                         | 11.13                    | 9,566         | 10,322       | 10/11                        | 10.66                    |
| Total  | 5,385         | 7,196        | 12/1                         | 11.13                    | 9,566         | 10,322       | 10/11                        | 10.66                    |
| Equity securities                                | 44,404        | 65,374       |                              |                          | 34,378        | 59,821       |                              |                          |
| Total investment securities available for sale   | \$ 2,963,249  | \$ 3,006,475 |                              |                          | \$ 2,949,984  | \$ 2,962,889 |                              |                          |
| <b>Investment securities held to maturity:</b>   |               |              |                              |                          |               |              |                              |                          |
| U.S. Government:                                 |               |              |                              |                          |               |              |                              |                          |
| Within one year                                  |               |              |                              | %                        | \$ 52,729     | \$ 52,574    | 0/3                          | 3.64 %                   |
| Five to ten years                                | 4,944         | 5,012        | 8/10                         | 5.53                     | 6,136         | 6,035        | 9/9                          | 5.53                     |
| Over ten years                                   | 176           | 210          | 19/8                         | 6.41                     | 213           | 244          | 20/7                         | 6.25                     |
| Total  | 5,120         | 5,222        | 9/2                          | 5.72                     | 59,078        | 58,853       | 1/4                          | 3.85                     |
| State, county and municipal:                     |               |              |                              |                          |               |              |                              |                          |
| Within one year                                  | 150           | 152          | 0/10                         | 5.88                     | -             | -            |                              |                          |
| One to five years                                | -             | -            |                              |                          | 149           | 153          | 1/10                         | 5.88                     |
| Five to ten years                                | 1,437         | 1,519        | 9/10                         | 6.02                     | -             | -            |                              |                          |
| Over ten years                                   | -             | -            |                              |                          | 1,433         | 1,538        | 10/10                        | 6.02                     |
| Total  | 1,587         | 1,671        |                              |                          | 1,582         | 1,691        | 10/0                         | 6.01                     |
| Other  |               |              |                              |                          |               |              |                              |                          |
| One to five years                                | 250           | 250          | 0/4                          | 3.25                     | 250           | 250          | 1/1                          | 3.25                     |
| Total  | 250           | 250          | 0/4                          | 3.25                     | 250           | 250          | 1/1                          | 3.25                     |
| Total investment securities held to maturity     | 6,957         | 7,143        | 8/9                          | 5.50 %                   | 60,910        | 60,794       | 1/6                          | 3.90 %                   |
| Total investment securities                      | \$ 2,970,206  | \$ 3,013,618 |                              |                          | \$ 3,010,894  | \$ 3,023,683 |                              |                          |

Average maturity assumes callable securities mature on their earliest call date; yields are based on amortized cost; yields related to securities that are exempt from federal and/or state income taxes are stated on a taxable-equivalent basis assuming statutory rates of 35% for federal income tax purposes and 6.9% for state income taxes for all periods.

**Table of Contents****Consolidated Taxable Equivalent Rate/Volume Variance Analysis - Second Quarter**

Table 4

| (thousands)  | 2008            |                         |            | 2007            |                         |            | Increase (decrease) due to: |             |              |
|--|-----------------|-------------------------|------------|-----------------|-------------------------|------------|-----------------------------|-------------|--------------|
|  | Average Balance | Interest Income/Expense | Yield/Rate | Average Balance | Interest Income/Expense | Yield/Rate | Volume                      | Yield/Rate  | Total Change |
| <b>Assets</b>  |                 |                         |            |                 |                         |            |                             |             |              |
| Loans and leases   | \$ 11,154,400   | \$ 167,624              | 6.04 %     | \$ 10,360,913   | \$ 179,878              | 6.96 %     | \$ 12,589                   | \$ (24,843) | \$ (12,254)  |
| Investment securities:                                       |                 |                         |            |                 |                         |            |                             |             |              |
| U. S. Government   | 3,157,657       | 33,473                  | 4.25       | 2,971,719       | 35,238                  | 4.75       | 2,053                       | (3,818)     | (1,765)      |
| State, county and municipal                                  | 4,915           | 82                      | 6.71       | 5,581           | 62                      | 4.46       | (9)                         | 29          | 20           |
| Other  | 75,456          | 826                     | 4.40       | 70,453          | 762                     | 4.34       | 54                          | 10          | 64           |
| Total investment securities                                  | 3,238,028       | 34,381                  | 4.26       | 3,047,753       | 36,062                  | 4.74       | 2,098                       | (3,779)     | (1,681)      |
| Overnight investments  | 449,003         | 2,285                   | 2.05       | 710,218         | 9,353                   | 5.28       | (2,397)                     | (4,671)     | (7,068)      |
| Total interest-earning assets                                | \$ 14,841,431   | \$ 204,290              | 5.53 %     | \$ 14,118,884   | \$ 225,293              | 6.40 %     | \$ 12,290                   | \$ (33,293) | \$ (21,003)  |
| <b>Liabilities</b>   |                 |                         |            |                 |                         |            |                             |             |              |
| Interest-bearing deposits:                                   |                 |                         |            |                 |                         |            |                             |             |              |
| Checking With Interest                                       | \$ 1,468,617    | \$ 294                  | 0.08 %     | \$ 1,476,125    | \$ 466                  | 0.13 %     | \$ 5                        | \$ (177)    | \$ (172)     |
| Savings  | 552,040         | 279                     | 0.20       | 588,345         | 315                     | 0.21       | (20)                        | (16)        | (36)         |
| Money market accounts  | 3,097,573       | 13,637                  | 1.77       | 2,743,480       | 22,954                  | 3.36       | 2,243                       | (11,560)    | (9,317)      |
| Time deposits  | 5,365,159       | 50,647                  | 3.80       | 5,165,556       | 59,277                  | 4.60       | 1,964                       | (10,594)    | (8,630)      |
| Total interest-bearing deposits                              | 10,483,389      | 64,857                  | 2.49       | 9,973,506       | 83,012                  | 3.34       | 4,192                       | (22,347)    | (18,155)     |
| Federal funds purchased                                      | 30,938          | 148                     | 1.92       | 69,828          | 904                     | 5.19       | (345)                       | (411)       | (756)        |
| Repurchase agreements  | 239,153         | 257                     | 0.43       | 301,445         | 2,676                   | 3.56       | (312)                       | (2,107)     | (2,419)      |
| Master notes   | 863,150         | 2,803                   | 1.31       | 864,772         | 9,468                   | 4.39       | (30)                        | (6,635)     | (6,665)      |
| Other short-term borrowings                                  | 55,718          | 651                     | 4.70       | 83,395          | 926                     | 4.45       | (317)                       | 42          | (275)        |
| Long-term obligations  | 609,301         | 8,431                   | 5.53       | 405,339         | 6,898                   | 6.81       | 3,138                       | (1,605)     | 1,533        |
| Total interest-bearing liabilities                           | \$ 12,281,649   | \$ 77,147               | 2.53 %     | \$ 11,698,285   | \$ 103,884              | 3.56 %     | \$ 6,326                    | \$ (33,063) | \$ (26,737)  |
| Interest rate spread   |                 |                         | 3.00 %     |                 |                         | 2.84 %     |                             |             |              |
| Net interest income and net yield on interest-earning assets |                 | \$ 127,143              | 3.45 %     |                 | \$ 121,409              | 3.45 %     | \$ 5,964                    | \$ (230)    | \$ 5,734     |

