CRBC 10-Q 9/30/2008

Section 1: 10-Q (FORM 10-Q)

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 September 30, 2008

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission file Number 001-33063

CITIZENS REPUBLIC BANCORP, INC.
(Exact name of registrant as specified in its charter)

MICHIGAN	38-2378932
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
328 S. Saginaw St., Flint, Michigan	48502
(Address of principal executive offices)	(Zip Code)

(810) 766-7500
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 12 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 90 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2008
Common Stock, No Par Value	126,015,039 Shares

Citizens Republic Bancorp, Inc.
Index to Form 10-Q

Consolidated Balance Sheets
Citizens Republic Bancorp and Subsidiaries

(in thousands)	**September 30, 2008 (unaudited)**	December 31, 2007 (Note 1)	September 30, 2007 (unaudited)
Assets			
Cash and due from banks	**$ 268,944**	$ 241,104	$ 224,683
Money market investments	**2,568**	172	5,193
Investment Securities:			
Securities available for sale, at fair value	**2,018,958**	2,132,164	2,177,516
Securities held to maturity, at amortized cost (fair value of $134,367, $129,366 and $122,186, respectively)	**139,574**	129,126	122,610
Total investment securities	**2,158,532**	2,261,290	2,300,126
FHLB and Federal Reserve stock	**148,768**	148,838	142,107
Portfolio loans:			
Commercial and industrial	**2,703,714**	2,557,152	2,236,131
Commercial real estate	**3,070,282**	3,097,196	3,068,540
Total commercial	**5,773,996**	5,654,348	5,304,671
Residential mortgage	**1,279,696**	1,445,214	1,460,993
Direct consumer	**1,481,380**	1,572,329	1,602,126
Indirect consumer	**843,126**	829,353	851,436
Total portfolio loans	**9,378,198**	9,501,244	9,219,226
Less: Allowance for loan losses	**(217,727)**	(163,353)	(176,958)
Net portfolio loans	**9,160,471**	9,337,891	9,042,268
Loans held for sale	**106,531**	75,832	76,384
Premises and equipment	**123,805**	132,500	130,148
Goodwill	**597,218**	775,308	778,516
Other intangible assets	**23,540**	30,546	33,206
Bank owned life insurance	**219,125**	214,321	212,243
Other assets	**306,449**	288,181	278,275
Total assets	**$ 13,115,951**	$13,505,983	$13,223,149
Liabilities			
Noninterest-bearing deposits	**$ 1,156,419**	$ 1,125,966	$ 1,104,992
Interest-bearing demand deposits	**768,466**	782,889	795,950
Savings deposits	**2,607,974**	2,221,813	2,136,082
Time deposits	**4,473,216**	4,171,257	3,904,715
Total deposits	**9,006,075**	8,301,925	7,941,739
Federal funds purchased and securities sold under agreements to repurchase	**59,781**	488,039	764,527
Other short-term borrowings	**63,281**	54,128	33,274
Other liabilities	**102,391**	144,501	120,968
Long-term debt	**2,347,644**	2,939,510	2,800,768
Total liabilities	**11,579,172**	11,928,103	11,661,276
Shareholders' Equity			
Preferred stock — $50 par value			
Authorized - 5,000,000 shares; None outstanding	**—**	—	—
Common stock — no par value			
Authorized - 150,000,000 shares; Issued and outstanding - 126,016,618 at 9/30/08, 75,722,115 at 12/31/07, and 75,633,669 at 9/30/07	**1,179,661**	975,446	973,619
Retained earnings	**365,954**	597,333	591,306
Accumulated other comprehensive income	**(8,836)**	5,101	(3,052)
Total shareholders' equity	**1,536,779**	1,577,880	1,561,873
Total liabilities and shareholders' equity	**$ 13,115,951**	$13,505,983	$13,223,149

See notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Operations (Unaudited)
Citizens Republic Bancorp and Subsidiaries

(in thousands, except per share amounts)	Three Months Ended September 30, **2008**	2007	Nine Months Ended September 30, **2008**	2007
Interest Income				
Interest and fees on loans	**$144,099**	$171,650	**$ 447,279**	$514,814
Interest and dividends on investment securities:				
Taxable	**18,275**	21,238	**58,319**	67,337
Tax-exempt	**7,272**	7,310	**21,922**	21,947
Dividends on FHLB and Federal Reserve stock	**1,917**	1,603	**5,508**	4,736
Money market investments	**160**	53	**206**	89
Total interest income	**171,723**	201,854	**533,234**	608,923
Interest Expense				
Deposits	**53,001**	64,380	**167,713**	195,015
Short-term borrowings	**1,060**	5,439	**7,867**	25,504
Long-term debt	**30,344**	37,162	**94,409**	98,413
Total interest expense	**84,405**	106,981	**269,989**	318,932
Net Interest Income	**87,318**	94,873	**263,245**	289,991
Provision for loan losses	**58,390**	3,765	**163,489**	39,122
Net interest income after provision for loan losses	**28,928**	91,108	**99,756**	250,869
Noninterest Income				
Service charges on deposit accounts	**12,254**	12,515	**35,756**	35,701
Trust fees	**4,513**	4,973	**13,905**	14,931
Mortgage and other loan income	**3,269**	2,939	**9,636**	13,334
Brokerage and investment fees	**1,376**	2,141	**5,503**	5,872
ATM network user fees	**1,715**	1,601	**4,805**	4,820
Bankcard fees	**1,874**	1,695	**5,542**	4,318
Gains (losses) on loans held for sale	**(1,261)**	—	**(3,508)**	—
Other income	**4,265**	4,732	**14,349**	14,321
Total fees and other income	**28,005**	30,596	**85,988**	93,297
Investment securities gains (losses)	**—**	8	**—**	(25)
Total noninterest income	**28,005**	30,604	**85,988**	93,272
Noninterest Expense				
Salaries and employee benefits	**39,728**	42,115	**120,999**	132,251
Occupancy	**6,749**	7,377	**21,378**	23,363
Professional services	**3,246**	5,096	**11,540**	13,599
Equipment	**3,160**	3,227	**9,810**	10,793
Data processing services	**4,185**	3,724	**12,722**	12,360
Advertising and public relations	**1,297**	1,003	**4,593**	6,070
Postage and delivery	**1,626**	1,777	**5,411**	5,937
Other loan expenses	**2,755**	1,245	**8,014**	3,237
ORE expenses, profits, and losses, net	**1,825**	360	**9,461**	394
Intangible asset amortization	**2,226**	2,803	**7,006**	8,875
Goodwill impairment	**—**	—	**178,089**	—
Restructuring and merger-related expenses	**—**	1,009	**—**	8,603
Other expense	**7,504**	7,607	**23,068**	23,061
Total noninterest expense	**74,301**	77,343	**412,091**	248,543
Income (Loss) Before Income Taxes	**(17,368)**	44,369	**(226,347)**	95,598
Income tax provision (benefit)	**(10,192)**	12,605	**(28,664)**	22,723
Net Income (Loss)	**(7,176)**	31,764	**(197,683)**	72,875
Deemed dividend on preferred stock	**(11,737)**	—	**(11,737)**	—
Net Income (Loss) Attributable to Common Shareholders	**$ (18,913)**	$ 31,764	**$(209,420)**	$ 72,875
Net Income (Loss) Per Common Share:				
Basic	**$ (0.20)**	$ 0.42	**$ (2.50)**	$ 0.97

Diluted	**(0.20)**	0.42	**(2.50)**	0.96
Cash Dividends Declared Per Common Share	**—**	0.290	**0.290**	0.870
Average Common Shares Outstanding:				
Basic	**95,937**	75,353	**83,670**	75,391
Diluted	**95,937**	75,501	**83,670**	75,688

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Citizens Republic Bancorp and Subsidiaries

(in thousands, except per share amounts)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2007	$ —	75,722	$ 975,446	$ 597,333	$ 5,101	$1,577,880
Comprehensive income, net of tax:						
Net loss				(197,683)		(197,683)
Other comprehensive income (loss):						
Net unrealized loss on securities available-for-sale, net of reclassification adjustment for net gains included in net income					(14,225)	
Net change in unrealized loss on qualifying cash flow hedges					288	
Other comprehensive income total						(13,937)
Total comprehensive income (loss)						(211,620)
Proceeds from issuance of preferred stock (2,408 shares), net of costs of $6,221	114,161					114,161
Deemed dividend on preferred stock (See Note 13)	11,737			(11,737)		—
Conversion of preferred stock to common stock	(125,898)	30,096	125,898			—
Proceeds from issuance of common stock, net of costs of $4,239		19,904	75,379			75,379
Proceeds from stock options exercised and restricted stock activity		326	67			67
Recognition of stock-based compensation			3,315			3,315
Cash dividends declared on common shares — $0.290 per share				(21,959)		(21,959)
Shares purchased for taxes		(31)	(444)			(444)
Balance — September 30, 2008	$ —	126,017	$1,179,661	$ 365,954	$ (8,836)	$1,536,779
Balance at December 31, 2006	$ —	75,676	$ 980,772	$ 584,289	$ (7,375)	$1,557,686
Comprehensive income, net of tax:						
Net income				72,875		72,875
Other comprehensive income:						
Net unrealized loss on securities available-for-sale, net of reclassification adjustment for net gains included in net income					5,120	
Net change in unrealized loss on qualifying cash flow hedges					(797)	
Other comprehensive						

income total						4,323
Total comprehensive income						77,198
Proceeds from stock options exercised and restricted stock activity		647	5,143			5,143
Recognition of stock-based compensation			2,427			2,427
Cash dividends declared on common shares — $0.870 per share				(65,858)		(65,858)
Shares acquired for retirement and purchased for taxes		(689)	(14,723)			(14,723)
Balance — September 30, 2007	$ —	75,634	$ 973,619	$ 591,306	$ (3,052)	$1,561,873

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Citizens Republic Bancorp and Subsidiaries

(in thousands)	Nine Months Ended September 30, 2008	2007
Operating Activities:		
Net income (loss)	**$ (197,683)**	$ 72,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**163,489**	39,122
Goodwill impairment	**178,089**	—
Depreciation and software amortization	**8,780**	10,094
Amortization of intangibles	**7,006**	8,875
Amortization and fair value adjustments of purchase accounting mark-to-market, net	**(12,511)**	(19,205)
Fair value adjustment on loans held for sale and other real estate	**13,688**	—
Discount accretion and amortization of issuance costs on long term debt	**890**	691
Net accretion on investment securities	**(4,040)**	(3,306)
Investment securities losses	**—**	25
Loans originated for sale	**(240,359)**	(405,033)
Proceeds from loans held for sale	**284,816**	489,028
Net gains from loan sales	**(5,755)**	(7,756)
Net (gain) loss on other real estate	**2,712**	(440)
Recognition of stock-based compensation	**3,315**	2,427
Restructure and merger related reserve	**(3,096)**	(41,020)
Net change in federal tax liability	**(18,003)**	1,024
Other	**(22,750)**	(4,617)
Net cash provided by operating activities	**158,588**	142,784
Investing Activities:		
Net increase in money market investments	**(2,396)**	(4,990)
Securities available-for-sale:		
Proceeds from sales	**—**	364,421
Proceeds from maturities and payments	**360,033**	443,750
Purchases	**(263,777)**	(144,280)
Securities held-to-maturity:		
Proceeds from maturities and payments	**1,505**	—
Purchases	**(12,777)**	(12,869)
Sale of branches, net of cash received	**—**	(163,592)
Net increase in loans and leases	**(95,242)**	(33,500)
Proceeds from sales of other real estate	**23,338**	11,667
Net increase in properties and equipment	**(2,838)**	(3,942)
Net cash provided by investing activities	**7,846**	456,665
Financing Activities:		
Net increase (decrease) in demand and savings deposits	**402,190**	(189,529)
Net increase (decrease) in time deposits	**302,247**	(364,405)
Net decrease in short-term borrowings	**(468,970)**	(140,777)
Proceeds from issuance of long-term debt	**525,000**	1,341,750
Principal reductions in long-term debt	**(1,066,265)**	(1,170,114)
Net proceeds from issuance of common stock	**75,379**	—
Net proceeds from issuance of preferred stock	**114,161**	—
Cash dividends paid on common stock	**(21,959)**	(65,858)
Proceeds from stock options exercised and restricted stock activity	**67**	5,143
Shares acquired for retirement and purchased for taxes	**(444)**	(14,723)
Net cash used by financing activities	**(138,594)**	(598,513)
Net increase in cash and due from banks	**27,840**	936
Cash and due from banks at beginning of period	**241,104**	223,747
Cash and due from banks at end of period	**$ 268,944**	$ 224,683
Supplemental Cash Flow Information:		
Loans transferred to other real estate owned	**$ 38,535**	$ 23,540
Loans transferred to held for sale	**82,943**	—
Held for sale loans transferred to other real estate	**7,757**	—

Deemed dividend on preferred stock	**11,737**	—
Conversion of preferred stock to common stock	**125,898**	—

See notes to consolidated financial statements.

Part I — Financial Information

Item 1 — Consolidated Financial Statements

Notes to Consolidated Financial Statements (Unaudited)
Citizens Republic Bancorp, Inc. and Subsidiaries

Note 1. Basis of Presentation and Accounting Policies

The accompanying unaudited consolidated financial statements of Citizens Republic Bancorp, Inc. ("Citizens" or the "Corporation") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts have been reclassified to conform with the current year presentation. For further information, refer to the consolidated financial statements and footnotes included in Citizens' 2007 Annual Report on Form 10-K. Citizens maintains an internet website at www.citizensbanking.com where the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable after Citizens files each such report with, or furnishes it to, the U.S. Securities and Exchange Commission. The information on Citizens' website does not constitute a part of this report.

Statements of Financial Accounting Standards

SFAS No. 157, "Fair Value Measurements." On January 1, 2008, Citizens adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and, therefore, does not expand the use of fair value in any new circumstances. Fair value is defined as the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which Citizens would complete a transaction. SFAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. Under SFAS 157, Citizens bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For assets and liabilities recorded at fair value, it is Citizens' policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in SFAS 157.

Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon estimates, and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there are inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. The adoption of SFAS 157 had no impact on Citizens' results of operations. Refer to Note 10 to the consolidated financial statements for additional disclosures.

FASB Staff Position (FSP) on SFAS No. 157-2. FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years and interim periods beginning after November 15, 2008. Citizens elected to delay the application of SFAS 157 to nonfinancial assets and liabilities.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." In February 2007, the FASB issued SFAS 159, which 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. SFAS 159 was effective January 1, 2008 and Citizens did not elect to adopt the fair value option for any financial assets or financial liabilities at this time.

Note 2. New Accounting Pronouncements

EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" - In June 2008, the FASB adopted FSP — EITF 03-6-1, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share.* EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. All prior period EPS data presented shall be adjusted retrospectively to conform with the provisions of this FSP with early adoption prohibited. This FSP is not expected to have a significant impact on Citizens' financial statements.