Average loan and lease balances include nonaccrual loans and leases. Yields related to loans, leases and securities exempt from both federal and state income taxes, federal income taxes only, or state income taxes only are stated on a taxable-equivalent basis assuming a statutory federal income tax rate of 35% and a state income tax rate of 6.90% for each period. The taxable-equivalent adjustment was \$1,715 and \$1,820 for 2008 and 2007, respectively.

**INTEREST-BEARING LIABILITIES**

Interest-bearing liabilities include our interest-bearing deposits as well as short-term borrowings and long-term obligations. Deposits represent our primary funding source, although we also utilize non-deposit borrowings to augment our liquidity base and to fulfill commercial customer requirements for cash management services. Certain of our long-term borrowings also provide capital strength under existing guidelines established by the Federal Reserve Bank and other banking regulators.

**Deposits.** At June 30, 2008, deposits totaled \$13.08 billion, an increase of \$303.1 million or 2.4 percent over June 30, 2007. Money market accounts increased \$385.1 million or 14.2 percent over the same period, while other deposit types were off slightly. Competition and pricing for deposit business in our market areas are extremely intense, particularly from larger bank competitors confronting wholesale funding challenges. We expect such competitive forces to remain largely unchanged during the remainder of 2008.

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## **Table of Contents**

**Short-term borrowings.** At June 30, 2008, short-term borrowings totaled \$1.13 billion compared to \$1.36 billion at June 30, 2007, a \$229.7 million reduction. The 16.9 percent decline resulted from reduced demand for commercial cash management products caused by falling interest rates.

**Long-term obligations.** Long-term obligations equaled \$609.3 million at June 30, 2008, up \$204.0 million from June 30, 2007. During the first quarter 2008, we borrowed \$205.0 million from the Federal Home Loan Bank of Atlanta in order to provide additional balance sheet liquidity.

**Expense on interest-bearing liabilities.** Interest expense amounted to \$77.1 million during the second quarter of 2008, a \$26.7 million or 25.7 percent decrease from the second quarter of 2007. Significantly lower rates more than offset the impact of the growth in interest-bearing liabilities. The rate on average interest-bearing liabilities equaled 2.53 percent during the second quarter of 2008, a 103 basis point decrease in the aggregate blended rate on interest-bearing liabilities as compared to the second quarter of 2007. Average interest-bearing liabilities increased \$583.4 million or 5.0 percent from second quarter of 2007 to the second quarter of 2008.

For the year-to-date, interest expense equaled \$172.0 million, compared to \$203.3 million for the same period of 2007. The \$31.4 million or 15.4 percent decrease results from lower interest rates, partially offset by the impact of growth in deposits and long-term borrowings. The rate on interest-bearing liabilities decreased from 3.52 percent during the first six months of 2007 to 2.81 percent for the same period of 2008, a 71 basis point drop. For the first six months of 2008, average interest-bearing liabilities increased \$666.9 million or 5.7 percent from \$11.63 billion to \$12.30 billion. Average money market accounts increased \$321.9 million or 11.7 percent to \$3.08 billion while average time deposits increased \$291.6 million or 5.7 percent to \$5.43 billion, both of which we attribute in part to customers seeking to place deposits with high-quality banks. Due to additional borrowings from the Federal Home Loan Bank, long-term obligations increased \$135.7 million from \$406.8 million to \$542.5 million.

## **NET INTEREST INCOME**

Net interest income totaled \$125.4 million during the second quarter of 2008, an increase of \$5.8 million or 4.9 percent over the second quarter of 2007. The taxable-equivalent net yield on interest-earning assets equaled 3.45 percent for the second quarter of 2008, unchanged from the second quarter of 2007 but up 4 basis points from the first quarter of 2008. For the six-month period ended June 30, 2008, net interest income increased by \$10.2 million or 4.3 percent from the same period of 2007 due to a \$752.0 million increase in average interest-earning assets offset by a 4 basis point contraction in the net yield on interest-earning assets. For both the second quarter and the first six months of 2008, the growth in net interest income was due to balance sheet growth.