Note 3. Merger and Acquisition Activity

Citizens established restructuring and merger-related reserves on December 29, 2006 associated with the Republic merger. The following table presents the activity in the restructuring reserve during the nine months ended September 30, 2008.

Restructuring Reserve

		Changes in 2008		
(in thousands)	Balance December 31, 2007	Cash Payments	Other Adjustments	Balance September 30, 2008
Personnel	$ 1,562	$ (944)	$ (116)	$ 502
Facilities/Branches	1,557	(85)	(14)	1,458
	$ 3,119	$ (1,029)	$ (130)	$ 1,960

During 2008, the restructuring reserve was reduced by $0.1 million as a result of finalizing severance and facilities/branch payments and writedowns.

The following table presents the activity in the merger reserve during the nine months ended September 30, 2008.

Merger-related Reserve

		Changes in 2008		
(in thousands)	Balance December 31, 2007	Cash Payments	Other Adjustments	Balance September 30, 2008
Personnel	$ 1,276	$ (1,276)	$ —	$ —
Facilities/Branches	1,360	(779)	(4)	577
	2,636	(2,055)	(4)	577
Other Transaction and System Reserves	12	(12)	—	—
	$ 2,648	$ (2,067)	$ (4)	$ 577

During 2008, the merger-related reserve was reduced by less than $0.1 million as a result of finalizing facilities/branch payments.

Note 4. Investment Securities

The amortized cost, estimated fair value and gross unrealized gains and losses of investment securities as of September 30, 2008 and December 31, 2007 follow:

	September 30, 2008				December 31, 2007			
		Estimated				Estimated		
	Amortized	Fair	Gross Unrealized		Amortized	Fair	Gross Unrealized	
(in thousands)	Cost	Value	Gains	Losses	Cost	Value	Gains	Losses
Available For Sale:								
Federal Agencies	**$ 248,947**	**$ 253,868**	**$ 4,921**	**$ —**	$ 298,177	$ 304,074	$ 5,897	$ —
Collateralized Mortgage Obligations	**484,414**	**466,895**	**2,295**	**19,814**	587,355	586,954	2,278	2,679
Mortgage-backed	**745,716**	**753,166**	**8,361**	**911**	667,504	670,565	5,707	2,646
State and municipal	**538,512**	**539,766**	**7,680**	**6,426**	560,073	569,466	10,336	943
Other	**5,265**	**5,263**	**—**	**2**	1,067	1,105	38	—
Total available for sale	**$2,022,854**	**$2,018,958**	**$23,257**	**$27,153**	$2,114,176	$2,132,164	$24,256	$ 6,268
Held to Maturity:								
State and municipal								
Total held to maturity	**$ 139,574**	**$ 134,367**	**$ 214**	**$ 5,421**	$ 129,126	$ 129,366	$ 978	$ 738
FHLB and Fed Reserve stock	**$ 148,768**	**$ 148,768**	**$ —**	**$ —**	$ 148,838	$ 148,838	$ —	$ —

A total of 713 securities had unrealized losses as of September 30, 2008 compared with 385 securities as of December 31, 2007. Securities with unrealized losses, categorized by length of time the security has been in an unrealized loss position, as of September 30, 2008 and December 31, 2007 are displayed in the following tables.

As of September 30, 2008

(in thousands)	Less than 12 Months Estimated Fair Value	Less than 12 Months Unrealized Losses	More than 12 Months Estimated Fair Value	More than 12 Months Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
Available For Sale:						
Collateralized Mortgage Obligations	$288,597	$ 19,789	$ 4,201	$ 25	$292,798	$ 19,814
Mortgage-backed	153,236	858	2,984	53	156,220	911
State and municipal	180,118	6,302	1,840	124	181,958	6,426
Other	11	2	—	—	11	2
Total available for sale	621,962	26,951	9,025	202	630,987	27,153
Held to Maturity:						
State and municipal	113,582	4,948	4,238	473	117,820	5,421
Total held to maturity	113,582	4,948	4,238	473	117,820	5,421
Total	$735,544	$ 31,899	$ 13,263	$ 675	$748,807	$ 32,574

As of December 31, 2007

(in thousands)	Less than 12 Months Estimated Fair Value	Less than 12 Months Unrealized Losses	More than 12 Months Estimated Fair Value	More than 12 Months Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
Available For Sale:						
Collateralized Mortgage Obligations	$212,274	$ 2,165	$ 67,253	$ 514	$279,527	$ 2,679
Mortgage-backed	33,102	219	115,712	2,427	148,814	2,646
State and municipal	69,429	625	17,596	318	87,025	943
Total available for sale	314,805	3,009	200,561	3,259	515,366	6,268
Held to Maturity:						
State and municipal	43,700	536	14,230	202	57,930	738
Total held to maturity	43,700	536	14,230	202	57,930	738
Total	$358,505	$ 3,545	$214,791	$ 3,461	$573,296	$ 7,006

The unrealized losses are primarily due to changes in market interest rates rather than credit quality concerns with the issuers. Recovery of fair value is expected as the securities approach their maturity date or repricing date or if valuations for such securities improve as the market yields change. Management considers the length of time and the extent to which fair value is less than cost, the credit worthiness and near-term prospects of the issuer, among other things, in determining Citizens' intent and ability to retain the investment in the issuer for a period of time sufficient to allow for recovery of amortized cost. Factors considered in the determination of intent and ability include capital adequacy, interest rate risk profile, liquidity and business plans. As such, Citizens has the intent and ability to hold securities to anticipated recovery, but may change its intent in response to significant, unanticipated changes in policies, regulations, statutory legislation, or other aforementioned criteria.

Note 5. Allowance for Loan Losses and Impaired Loans

A summary of loan loss experience during the three and nine months ended September 30, 2008 and 2007 is provided below.

Analysis of Allowance for Loan Losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2008**	2007	**2008**	2007
Allowance for loan losses — beginning of period	**$181,718**	$181,118	**$163,353**	$169,104
Provision for loan losses	**58,390**	3,765	**163,489**	39,122
Charge-offs:				
Commercial and industrial	**2,222**	1,618	**4,188**	4,400
Commercial real estate	**15,063**	1,270	**66,420**	15,975
Total commercial	**17,285**	2,888	**70,608**	20,375
Residential mortgage	**497**	1,602	**23,004**	3,128
Direct consumer	**3,603**	3,188	**10,756**	8,301
Indirect consumer	**3,924**	2,312	**10,590**	6,397
Charge-offs	**25,309**	9,990	**114,958**	38,201
Recoveries:				
Commercial and industrial	**1,805**	1,026	**2,249**	2,796
Commercial real estate	**274**	100	**565**	814
Total commercial	**2,079**	1,126	**2,814**	3,610
Residential mortgage	**12**	1	**27**	108
Direct consumer	**304**	500	**1,341**	1,353
Indirect consumer	**533**	438	**1,661**	1,862
Recoveries	**2,928**	2,065	**5,843**	6,933
Net charge-offs	**22,381**	7,925	**109,115**	31,268
Allowance for loan losses — end of period	**$217,727**	$176,958	**$217,727**	$176,958