## **NONINTEREST INCOME**

The growth of noninterest income is essential to our ability to sustain adequate levels of profitability. The primary sources of noninterest income are cardholder and merchant services income, service charges on deposit accounts, revenues derived from wealth management services and fees from processing services. During 2008, we also recorded a significant securities gain.

During the first half of 2008, noninterest income amounted to \$162.7 million, compared to \$141.7 million during the same period of 2007. Of the \$21.0 million or 14.9 percent increase in noninterest income, \$8.1 million resulted from a securities gain recognized in conjunction with our investment in Visa, Inc. During the first quarter of 2008, Visa completed its initial public offering resulting in a conversion of our former member-bank equity investment to a new class of restricted stock. Immediately thereafter, a portion of our new Visa stock was redeemed for cash thereby triggering the gain. Noninterest income also benefited from improvements in service charges on deposit accounts, cardholder and merchant services income, wealth management income and fees from processing services.

Service charges on deposit accounts generated \$41.0 million for the first six months of 2008, an increase of \$4.5 million or 12.5 percent from 2007. Service charge income earned on commercial accounts increased due to lower earnings credit rates, and NSF and overdraft fees improved as a result of tiered pricing implemented in 2007.

Cardholder and merchant services produced \$48.7 million during the first six months of 2008, an increase of \$1.9 million or 4.0 percent compared to 2007. This increase resulted primarily from higher interchange income, the result of growth in transaction volumes generated by both debit and credit cardholders.

**Table of Contents****Consolidated Taxable Equivalent Rate/Volume Variance Analysis - Six Months**

Table 5

| (thousands)  | 2008            |                         |            | 2007            |                         |            | Increase (decrease) due to: |             |            | Total Change |
|--|-----------------|-------------------------|------------|-----------------|-------------------------|------------|-----------------------------|-------------|------------|--------------|
|  | Average Balance | Interest Income/Expense | Yield/Rate | Average Balance | Interest Income/Expense | Yield/Rate | Volume                      | Rate        | Yield/Rate |              |
| <b>Assets</b>  |                 |                         |            |                 |                         |            |                             |             |            |              |
| Loans and leases   | \$ 11,058,053   | \$ 345,288              | 6.27 %     | \$ 10,296,244   | \$ 356,943              | 6.99 %     | \$ 25,844                   | \$ (37,499) |            | \$ (11,655)  |
| <b>Investment securities:</b>                                |                 |                         |            |                 |                         |            |                             |             |            |              |
| U. S. Government   | 3,133,211       | 70,131                  | 4.49       | 2,993,143       | 69,259                  | 4.64       | 3,211                       | (2,339)     |            | 872          |
| State, county and municipal                                  | 4,939           | 163                     | 6.64       | 5,705           | 153                     | 5.41       | (23)                        | 33          |            | 10           |
| Other  | 72,682          | 1,598                   | 4.42       | 71,037          | 1,536                   | 4.36       | 38                          | 24          |            | 62           |
| Total investment securities                                  | 3,210,832       | 71,892                  | 4.49       | 3,069,885       | 70,948                  | 4.64       | 3,226                       | (2,282)     |            | 944          |
| Overnight investments  | 497,401         | 6,366                   | 2.57       | 648,205         | 16,814                  | 5.23       | (2,898)                     | (7,550)     |            | (10,448)     |
| Total interest-earning assets                                | \$ 14,766,286   | \$ 423,546              | 5.76 %     | \$ 14,014,334   | \$ 444,705              | 6.39 %     | \$ 26,172                   | \$ (47,331) |            | \$ (21,159)  |
| <b>Liabilities</b>   |                 |                         |            |                 |                         |            |                             |             |            |              |
| <b>Interest-bearing deposits:</b>                            |                 |                         |            |                 |                         |            |                             |             |            |              |
| Checking With Interest                                       | \$ 1,444,009    | \$ 664                  | 0.09 %     | \$ 1,475,837    | \$ 920                  | 0.13 %     | \$ 8                        | \$ (264)    |            | \$ (256)     |
| Savings  | 546,082         | 561                     | 0.21       | 590,563         | 626                     | 0.21       | (56)                        | (9)         |            | (65)         |
| Money market accounts  | 3,077,735       | 33,303                  | 2.18       | 2,755,868       | 45,509                  | 3.33       | 4,442                       | (16,648)    |            | (12,206)     |
| Time deposits  | 5,430,347       | 109,588                 | 4.06       | 5,138,724       | 115,968                 | 4.55       | 6,370                       | (12,750)    |            | (6,380)      |
| Total interest-bearing deposits                              | 10,498,173      | 144,116                 | 2.76       | 9,960,992       | 163,023                 | 3.30       | 10,764                      | (29,671)    |            | (18,907)     |
| Federal funds purchased                                      | 33,233          | 422                     | 2.55       | 74,157          | 1,906                   | 5.18       | (784)                       | (700)       |            | (1,484)      |
| Repurchase agreements  | 264,921         | 1,475                   | 1.12       | 287,185         | 5,145                   | 3.61       | (257)                       | (3,413)     |            | (3,670)      |
| Master notes   | 899,187         | 8,799                   | 1.97       | 819,789         | 17,763                  | 4.37       | 1,273                       | (10,237)    |            | (8,964)      |
| Other short-term borrowings                                  | 57,360          | 1,344                   | 4.71       | 79,577          | 1,842                   | 4.67       | (515)                       | 17          |            | (498)        |
| Long-term obligations  | 542,516         | 15,817                  | 5.83       | 406,800         | 13,653                  | 6.71       | 4,236                       | (2,072)     |            | 2,164        |
| Total interest-bearing liabilities                           | \$ 12,295,390   | \$ 171,973              | 2.81 %     | \$ 11,628,500   | \$ 203,332              | 3.52 %     | \$ 14,717                   | \$ (46,076) |            | \$ (31,359)  |
| Interest rate spread   |                 |                         | 2.95 %     |                 |                         | 2.87 %     |                             |             |            |              |
| Net interest income and net yield on interest-earning assets |                 | \$ 251,573              | 3.43 %     |                 | \$ 241,373              | 3.47 %     | \$ 11,455                   | \$ (1,255)  |            | \$ 10,200    |