Nonperforming loans totaled $231.3 million at September 30, 2008 and $189.4 million at December 31, 2007. Some of Citizens' nonperforming loans are considered to be impaired. SFAS 114, "Accounting by Creditors for Impairment of a Loan," considers a loan to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. In most instances, impairment is measured based on the fair value of the underlying collateral. Impairment may also be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Citizens measures impairment on all nonaccrual commercial and commercial real estate loans for which it has established specific reserves. This policy does not apply to large groups of smaller balance homogeneous loans, such as smaller balance commercial loans, direct and indirect consumer loans, and residential mortgage loans, which are collectively evaluated for impairment, except for those loans restructured under a troubled debt restructuring. Citizens maintains a valuation reserve for impaired loans as part of the specific allocated allowance component of the allowance for loan losses. Cash collected on impaired nonaccrual loans is applied to outstanding principal. Total loans considered impaired and their related reserve balances at September 30, 2008 and December 31, 2007 follow:

Impaired Loan Information

(in thousands)	Balances September 30, 2008	Balances December 31, 2007	Valuation Reserve September 30, 2008	Valuation Reserve December 31, 2007
Balances				
Impaired loans with valuation reserve	**$ 108,655**	$ 33,651	**$ 35,610**	$ 17,769
Impaired loans with no valuation reserve	**27,369**	18,684	**—**	—
Total impaired loans	**$ 136,024**	$ 52,335	**$ 35,610**	$ 17,769
Impaired loans on nonaccrual basis	**$ 136,024**	$ 52,335	**$ 35,610**	$ 17,769
Impaired loans on accrual basis	**—**	—	**—**	—
Total impaired loans	**$ 136,024**	$ 52,335	**$ 35,610**	$ 17,769

The average balance of impaired loans for the three months ended September 30, 2008 was $97.6 million and $56.4 million for the three months ended September 30, 2007. The increase was due to higher commercial real estate nonperforming loans. Interest income recognized on impaired loans during the third quarter of 2008 was less than $0.1 million compared with $0.2 million for the same period of 2007. Cash collected and applied to outstanding principal during the third quarter of 2008 was $0.6 million compared with $0.8 million in the same period of 2007.

Note 6. Goodwill

As a result of ongoing volatility in the financial industry, Citizens' market capitalization decreasing to a level below tangible book value, and continued deterioration in the credit quality of Citizens' commercial real estate portfolio, Citizens determined it was necessary to perform an interim goodwill impairment test during the second quarter of 2008. Citizens conducted discounted cash flow and portfolio pricing analyses, which reflect management's outlook for the current business environment, to determine if the fair value of the assets and liabilities in the Regional Banking and Specialty Commercial lines of business exceeded their carrying amounts. Based on these analyses, Citizens determined the goodwill allocated to Regional Banking was not impaired but the goodwill allocated to Specialty Commercial was impaired primarily due to the continued deterioration in commercial real estate collateral values and continued challenges in the Midwest economy. During the second quarter of 2008, Citizens recorded an estimated non-cash goodwill impairment charge of $178.1 million, representing the entire amount of goodwill previously allocated to Specialty Commercial. During the third quarter of 2008, Citizens concluded its interim analyses with no additional impairment charges being recorded. A summary of goodwill allocated to the lines of business as of September 30, 2008 and December 31, 2007 follows:

(in thousands)	**September 30, 2008**	December 31, 2007
Specialty Commercial	**$ —**	$ 178,089
Regional Banking	**595,417**	595,418
Wealth Management	**1,801**	1,801
Total Goodwill	**$ 597,218**	$ 775,308

This interim goodwill assessment does not change the timing of Citizens' annual goodwill impairment test, which will be performed in the fourth quarter.

Note 7. Long-Term Debt

The components of long-term debt as of September 30, 2008 and December 31, 2007 are presented below.

(in thousands)	September 30, 2008	December 31, 2007
Citizens (Parent only):		
Variable rate promissary notes payable due May 1, 2010	$ —	$ 50,000
Subordinated debt:		
5.75% subordinated notes due February 2013	119,878	119,125
Variable rate junior subordinated debenture due June 2033	25,774	25,726
7.50% junior subordinated debentures due September 2066	146,684	145,971
Subsidiaries:		
Federal Home Loan Bank advances	1,816,979	2,344,636
Other borrowed funds	238,329	254,052
Total long-term debt	$ 2,347,644	$ 2,939,510

Citizens issued a five year variable rate promissory note for $50.0 million on April 2, 2007. The related credit agreement requires Citizens to maintain certain financial and non-financial covenants including capital adequacy, nonperforming asset levels and loan loss reserve coverage as a percent of nonperforming loans. Citizens was not in compliance with the covenants regarding nonperforming asset levels as of September 30, 2008. The note was reclassified to short-term borrowings at September 30, 2008 and Citizens retired the $50.0 million note on October 7, 2008.

Note 8. Income Taxes

Income tax provision (benefit) for the third quarter of 2008 was $(10.2) million, a decrease of $22.8 million from the third quarter of 2007. For the first nine months of 2008, the income tax provision (benefit) totaled $(28.7) million, a decrease of $51.4 million from the same period of 2007. The decreases were primarily the result of lower pre-tax income, excluding the goodwill impairment charge which is not tax-deductible.

In August 2008, Citizens settled an outstanding tax issue with the State of Wisconsin, which resulted in a net benefit of $0.5 million.

The effective rate for the third quarter of 2008 was 58.68%. Pre-tax income included several items that were excluded from the tax calculation, such as tax-exempt interest. Citizens anticipates that the effective tax rate for 2008 will be approximately 12% -17%.

Note 9. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, net of tax, for the three and nine month periods ended September 30, 2008 and 2007 are presented below.

(in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of period	**$ (6,080)**	$(20,674)	**$ 5,101**	$ (7,375)
Net unrealized (loss) gain on securities for the quarter, net of tax effect of $(2,034) in 2008 and $9,608 in 2007, and net unrealized (loss) gain on securities for the nine month period, net of tax effect of $(7,659) in 2008 and $2,749 in 2007	**(3,777)**	17,842	**(14,225)**	5,104
Less: Reclassification adjustment for net (gains) losses on securities included in net income for the quarter, net of tax effect of $(3) in 2007, and included in net income for the nine month period, net of tax effect of $9 in 2007.	**—**	(5)	**—**	16
Net change in unrealized gain (loss) on cash flow hedges for the quarter, net of tax effect of $550 in 2008 and $(115) in 2007, and net change in unrealized gain (loss) for the nine month period, net of tax effect of $155 in 2008 and $(429) in 2007.	**1,021**	(215)	**288**	(797)
Accumulated other comprehensive loss, net of tax	**$ (8,836)**	$ (3,052)	**$ (8,836)**	$ (3,052)

Note 10. Fair Values of Assets and Liabilities

Certain assets and liabilities are recorded at fair value to provide financial statement users additional insight into Citizens' quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available for sale, derivative financial instruments and deferred compensation assets are recorded at fair value on a recurring basis. Other assets, such as mortgage servicing rights, loans held for sale and impaired loans are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets.

Under SFAS 157, Citizens groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with Level 1 considered highest and Level 3 considered lowest). A brief description of each level follows.

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

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

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

The most significant instruments that Citizens fair values include securities and derivative instruments, all of which fall into Level 2 in the fair value hierarchy. The securities in the available for sale portfolio are priced by independent providers. In obtaining such valuation information from third parties, Citizens has evaluated their valuation methodologies used to develop the fair values in order to determine whether such valuations are representative of an exit price in Citizens' principal markets. Further, Citizens has developed an internal, independent price verification function that performs testing on valuations received from third parties. Citizens' principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets. Derivative instruments are priced by independent providers using observable market assumptions with adjustments based on widely accepted valuation techniques. A discounted cash flow analysis on the expected cash flows of each derivative reflects the contractual terms of the derivative, including the period to maturity, and uses market-based inputs, including interest rate curves, implied volatilities, and credit valuation adjustments.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

Investment Securities Available for Sale. Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include federal agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities.