Average loan and lease balances include nonaccrual loans and leases. Yields related to loans, leases and securities exempt from both federal and state income taxes, federal income taxes only, or state income taxes only are stated on a taxable-equivalent basis assuming a statutory federal income tax rate of 35% and a state income tax rate of 6.90% for each period. The taxable-equivalent adjustment was \$3,568 and \$3,595 for 2008 and 2007, respectively.

Fees from processing services added \$1.8 million or 11.1 percent in 2008 caused by higher transaction volumes and the realization of a termination fee from a client bank.

Wealth management services generated \$25.9 million in the first half of 2008 compared to revenues of \$23.3 million in 2007. The \$2.6 million or 11.2 percent increase resulted primarily from increased broker-dealer revenues.

**NONINTEREST EXPENSE**

The primary components of noninterest expense are salaries and related employee benefit costs, occupancy expenses related to branch offices and support facilities, and equipment costs related to branch offices and technology.

Noninterest expense equaled \$295.1 million for the first six months of 2008, a \$13.6 million or 4.8 percent increase over the \$281.5 million recorded during the same period of 2007.

Salaries and wages totaled \$126.4 million for the first six months of 2008, an increase of \$8.0 million or 6.8 percent when compared to the same period of 2007. The increase resulted from new branch offices, headcount additions in support functions and the effect of mid-year 2007 merit increases. Employee benefits expense totaled \$31.2 million for the first six months of 2008, an increase of \$5.2 million. This 20.0 percent increase includes the impact of \$3.9 million in executive retirement costs recorded during the first quarter of 2008 and higher employee health costs.

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## **Table of Contents**

Occupancy expense amounted to \$30.0 million during the first half of 2008 and \$27.9 million during 2007. The \$2.2 million or 7.8 percent increase resulted from higher building costs arising from branch expansion and improvements to the headquarters facility.

Other expenses decreased \$2.2 million or 2.6 percent from the first six months of 2007 to the same period of 2008. For 2008, other expense includes two nonrecurring credits. During the first quarter of 2008, we recorded a \$3.3 million credit resulting from the reversal of a litigation reserve that was accrued during the fourth quarter of 2007 as an estimate of exposure resulting from our Visa member bank status. Once Visa completed its initial public offering during 2008, a portion of the proceeds were retained, and the member bank liabilities that were the basis for the 2007 accruals were settled. During the second quarter of 2008, we recorded a \$2.3 million credit resulting from the termination of our debit card rewards program. In addition, advertising expense declined \$2.7 million during 2008. Smaller reductions were noted among losses recorded on asset sales, consultant services and moving expenses. Partially offsetting these favorable variances were accruals for a litigation contingency and higher fees for processing services outsourced to third parties.

For the second quarter of 2008, noninterest expense totaled \$149.5 million, a \$6.6 million or 4.6 percent increase over the same period of 2007. Salary expense equaled \$63.6 million during the second quarter of 2007, an increase of \$3.8 million or 6.4 percent due primarily to associates hired in new branch offices and in support functions. Occupancy expense increased \$692,000 or 4.9 percent due primarily to the expansion of the branch network. Other expense increased \$6.6 million during the second quarter. This 4.6 percent increase resulted from the litigation accrual and increases in various other costs, partially offset by the benefit resulting from termination of the cardholder reward program and lower advertising expense.

## **INCOME TAXES**

BancShares continually monitors and evaluates the potential impact of current events on the estimates used to establish income tax expenses and income tax liabilities. On a periodic basis, we evaluate our income tax positions based on current tax law, positions taken by various tax auditors within the jurisdictions that BancShares is required to file income tax returns, as well as potential or pending audits or assessments by such tax auditors.

Income tax expense amounted to \$33.5 million during the six months ended June 30, 2008, compared to \$33.7 million during the same period of 2007. The 0.5 percent decrease in income tax expense was primarily the result of lower pretax earnings. The effective tax rates for these periods were 36.4 percent and 36.0 percent, respectively.

## **SHAREHOLDERS EQUITY AND CAPITAL ADEQUACY**

BancShares continues to comfortably exceed minimum regulatory capital standards, and the banking subsidiaries remain well-capitalized. At June 30, 2008 and 2007, the leverage capital ratios of BancShares were 9.89 percent and 9.75 percent, respectively, surpassing the minimum level of 3 percent. As a percentage of risk-adjusted assets, BancShares Tier 1 capital ratios were 13.14 percent at June 30, 2008 and 13.05 percent at June 30, 2007. The minimum ratio allowed is 4 percent of risk-adjusted assets. The total risk-adjusted capital ratios were 15.48 percent at June 30, 2008 and 15.40 percent as of June 30, 2007. The minimum total capital ratio is 8 percent.

The continued de novo growth and operating losses of ISB has required BancShares to infuse significant amounts of capital into ISB to support its expanding balance sheet. BancShares infused \$7.0 million into ISB during the second quarter of 2008. Since ISB was formed in 1997, BancShares has provided \$318.0 million in capital and will provide an additional \$10.3 million and \$7.0 million in capital during the third and fourth quarters of 2008, respectively. The cumulative loss incurred since ISB's inception totals \$45.3 million. BancShares prospective capacity to provide capital to support the growth and expansion of ISB is highly dependent upon FCB's ability to return adequate capital through dividends to BancShares.

## **RISK MANAGEMENT**

In the normal course of business, BancShares is exposed to various risks. To manage the major risks that are inherent in the operation of a financial holding company and to provide reasonable assurance that our long-term business objectives will be attained, various policies and risk management processes identify, monitor and manage risk within acceptable tolerances. Management continually refines and enhances its risk management policies and procedures to maintain effective risk management.

Our most critical risk exposures are credit, interest rate and liquidity risk. Credit risk is the risk of not collecting the amount of a loan or investment when it is contractually due. Interest rate risk is the potential reduction of net interest income and thus earnings as a result of unfavorable changes in market interest rates. Liquidity risk is the possible inability to fund obligations to depositors, creditors, investors or borrowers.

## **Table of Contents**

*Credit risk.* BancShares manages and monitors extensions of credit and the quality of the loan and lease portfolio through rigorous initial underwriting processes and periodic ongoing reviews. Underwriting standards reflect credit policies and procedures, and much of the credit decision process is centralized. We maintain a credit review function that conducts independent risk reviews and analyses for the purpose of ensuring compliance with credit policies and to monitor asset quality trends. The independent risk reviews include portfolio analysis by geographic location and horizontal reviews across industry sectors within the banking subsidiaries. We strive to identify potential credit problems as early as possible, to take charge-offs or write-downs as appropriate and to maintain adequate allowances for credit losses that are inherent in the loan and lease portfolio. The maintenance of excellent asset quality is one of our key performance measures.

We maintain a well-diversified loan and lease portfolio and seek to avoid the risk associated with large concentrations within specific geographic areas or industries. Our continuing expansion has allowed us to mitigate our historic exposure to geographic risk concentration in North Carolina and Virginia. However, as we have entered new markets, we have endeavored to ensure that rigorous centralized underwriting and monitoring controls are functioning effectively. We will continue to place emphasis upon maintaining strong lending standards in new markets.

In recent years, we have aggressively sought opportunities to provide financial services to businesses associated with and professionals within the medical community. Due to strong growth within this segment of our loan and lease portfolio, our loans and leases to borrowers in medical, dental or related fields totaled \$2.45 billion as of June 30, 2008, which represents 21.7 percent of total loans and leases outstanding, compared to \$2.04 billion or 19.4 percent at June 30, 2007. Except for this single concentration, no other industry represented more than 10 percent of total loans and leases outstanding at June 30, 2008.

Nonperforming assets include nonaccrual loans and leases and other real estate, which includes foreclosed property and closed branch facilities. At June 30, 2008, BancShares' nonperforming assets amounted to \$47.3 million or 0.42 percent of loans and leases plus foreclosed properties, compared to \$43.2 million last quarter and \$18.8 million at June 30, 2007. Nonaccrual loans totaled \$34.5 million at June 30, 2008 compared to \$12.5 million at June 30, 2007, while other real estate equaled \$12.8 million and \$6.4 million as of the respective dates. The increases in nonaccrual loans and other real estate result from residential construction loans secured by properties located in the Atlanta, Georgia and Southwest Florida markets, areas that have suffered from significant excess capacity and falling property values. Our borrowers, who are dependent on proceeds from sales to fund their obligations to us, face significant liquidity challenges. Due to concerns about other borrowers' ability to comply with existing loan repayment terms, additional residential construction loans totaling \$55.4 million were identified as potential problem loans as of June 30, 2008. As real estate markets remain soft, we will continue to closely monitor nonperforming assets, taking necessary actions to minimize potential exposure.

At June 30, 2008, the allowance for credit losses totaled \$152.0 million or 1.34 percent of total loans and leases, compared to \$136.4 million or 1.30 percent of loans and leases at June 30, 2007. The allowance for credit losses includes the allowance for loan and lease losses and the reserve for unfunded credit commitments. The \$15.6 million increase in the allowance was attributable to additional provisions related to the residential construction loan portfolio as well as amounts established for growth in the loan and lease portfolio. We continuously analyze the growth and risk characteristics of the loan and lease portfolio under current economic conditions in order to evaluate the adequacy of the allowance. The allowance model considers the financial condition of borrowers, fair market value of collateral and other factors in estimating probable credit losses.

Management considers the resulting allowance adequate to absorb estimated probable losses that relate to loans and leases outstanding at June 30, 2008, although future additions may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require the recognition of adjustments to the allowance based on their judgments of information available to them at the time of their examination.



## **Table of Contents**

The provision for credit losses charged to operations during the first six months of 2008 equaled \$23.5 million, compared to \$4.5 million during the first six months of 2007. The \$19.0 million increase resulted from higher net charge-offs and nonperforming loans during 2008 and the impact of changes made to the allowance model during 2007. Net charge-offs during the first half of 2008 equaled \$15.7 million compared to \$6.7 million during 2007. On an annualized basis, net charge-offs represent 0.29 percent of average loans and leases during the first six months of 2008 compared to 0.13 percent in the first six months of 2007.

During the second quarter of 2007, we adopted several refinements to the methodology used to establish the allowance for loan and lease losses. After accumulating sufficient data related to the actual repayment history of an isolated pool of revolving mortgage loans, we determined that an adjustment to the formula used to calculate the allowance for this portfolio was appropriate. In addition, after monitoring the migration of commercial mortgage and commercial and industrial loans between loan grades over a period of several years, we incorporated applicable data into our formula used to calculate the allowance for this portfolio. Finally, in recognition of data suggesting the banking industry had begun to experience a period of credit deterioration, we increased the amount of the unallocated allowance. Collectively, these changes resulted in a \$6.1 million reduction in provision for credit losses during 2007.

Table 6 provides details concerning the allowance and provision for credit losses during the past five quarters.