Derivative Financial Instruments. Substantially all derivative financial instruments held or issued by Citizens are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, Citizens measures fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk (credit valuation adjustments). Citizens assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions, and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives.

Deferred Compensation Assets. Citizens has a portfolio of mutual fund investments which hedge the deferred compensation liabilities to various employees, former employees and directors. These investments are traded on active exchanges with valuations obtained from readily available pricing sources for market transactions involving identical assets. As such, these securities are classified as recurring Level 1. Additionally, Citizens invests in a Guaranteed Income Fund which falls into the recurring Level 2 category due to being valued using a comparison to similar assets in an active market.

The following table presents the balances of assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2008.

	September 30, 2008			
(in thousands)	Total	Level 1	Level 2	Level 3
Investment Securities Available for Sale	$2,018,958	$ —	$2,018,958	$ —
Other assets [(1)]	30,069	8,253	21,816	—
Total Assets	$2,049,027	$ 8,253	$2,040,774	$ —
Other liabilities [(2)]	$ 13,599	$ —	$ 13,599	$ —

(1) Includes Derivative Financial Instruments and Deferred Compensation Assets.

(2) Includes Derivative Financial Instruments.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

Mortgage Servicing Rights. Mortgage servicing rights represent the value associated with servicing residential mortgage loans. The value is determined through a discounted cash flow analysis which uses interest rates, prepayment speeds and delinquency rate assumptions as inputs. All of these assumptions require a significant degree of management judgment. Adjustments are only made when the discounted cash flows are less than the carrying value. As such, Citizens classifies mortgage servicing rights as nonrecurring Level 3. Based on Citizens' most recent evaluation, the estimated fair value exceeded Citizens' carrying value so mortgage servicing rights are still carried at cost, net of amortization, and therefore are not presented in the following table at this time.

Loans Held for Sale. Mortgage loans held for sale are comprised of loans originated for sale in the ordinary course of business and portfolio loans transferred to loans held for sale for liquidation. Loans originated for sale are recorded at the lower of carrying value or market value based on what secondary markets are currently offering for loans with similar characteristics and are classified as nonrecurring Level 2. Portfolio loans that are transferred to loans held for sale are recorded at fair value based on recent sales experience for similar loans, adjusted for management's judgment due to illiquid market conditions, and are classified as nonrecurring Level 3.

Commercial loans held for sale are comprised of loans identified for sale as part of the Republic merger and portfolio loans transferred to loans held for sale for liquidation. Loans identified for sale as part of the Republic merger are recorded at cost, unless it has been determined a loan is impaired. If impaired, the loan is carried at fair value, based upon appraised values of the underlying collateral adjusted for the appraiser's judgment due to illiquid market conditions. Portfolio loans transferred to loans held for sale are recorded at fair value based on the appraised value of the underlying collateral, adjusted for the appraiser's judgment due to illiquid market conditions. Both types of commercial loans held for sale are classified as nonrecurring Level 3.

Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral, adjusted for the appraiser's judgment due to illiquid market conditions. Citizens measures impairment on all nonaccrual commercial and commercial real estate loans for which it has established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. As such, Citizens records impaired loans as nonrecurring Level 3.

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition as of September 30, 2008.

	September 30, 2008			
(in thousands)	Total	Level 1	Level 2	Level 3
Loans (1)	$ 90,997	$ —	$ —	$ 90,997
Commercial Loans Held For Sale (2)	44,339	—	—	44,339
Mortgage Loans Held For Sale (3)	17,995	—	—	17,995
Total Assets	$153,331	$ —	$ —	$153,331

(1) Impaired Loans with an initial carrying value of $152.3 million were written down to their fair value of $91.0 million.

(2) Impaired Loans with an initial carrying value of $70.7 million were written down to their fair value of $44.3 million.

(3) Nonperforming Mortgage Loans with an initial carrying value of $33.7 million were written down to their fair value of $18.0 million.

Note 11. Pension Benefit Cost

Citizens recognizes changes in the funded status (i.e. the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan as adjustments to accumulated other comprehensive income, net of tax. The components of pension expense for the three and nine months ended September 30, 2008 and 2007 are presented below.

(in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Defined Benefit Pension Plans				
Interest cost	**$ 1,165**	$ 1,265	**$ 3,495**	$ 3,640
Expected return on plan assets	**(1,900)**	(1,956)	**(5,700)**	(5,869)
Amortization of unrecognized:				
Prior service cost	**10**	3	**30**	8
Net actuarial loss	**75**	133	**225**	383
Net pension cost	**$ (650)**	$ (555)	**$ (1,950)**	$ (1,838)
Supplemental Pension Plans				
Interest cost	**$ 190**	$ 192	**$ 573**	$ 577
Amortization of unrecognized:				
Prior service cost	**118**	42	**353**	126
Net actuarial loss	**5**	32	**15**	98
Net pension cost	**$ 313**	$ 266	**$ 941**	$ 801
Postretirement Benefit Plans				
Service cost	**$ —**	$ 1	**$ —**	$ 3
Interest cost	**128**	124	**386**	372
Amortization of unrecognized:				
Prior service cost	**(64)**	(67)	**(192)**	(202)
Net actuarial gain	**(8)**	—	**(25)**	—
Net pension cost	**$ 56**	$ 58	**$ 169**	$ 173
Defined contribution retirement and 401K Plans				
Employer contributions	**$ 1,628**	$ 1,746	**$ 5,026**	$ 4,380
Total periodic benefit cost	**$ 1,347**	$ 1,515	**$ 4,186**	$ 3,516

Citizens maintains multiple employee benefit plans, including defined benefit pension, supplemental pension, postretirement healthcare, and defined contribution retirement and 401(k) plans. Citizens has not made a cash contribution to the defined benefit pension plan during the first nine months of 2008 but reviews plan funding needs periodically and will make a contribution if appropriate. During the first nine months of 2008, Citizens contributed $0.4 million to the supplemental pension plans and anticipates that an additional $0.1 million of contributions will be made during the remaining portion of the year. Citizens contributed $0.8 million to the postretirement benefit plan during the first nine months of 2008 and anticipates making an additional $0.3 million in contributions for the remaining portion of the year. Citizens contributed $5.5 million to the defined contribution retirement and 401(k) plan for employer matching funds and annual discretionary contributions during the first nine months of 2008 and anticipates contributing an additional $0.9 million during the remaining portion of the year.

Note 12. Stock-Based Compensation

Citizens has a stock-based compensation plan authorizing the granting of incentive and nonqualified stock options, nonvested stock awards (also known as restricted stock), restricted stock units, and performance awards to employees and non-employee directors. Aggregate grants under the current shareholder approved plan may not exceed 7,000,000 shares, with grants other than stock options are further limited to 2,000,000 shares. At September 30, 2008, Citizens had 3,393,097 shares of common stock reserved for future issuance under the current plan. Restrictions on nonvested stock generally lapse in three annual installments beginning on the first anniversary of the grant date. Although not included in the calculation of basic earnings per share, restricted shares are included in outstanding stock totals, and are entitled to receive dividends and have voting rights.

The following table sets forth the total stock-based compensation expense resulting from stock options and restricted stock awards included in the Consolidated Statements of Income for the three and nine months ended September 30, 2008 and September 30, 2007.