*Interest rate risk.* Interest rate risk results principally from assets and liabilities maturing or repricing at different points in time, from assets and liabilities repricing at the same point in time but in different amounts and from short-term and long-term interest rates changing in different magnitudes, an event frequently described by the resulting impact on the shape of the yield curve. External interest rates may also have a direct or indirect impact on the interest rate and repricing characteristics of loans and leases that are originated as well as the rate characteristics of our interest-bearing liabilities.

We do not typically utilize interest rate swaps, floors, collars or other derivative financial instruments to attempt to hedge our rate sensitivity and general balance sheet interest rate risk. However, during the second quarter of 2007, in conjunction with the issuance of \$115.0 million in trust preferred securities, we entered into an interest rate swap to synthetically convert the variable rate coupon on the securities to a fixed rate of 7.125 percent for a period of five years.

We assess our interest rate risk by simulating future amounts of net interest income under various interest rate scenarios and comparing those results to forecasted net interest income assuming stable rates. These simulations indicate that net interest income will vary by less than five percent when interest rates rise or decline by 200 basis points. We also utilize the market value of equity as a tool in measuring and managing interest rate risk. The market value of equity as a percentage of the economic value of assets is estimated to range from 9.6 percent to 7.8 percent when interest rates move 200 basis points in either direction.

*Liquidity Risk.* Liquidity risk results from the mismatching of asset and liability cash flows. We manage this risk by structuring our balance sheet prudently and by maintaining various borrowing resources to fund potential cash needs. We have historically maintained a strong focus on liquidity, and our deposit base represents our primary liquidity source. Through our deposit pricing strategies, we have the ability to stimulate or curtail deposit growth. We also maintain additional sources for borrowed funds through federal funds lines of credit and other borrowing facilities. At June 30, 2008, we had access to \$525.0 million in unfunded borrowings through our correspondent bank network. We also utilize deposit brokers to provide funding.

Once we have generated the needed liquidity and satisfied our loan and lease demand, residual liquidity is invested in overnight and longer-term investment products. Investment securities available for sale provide immediate liquidity as needed.

**Table of Contents****Summary of Loan and Lease Loss Experience and Risk Elements**

Table 6

| (thousands, except ratios)  | 2008           |               |                | 2007          |                | Six Months Ended June 30 |               |
|---|----------------|---------------|----------------|---------------|----------------|--------------------------|---------------|
|   | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | 2008                     | 2007          |
| Allowance for credit losses at beginning of period                    | \$ 149,091     | \$ 144,271    | \$ 140,871     | \$ 136,396    | \$ 139,496     | \$ 144,271               | \$ 138,646    |
| Provision for credit losses   | 13,350         | 10,118        | 11,795         | 17,333        | 934            | 23,468                   | 4,466         |
| <b>Net charge-offs:</b>   |                |               |                |               |                |                          |               |
| Charge-offs   | (11,566)       | (6,606)       | (9,657)        | (14,099)      | (4,954)        | (18,172)                 | (8,934)       |
| Recoveries  | 1,145          | 1,308         | 1,262          | 1,241         | 920            | 2,453                    | 2,218         |
| Net charge-offs   | (10,421)       | (5,298)       | (8,395)        | (12,858)      | (4,034)        | (15,719)                 | (6,716)       |
| Allowance for credit losses at end of period                          | \$ 152,020     | \$ 149,091    | \$ 144,271     | \$ 140,871    | \$ 136,396     | \$ 152,020               | \$ 136,396    |
| Allowance for credit losses includes:                                 |                |               |                |               |                |                          |               |
| Allowance for loan and lease losses                                   | \$ 144,533     | \$ 141,591    | \$ 136,974     | \$ 133,576    | \$ 129,276     | \$ 144,533               | \$ 129,276    |
| Reserve for unfunded commitments                                      | 7,487          | 7,500         | 7,297          | 7,295         | 7,120          | 7,487                    | 7,120         |
| Allowance for credit losses at end of period                          | \$ 152,020     | \$ 149,091    | \$ 144,271     | \$ 140,871    | \$ 136,396     | \$ 152,020               | \$ 136,396    |
| <b>Historical Statistics</b>  |                |               |                |               |                |                          |               |
| Average loans and leases  | \$ 11,154,400  | \$ 10,961,706 | \$ 10,831,571  | \$ 10,623,247 | \$ 10,360,913  | \$ 11,058,053            | \$ 10,296,245 |
| Loans and leases at period-end  | 11,313,155     | 11,029,937    | 10,963,904     | 10,763,158    | 10,513,041     | 11,313,155               | 10,513,041    |
| <b>Risk Elements</b>  |                |               |                |               |                |                          |               |
| Nonaccrual loans and leases   | \$ 34,534      | \$ 39,259     | \$ 13,021      | \$ 18,227     | \$ 12,458      | \$ 34,534                | \$ 12,458     |
| Other real estate   | 12,750         | 3,987         | 6,893          | 5,202         | 6,352          | 12,750                   | 6,352         |
| Total nonperforming assets  | \$ 47,284      | \$ 43,246     | \$ 19,914      | \$ 23,429     | \$ 18,810      | \$ 47,284                | \$ 18,810     |
| Accruing loans and leases 90 days or more past due                    | \$ 10,885      | \$ 7,569      | \$ 7,124       | \$ 10,322     | \$ 9,289       | \$ 10,885                | \$ 9,289      |
| <b>Ratios</b>   |                |               |                |               |                |                          |               |
| Net charge-offs (annualized) to average total loans and leases        | 0.38 %         | 0.19 %        | 0.31 %         | 0.48 %        | 0.16 %         | 0.29 %                   | 0.13 %        |
| Percent of total loans and leases at period-end:                      |                |               |                |               |                |                          |               |
| Allowance for loan and lease losses                                   | 1.28           | 1.28          | 1.25           | 1.24          | 1.23           | 1.28                     | 1.23          |
| Reserve for unfunded commitments                                      | 0.07           | 0.07          | 0.07           | 0.07          | 0.07           | 0.07                     | 0.07          |
| Allowance for credit losses   | 1.34           | 1.35          | 1.32           | 1.31          | 1.30           | 1.34                     | 1.30          |
| Nonperforming assets to total loans and leases plus other real estate | 0.42           | 0.39          | 0.18           | 0.22          | 0.18           | 0.42                     | 0.18          |

## **Table of Contents**

### **SEGMENT REPORTING**

BancShares conducts its banking operations through its two banking subsidiaries, FCB and ISB. Although FCB and ISB offer similar products and services to customers, each entity operates in distinct geographic markets and has separate management groups. We monitor growth and financial results in these institutions separately and, within each institution, by geographic segregation.

Although FCB has grown through acquisition in certain of its markets, throughout its history the majority of its expansion has been accomplished on a de novo basis. Because of its size, the costs associated with FCB's current rate of expansion are not material to its financial performance. Since ISB began operations in 1997, it has followed a similar business model for growth and expansion. However, due to the rapid pace of its growth and the number of branch offices that have not attained sufficient size to achieve profitability, the financial results and trends of ISB are significantly affected by its current and continuing growth. Each new market ISB enters creates additional operating costs that are typically not fully offset by operating revenues until the third year after initial opening. Losses incurred since ISB's inception total \$45.3 million.

IronStone Bank. At June 30, 2008, ISB operated 58 facilities in twelve states, with a focus on markets with favorable growth prospects. Our business model for new markets has two primary requirements. First, we hire experienced bankers who are established in the markets we are entering and who are focused on strong asset quality and delivering high-quality customer service. Second, we occupy branch facilities in areas attractive to medical and professional customers. While these are costly goals, we believe that they are critical to establishing a solid foundation for future success in new markets. Due to the incremental operating costs associated with its newest branches and the sharp increase in provision for credit losses, we expect ISB will operate at a loss throughout 2008.

ISB's assets totaled \$2.65 billion at June 30, 2008 compared to \$2.22 billion at June 30, 2007, an increase of \$430.6 million or 19.4 percent.

ISB reported a net loss of \$10.5 million during the first six months of 2008, compared to a net loss of \$1.3 million reported during 2007. The higher net loss resulted from a material increase in the provision for credit losses and additional noninterest expense.

The provision for credit losses increased \$10.3 million during the first six months of 2008 due to increased net charge-offs and allowances required by downgraded residential construction loans. Net charge-offs increased from \$1.1 million in 2007 to \$7.1 million in 2008. On an annualized basis, the ratio of net charge-offs to average loans and leases outstanding equaled 0.67 percent during the six month period ended June 30, 2008, compared to 0.12 percent during the same period of 2007.

## **Table of Contents**

Noninterest expense increased \$3.3 million or 8.6 percent during the first half of 2008, versus the same period of 2007. Salaries and wages increased \$1.2 million or 7.8 percent during the first six months of 2008, the combined result of merit increases and staff costs to support new facilities. Occupancy expense was up \$585,000 or 7.9 percent due to growth of the branch network. Other expense equaled \$12.2 million during the six months of 2008 compared to \$10.9 million during the second quarter of 2007, an 11.9 percent increase caused by higher general operating expenses, such as legal expenses and credit card and other processing fees.

ISB's noninterest income decreased \$579,000 or 8.5 percent during the first six months of 2008 due to reductions in fees from working capital finance, the impact of which more than offset the benefit of higher cardholder and merchant services income and service charges on deposit accounts.

**First-Citizens Bank & Trust Company.** At June 30, 2008, FCB operated 343 branches in five states. FCB's total assets increased \$142.8 million from \$13.39 billion at June 30, 2007 to \$13.54 billion at June 30, 2008. First Citizens generated net income of \$72.6 million during the first two quarters of 2008, compared to net income of \$65.7 million during 2007. The \$6.9 million growth in net income included the impact of a securities gain and higher net interest income, partially offset by higher noninterest expense and an increase in the provision for credit losses. FCB's net interest income increased \$7.6 million or 3.6 percent during 2008, due to higher balances of interest-earning assets.

The provision for credit losses increased \$8.7 million due a \$3.0 million increase in net charge-offs, and the favorable impact of modifications made to the allowance for loan and lease loss model during 2007. FCB's noninterest income increased \$20.6 million or 14.7 percent during the first six months of 2008 including the impact of the \$8.1 million securities gain. Other increases were noted in wealth advisory services, deposit service charges and cardholder and merchant services income. Noninterest expense increased \$8.7 million or 3.5 percent during 2008, caused by higher personnel, occupancy and technology-related costs.

## **LEGAL PROCEEDINGS**

As previously reported, on February 24, 2006, DataTreasury Corporation ( DataTreasury ) filed a lawsuit in the United States District Court for the Eastern District of Texas against 54 defendants, including BancShares and FCB and a number of other large financial institutions, alleging that the defendants are infringing six patents covering check processing that DataTreasury claims to own. DataTreasury alleges that BancShares and FCB have infringed four of the six patents and seeks to recover damages, including royalty payment for checks processed since February 2000 and in the future. All four patents have been subject to reexamination by the United States Patent and Trademark office which has issued reexamination certificates with respect to two of the patents. BancShares and FCB challenge the validity of the patents and claim that, even if the patents are valid, we are not liable because BancShares does not process checks and FCB's check processing system does not infringe the patents. We strenuously deny liability and are vigorously defending our positions. We have placed certain software and equipment vendors on notice of a claim for our defense costs (and currently are pursuing such a claim against one vendor) and a contingent claim for indemnification in the event DataTreasury prevails in the lawsuit.