Analysis of Stock-Based Compensation Expense

(in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Stock Option Compensation	**$ 9**	$ 9	**$ 26**	$ 26
Restricted Stock Compensation	**1,164**	967	**3,289**	2,401
Stock-based compensation expense before income taxes	**1,173**	976	**3,315**	2,427
Income tax benefit	**(410)**	(342)	**(1,160)**	(849)
Total stock-based compensation expense after income taxes	**$ 763**	$ 634	**$ 2,155**	$ 1,578

There were no stock option exercises for the three months ended September 30, 2008. Cash proceeds from the exercise of stock options were $0.2 million for the nine months ended September 30, 2008 and $1.3 million and $5.2 million for the three and nine months ended September 30, 2007, respectively. New shares are issued when stock options are exercised. In accordance with SFAS 123R, "Stock-Based Compensation," Citizens presents excess tax benefits from the exercise of stock options, if any, as financing cash inflows and as operating cash outflows on the Consolidated Statement of Cash Flows.

There were no stock options granted in the three and nine months ended September 30, 2008 and September 30, 2007. As of September 30, 2008, $6.8 million of total unrecognized compensation cost related to stock options and restricted stock is expected to be recognized over a weighted average period of 1.8 years.

The following table summarizes restricted stock activity for the nine months ended September 30, 2008.

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding restricted stock at December 31, 2007	486,842	$21.32
Granted	338,995	8.56
Vested	(163,251)	21.97
Forfeited	(25,941)	18.99
Restricted stock at September 30, 2008	**636,645**	**14.46**

The total fair value of shares vested during the nine months ended September 30, 2008 was $0.9 million.

Note 13. Shareholders' Equity and Earnings Per Share

On June 11, 2008, Citizens issued $79.6 million of common stock and $120.4 million of contingent convertible perpetual non-cumulative preferred stock ("preferred stock") that together increased shareholders' equity by $189.5 million (net of issuance costs and the underwriting discount). The preferred stock was convertible into common stock upon shareholder approval of a charter amendment authorizing 50 million additional shares of common stock, at a conversion rate of $4.00 per share. On September 22, 2008, Citizens' shareholders approved the charter amendment to increase authorized common shares by 50 million, which triggered the conversion of the preferred stock into 30.1 million shares of common stock. Accordingly, the conversion resulted in a non-cash beneficial conversion of $11.7 million, representing the intrinsic value between the conversion rate of $4.00 and the common stock closing price of $4.39 on June 5, 2008, the date the preferred shares were offered. The beneficial conversion was recorded as a deemed dividend to the preferred shareholders, with a corresponding offset to retained earnings, and did not affect total shareholders' equity or the book value of the common stock. However, the preferred stock dividend increased the net loss attributable to common shareholders and affected the calculation of basic and diluted net loss per common share for the three and nine months ended September 30, 2008.

Net income per share is computed based on the weighted-average number of shares outstanding, including the dilutive effect of stock-based compensation. SFAS 128, "Earnings Per Share," prohibits the computation of diluted EPS from assuming conversion, exercise or contingent issuance of securities that would have an antidilutive effect on earnings per share. As a result, the outstanding shares of preferred stock and the incremental shares from the potential conversion of employee stock options and restricted stock awards were excluded from the dilutive earnings per share calculation for the third quarter of 2008. The weighted average number of preferred shares excluded from the dilutive earnings per share calculation were 29.8 million and 12.2 million for the three and nine months ended September 30, 2008, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	**2008**	2007	**2008**	2007
Numerator:				
Basic and dilutive earnings per share — net income (loss)	**$ (7,176)**	$31,764	**$(197,683)**	$72,875
Deemed dividend on preferred stock	**(11,737)**	—	**(11,737)**	—
Net income (loss) attributable to common shareholders	**$(18,913)**	$31,764	**$(209,420)**	$72,875
Denominator:				
Basic earnings per share — weighted average shares	**95,937**	75,353	**83,670**	75,391
Effect of dilutive securities — potential conversion of employee stock options and restricted stock awards	**—**	148	**—**	297
Diluted earnings per share — adjusted weighted-average shares and assumed conversions	**95,937**	75,501	**83,670**	75,688
Basic earnings per common share	**$ (0.20)**	$ 0.42	**$ (2.50)**	$ 0.97
Diluted earnings per common share	**$ (0.20)**	$ 0.42	**$ (2.50)**	$ 0.96

Note 14. Lines of Business

Citizens is managed along the following business lines: Specialty Commercial, Regional Banking, Wealth Management, and Other. Selected line of business segment information for the three and nine months ended September 30, 2008 and 2007 is provided below. There are no significant intersegment revenues.

Table of Contents

Line of Business Information

(in thousands)	Specialty Commercial	Regional Banking	Wealth Mgmt	Other	Total
Earnings Summary — Three Months Ended September 30, 2008					
Net interest income (taxable equivalent)	**$ 20,167**	**$66,544**	**$ 16**	**$ 5,184**	**$ 91,911**
Provision for loan losses	**47,190**	**7,230**	**—**	**3,970**	**58,390**
Net interest income after provision	**(27,023)**	**59,314**	**16**	**1,214**	**33,521**
Noninterest income	**(647)**	**20,130**	**5,873**	**2,649**	**28,005**
Noninterest expense	**5,590**	**54,681**	**5,395**	**8,635**	**74,301**
Income before income taxes	**(33,260)**	**24,763**	**494**	**(4,772)**	**(12,775)**
Income tax provision (benefit) — taxable equivalent	**(11,641)**	**8,667**	**173**	**(2,798)**	**(5,599)**
Net income (loss)	**$ (21,619)**	**$16,096**	**$ 321**	**$ (1,974)**	**$ (7,176)**
Average assets *(in millions)*	**$ 2,079**	**$ 5,966**	**$ 12**	**$ 5,100**	**$ 13,157**
Earnings Summary — Three Months Ended September 30, 2007 (1)					
Net interest income (taxable equivalent)	$ 19,810	$70,508	$ 2	$ 9,173	$ 99,493
Provision for loan losses	(3,822)	3,655	—	3,932	3,765
Net interest income after provision	23,632	66,853	2	5,241	95,728
Noninterest income	992	18,290	7,004	4,318	30,604
Noninterest expense	5,281	53,422	5,292	13,348	77,343
Income before income taxes	19,343	31,721	1,714	(3,789)	48,989
Income tax provision (benefit) — taxable equivalent	6,769	11,103	600	(1,247)	17,225
Net income (loss)	$ 12,574	$20,618	$ 1,114	$ (2,542)	$ 31,764
Average assets *(in millions)*	$ 2,036	$ 5,736	$ 14	$ 5,379	$ 13,165