In July 2008, DataTreasury and a number of the defendants, including BancShares and FCB, were directed by the Court to participate in mediation in an attempt to settle the lawsuit. The mediation was not successful.

Based on information currently available, we recorded a contingency accrual during the second quarter of 2008 in an amount that management deems appropriate. At this time, it is impossible to determine whether and, if so, what amount may be recovered through claims and contingent claims that have been and may be asserted against software and equipment vendors.

BancShares and various subsidiaries have been named as defendants in various other legal actions arising from our normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to those other matters cannot be determined, in the opinion of management, any such liability will not have a material effect on BancShares' consolidated financial statements.

## **Table of Contents**

### **CURRENT ACCOUNTING AND REGULATORY ISSUES**

In September 2007, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. We adopted Statement 157 on January 1, 2008, and the adoption did not have a material impact on our consolidated financial statements.

In September 2007, the FASB issued Summary of Statement No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (Statement 158). In addition to other provisions that have already been applied for all periods presented, Statement 158 requires sponsors of defined benefit and other post-retirement plans to measure the funded status of a plan as of the date of its year-end statement of financial position. For BancShares, that provision will become effective December 31, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities (Statement 159). Statement 159 allows an entity to elect to measure certain financial assets and liabilities at fair value with changes in fair value recognized in the income statement each period. The statement also requires additional disclosures to identify the effects of an entity's fair value election on its earnings. We adopted Statement 159 on January 1, 2008, and the adoption did not have a material impact on financial condition, results of operations, or liquidity.

Management is not aware of any current recommendations by regulatory authorities that, if implemented, would have or would be reasonably likely to have a material effect on liquidity, capital ratios or results of operations.

### **FORWARD-LOOKING STATEMENTS**

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

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in our Annual Report on Form 10-K and in other documents filed by us from time to time with the Securities and Exchange Commission.

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

Factors that could influence the accuracy of those forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, customer acceptance of our services, products and fee structure, the competitive nature of the financial services industry, our ability to compete effectively against other financial institutions in our banking markets, actions of government regulators, the level of market interest rates and our ability to manage our interest rate risk, changes in general economic conditions that affect our loan and lease portfolio, the abilities of our borrowers to repay their loans and leases, the values of real estate and other collateral, and other developments or changes in our business that we do not expect.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

**Table of Contents**

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential economic loss resulting from changes in market prices and interest rates. This risk can either result in diminished current fair values of financial instruments or reduced net interest income in future periods. As of June 30, 2008, BancShares' market risk profile has not changed significantly from December 31, 2007. Changes in fair value that result from movement in market rates cannot be predicted with any degree of certainty. Therefore, the impact that future changes in market rates will have on the fair values of financial instruments is uncertain.

Item 4. Controls and Procedures

BancShares' management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of BancShares' disclosure controls and procedures in accordance with Rule 13a-15 of the Securities Exchange Act of 1934 (Exchange Act). Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, BancShares' disclosure controls and procedures were effective in enabling it to record, process, summarize and report in a timely manner the information required to be disclosed in reports it files under the Exchange Act.

No change in BancShares' internal control over financial reporting occurred during the second quarter of 2008 that had materially affected, or is reasonably likely to materially affect, BancShares' internal control over financial reporting.

**Table of Contents**

## PART II

## Item 4. Submission of Matters to a Vote of Security Holders

On April 28, 2008, at the Annual Meeting of Shareholders of Registrant, the shareholders considered the election of directors. The shareholder vote regarding the election of the nominees for Board of Directors was:

| Nominee             | For        | Withheld | Broker<br>Non-votes |
|---------------------|------------|----------|---------------------|
| J.M. Alexander, Jr. | 30,610,760 | 146,984  | -                   |
| C.H. Ames           | 30,517,666 | 240,078  | -                   |
| V.E. Bell, III      | 30,623,192 | 134,552  | -                   |
| G.H. Broadrick      | 30,497,048 | 260,696  | -                   |
| H.H. Connell        | 30,521,281 | 236,463  | -                   |
| H.M. Craig, III     | 30,610,260 | 147,484  | -                   |
| H.L. Durham, Jr.    | 30,410,331 | 347,413  | -                   |
| L.M. Fetterman      | 30,610,256 | 147,488  | -                   |
| D.L. Heavner        | 30,622,739 | 135,005  | -                   |
| F.B. Holding        | 30,520,554 | 237,190  | -                   |
| F.B. Holding, Jr.   | 30,524,330 | 233,414  | -                   |
| L.R. Holding        | 30,495,707 | 262,037  | -                   |
| C.B.C. Holt         | 30,610,277 | 147,467  | -                   |
| L.S. Jones          | 30,621,873 | 135,871  | -                   |
| R.E. Mason, IV      | 30,622,692 | 135,052  | -                   |
| R.T. Newcomb        | 30,623,239 | 134,505  | -                   |
| L.T. Nunnellee, II  | 30,610,309 | 147,435  | -                   |
| J.M. Parker         | 30,520,609 | 237,135  | -                   |
| R.K. Shelton        | 30,622,421 | 135,323  | -                   |
| R.C. Soles, Jr.     | 30,411,303 | 346,441  | -                   |
| D.L. Ward, Jr.      | 30,308,615 | 449,129  | -                   |

## Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32 Certifications of Chief Executive Officer and Chief Financial Officer

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 6, 2008

FIRST CITIZENS BANCSHARES, INC.  
(Registrant)

By: /s/ KENNETH A. BLACK

\_\_\_\_\_  
Kenneth A. Black  
Vice President, Treasurer

and Chief Financial Officer