Line of Business Information

(in thousands)	Specialty Commercial	Regional Banking	Wealth Mgmt	Other	Total
Earnings Summary — Nine Months Ended September 30, 2008					
Net interest income (taxable equivalent)	**$ 57,095**	**$195,625**	**$ 17**	**$ 24,391**	**$ 277,128**
Provision for loan losses	**95,319**	**31,913**	**—**	**36,257**	**163,489**
Net interest income after provision	**(38,224)**	**163,712**	**17**	**(11,866)**	**113,639**
Noninterest income	**(1,834)**	**58,522**	**19,379**	**9,921**	**85,988**
Noninterest expense	**195,646**	**164,524**	**16,633**	**35,288**	**412,091**
Income before income taxes	**(235,704)**	**57,710**	**2,763**	**(37,233)**	**(212,464)**
Income tax provision (benefit) — taxable equivalent	**(20,166)**	**20,199**	**967**	**(15,781)**	**(14,781)**
Net income (loss)	**$(215,538)**	**$ 37,511**	**$ 1,796**	**$(21,452)**	**$(197,683)**
Average assets *(in millions)*	**$ 2,169**	**$ 6,027**	**$ 13**	**$ 5,089**	**$ 13,298**
Earnings Summary — Nine Months Ended September 30, 2007 (1)					
Net interest income (taxable equivalent)	$ 60,678	$209,468	$ (25)	$ 33,743	$ 303,864
Provision for loan losses	22,679	9,860	—	6,583	39,122
Net interest income after provision	37,999	199,608	(25)	27,160	264,742
Noninterest income	3,180	58,449	20,370	11,273	93,272
Noninterest expense	15,755	164,869	16,521	51,398	248,543
Income before income taxes	25,424	93,188	3,824	(12,965)	109,471
Income tax provision (benefit) — taxable equivalent	8,898	32,616	1,338	(6,256)	36,596
Net income (loss)	$ 16,526	$ 60,572	$ 2,486	$ (6,709)	$ 72,875
Average assets *(in millions)*	$ 2,095	$ 6,195	$ 13	$ 5,022	$ 13,325

(1) Certain amounts have been reclassified to conform to current year presentation.

Note 15. Commitments, Contingent Liabilities and Guarantees

The Consolidated Financial Statements do not reflect various loan commitments (unfunded loans and unused lines of credit) and letters of credit originated in the normal course of business. Loan commitments are made to accommodate the financial needs of clients. Generally, new loan commitments do not extend beyond 180 days prior to being funded and unused lines of credit are reviewed on a regular basis. Financial standby letters of credit guarantee future payment of client financial obligations to third parties. They are issued primarily for goods and services provided. Performance standby letters of credit are irrevocable guarantees to various beneficiaries for the performance of contractual obligations of the Corporation’s clients. Standby letters of credit arrangements generally expire within one year and have essentially the same level of credit risk as extending loans to clients and are subject to Citizens’ normal credit policies. These arrangements have fixed expiration dates and most expire unfunded, so they do not necessarily represent future liquidity requirements. Commercial letters of credit may facilitate the shipment of goods and may also include direct pay letters of credit which afford Citizens’ clients access to the public financing market. Appropriate collateral is obtained based on Citizens’ assessment of the client and may include receivables, inventories, real property and equipment.

Amounts available to clients under loan commitments and standby letters of credit follow:

(in thousands)	**September 30, 2008**	December 31, 2007
Loan commitments and letters of credit:		
Commitments to extend credit	**$ 2,197,029**	$ 2,510,255
Financial standby letters of credit	**109,016**	101,229
Performance standby letters of credit	**23,465**	27,244
Commercial letters of credit	**222,432**	255,538
Total loan commitments and letters of credit	**$ 2,551,942**	$ 2,894,266

At September 30, 2008 and December 31, 2007, a liability of $4.3 million and $5.6 million, respectively, was recorded for possible losses on commitments to extend credit. As of September 30, 2008 and December 31, 2007, in accordance with FIN 45, a liability of $0.5 million and $0.3 million, respectively, was recorded representing the value of the guarantee obligations associated with certain letters of credit. The guarantee obligation liability will be amortized into income over the life of the commitments. These balances are included in other liabilities on the Consolidated Balance Sheets.

Note 16. Derivatives and Hedging Activities

SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138 and SFAS 149, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as SFAS 133), establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. As of January 1, 2008, fair value is determined in accordance with SFAS 157.

Citizens designates its derivatives based upon criteria established by SFAS 133. For a derivative designated as a fair value hedge, the derivative is recorded at fair value on the consolidated balance sheet. Any difference between the fair value change of the hedge versus the fair value change of the hedged item is considered to be the "ineffective" portion of the hedge. For a derivative designated as a cash flow hedge, the effective portion of the derivative’s gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the hedged exposure affects earnings. Under both the fair value and cash flow hedge methods, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the noninterest income section of the income statement. Citizens does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Citizens may use derivative instruments to hedge the variability in interest payments or protect the value of certain assets and liabilities recorded in its balance sheet from changes in interest rates. Citizens uses interest rate contracts such as interest rate swaps to manage its interest rate risk. These contracts are designated as hedges of specific assets or liabilities. The net interest receivable or payable on swaps is accrued and recognized as an adjustment to the interest income or expense of the hedged asset or liability. The following tables summarize the derivative financial instruments held or issued by Citizens.

Derivative Financial Instruments:

	September 30, 2008		December 31, 2007	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Receive fixed swaps [1] [7]	**$1,005,000**	**$ 601**	$ 300,000	$ 1,574
Customer initiated swaps and corresponding offsets [2] [7]	**1,100,359**	**3,700**	713,290	—
Interest rate lock commitments	**—**	**—**	24,808	199
Forward mortgage loan contracts	**—**	**—**	68,030	(501)
Total	**$2,105,359**	**$ 4,301**	$1,106,128	$ 1,272

Derivative Classifications and Hedging Relationships:

	September 30, 2008		December 31, 2007	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives Designated as Cash Flow Hedges:				
Prime Based Loan Hedges [3]	**$ 625,000**	**$ 794**	$ 100,000	$ (47)
LIBOR Based Loan Hedges [4]	**$ 75,000**	**$ (150)**	—	—
Derivatives Designated as Fair Value Hedges:				
Hedging time deposits [5]	**80,000**	**314**	50,000	1,434
Hedging long-term debt [6]	**225,000**	**(357)**	150,000	187
Derivatives Not Designated as Hedges:				
Customer initiated swaps and corresponding offsets [2] [7]	**1,100,359**	**3,700**	713,290	—
Total	**$2,105,359**	**$ 4,301**	$1,013,290	$ 1,574

(1) Fair value includes accrued interest of $738 and $1,191 for September 30, 2008 and December 31, 2007, respectively

(2) Fair value includes accrued interest of $0 for both September 30, 2008 and December 31, 2007.

(3) Fair value includes accrued interest of $233 and $0 for September 30, 2008 and December 31, 2007, respectively

(4) Fair value includes accrued interest of $14 as of September 30, 2008.

(5) Fair value includes accrued interest of $493 and $1,196 for September 30, 2008 and December 31, 2007, respectively.

(6) Fair value includes accrued interest of $(1) and ($4,829) for September 30, 2008 and December 31, 2007, respectively.

(7) Right to reclaim cash collateral under master netting arrangement was $2,300 as of September 30, 2008.

Table of Contents

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

Selected Quarterly Information
Citizens Republic Bancorp and Subsidiaries

	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Summary of Operations (thousands)					
Net interest income	$ 87,318	$ 87,615	$88,312	$92,188	$94,873
Provision for loan losses	58,390	74,480	30,619	6,055	3,765
Total fees and other income	28,005	27,058	30,925	29,296	30,596
Investment securities gains (losses)	—	—	—	—	8
Noninterest expense (1)	74,301	261,228	76,562	78,880	77,343
Income tax provision	(10,192)	(19,401)	929	8,582	12,605
Net income (loss)	(7,176)	(201,634)	11,127	27,967	31,764
Net income (loss) attributable to common shareholders (2)	(18,913)	(201,634)	11,127	27,967	31,764
Taxable equivalent adjustment	4,593	4,611	4,679	4,673	4,620
Cash dividends	—	—	21,959	21,941	21,934
Per Common Share Data					
Basic net income (loss)	$ (0.20)	$ (2.53)	$ 0.15	$ 0.37	$ 0.42
Diluted net income (loss)	(0.20)	(2.53)	0.15	0.37	0.42
Cash dividends	—	—	0.290	0.290	0.290
Market value (end of period)	3.08	2.82	12.43	14.51	16.11
Book value (end of period)	12.20	16.12	20.82	20.84	20.65
At Period End (millions)					
Assets	$ 13,116	$ 13,170	$13,539	$13,506	$13,223
Portfolio loans	9,378	9,449	9,573	9,501	9,219
Deposits	9,006	8,661	8,487	8,302	7,942
Shareholders' equity	1,537	1,546	1,577	1,578	1,562
Average for the Quarter (millions)					
Assets	$ 13,157	$ 13,296	$13,442	$13,305	$13,165
Portfolio loans	9,456	9,514	9,499	9,335	9,163
Deposits	8,837	8,604	8,417	7,951	8,049
Shareholders' equity	1,551	1,546	1,579	1,561	1,536
Ratios (annualized)					
Return on average assets	(0.22)%	(6.10)%	0.33%	0.83%	0.96%
Return on average shareholders' equity	(1.84)	(52.47)	2.83	7.11	8.20
Average equity to average assets	11.79	11.62	11.74	11.73	11.67
Net interest margin (FTE) (3)	3.09	3.11	3.12	3.26	3.39
Efficiency ratio (4)	61.96	219.00	61.79	62.52	59.45
Net loans charged off to average portfolio loans	0.94	2.93	0.74	0.84	0.34
Allowance for loan losses to portfolio loans	2.32	1.92	1.84	1.72	1.92
Nonperforming assets to portfolio loans plus ORAA (end of period)	3.87	3.01	3.39	2.64	2.06
Nonperforming assets to total assets (end of period)	2.78	2.17	2.41	1.86	1.44
Tier 1 Leverage ratio	8.76	8.71	7.40	7.53	7.49
Tier 1 capital ratio	10.88	10.80	9.04	9.18	9.28
Total capital ratio	13.13	13.03	11.26	11.66	11.79

(1) Noninterest expense includes a goodwill impairment charge of $178.1 million in the second quarter of 2008 and restructuring and merger related expenses of ($0.4) million in the fourth quarter of 2007 and $1.0 million in the third quarter of 2007.

(2) Net income (loss) attributable to common shareholders includes a non-cash $11.7 million deemed dividend to preferred shareholders in the third quarter of 2008.

(3) Net interest margin is presented on an annual basis, includes taxable equivalent adjustments to interest income and is based on a tax rate of 35%.

(4) The Efficiency Ratio measures how efficiently a bank spends its revenues. The formula is: Noninterest expense/(Net interest income + Taxable equivalent adjustment + Total fees and other income).

Introduction

The following commentary presents management's discussion and analysis of Citizens Republic Bancorp, Inc.'s financial condition and results of operations for the three and nine month periods ended September 30, 2008. It should be read in conjunction with the unaudited Consolidated Financial Statements and Notes included elsewhere in this report and the audited Consolidated Financial Statements and Notes contained in the Corporation's 2007 Annual Report on Form 10-K. In addition, the following discussion and analysis should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Citizens' 2007 Annual Report on Form 10-K, which contains important additional information that is necessary to understand the Corporation and its financial condition and results of operations for the periods covered by this report. Unless the context indicates otherwise, all references in the discussion to "Citizens" or the "Corporation" refer to Citizens Republic Bancorp, Inc. and its subsidiaries. References to the "Holding Company" refer solely to Citizens Republic Bancorp, Inc.

Forward — Looking Statements

Discussions in this report that are not statements of historical fact (including statements that include terms such as "will," "may," "should," "believe," "expect," "anticipate," "estimate," "project," "intend," and "plan,") and statements about future financial and operating results, plans, objectives, expectations and intentions and other statements that are not historical facts, are forward-looking statements that involve risks and uncertainties, and actual future results could differ materially from those discussed. Factors that could cause or contribute to such differences include, without limitation, risks and uncertainties detailed from time to time in Citizens' filings with the Securities and Exchange Commission, such as the risk factors listed in "Item 1A, Risk Factors," of Citizens' 2007 Annual Report on Form 10-K, as well as the following.

- Citizens faces the risk that loan losses, including unanticipated loan losses due to changes in loan portfolios, fraud and economic factors, will exceed the allowance for loan losses and that additional increases in the allowance will be required. Additions to the allowance for loan losses would cause Citizens' net income to decline and could have a negative impact on Citizens' capital and financial position.
- While Citizens attempts to manage the risk from changes in market interest rates, interest rate risk management techniques are not exact. In addition, Citizens may not be able to economically hedge its interest rate risk. A rapid or substantial increase or decrease in interest rates could adversely affect Citizens' net interest income and results of operations.
- An economic downturn, and the negative economic effects caused by terrorist attacks, potential attacks and other destabilizing events, would likely contribute to the deterioration of the quality of the loan portfolio and could reduce Citizens' customer base, its level of deposits, and demand for financial products such as loans.
- If Citizens is unable to continue to attract and retain core deposits, to obtain third party financing on favorable terms, or to have access to interbank or other liquidity sources (as a result of rating agency downgrades or other market factors), its cost of funds will increase, adversely affecting the ability to generate the funds necessary for lending operations, reducing net interest margin and negatively affecting results of operations.
- Increased competition with other financial institutions or an adverse change in Citizens' relationship with a number of major customers could reduce Citizens' net interest margin and net income by decreasing the number and size of loans originated, the interest rates charged on these loans and the fees charged for services to customers. If Citizens were to lend to customers who are less likely to pay in order to maintain historical origination levels, it may not be able to maintain current loan quality levels.
- Citizens is a party to various lawsuits incidental to its business. Litigation is subject to many uncertainties such that the expenses and ultimate exposure with respect to many of these matters cannot be ascertained.
- The financial services industry is undergoing rapid technological changes. If Citizens is unable to adequately invest in and implement new technology-driven products and services, it may not be able to compete effectively, or the cost to provide products and services may increase significantly.
- Citizens' business may be adversely affected by the highly regulated environment in which it operates. Changes in banking or tax laws, regulations and regulatory practices at either the federal or state level may adversely affect the Corporation, including its ability to offer new products and services, obtain

financing, pay dividends from the subsidiaries to the Holding Company, attract deposits or make loans and leases at satisfactory spreads, and may also result in the imposition of additional costs.

- The products and services offered by the banking industry and customer expectations regarding them are subject to change. Citizens attempts to respond to perceived customer needs and expectations by offering new products and services, which are often costly to develop and market initially. A lack of market acceptance of these products and services would have a negative effect on Citizens' financial condition and results of operations.
- New accounting or tax pronouncements or interpretations may be issued by the accounting profession, regulators or other government bodies which could change existing accounting methods. Changes in accounting methods could negatively impact Citizens' results of operations and financial position.
- Citizens' business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, Citizens' business and a negative impact on its results of operations.
- Citizens' vendors could fail to fulfill their contractual obligations, resulting in a material interruption in, or disruption to, its business and a negative impact on its results of operations.
- Citizens' potential inability to integrate acquired operations could have a negative effect on Citizens' expenses and results of operations.
- Events such as significant adverse changes in the business climate, adverse action by a regulator, unanticipated changes in the competitive environment, and a decision to change Citizens' operations or dispose of an operating unit could have a negative effect on the goodwill or other intangible assets Citizens recorded at the time of the Republic merger such that it may need to record an impairment charge, which could result in a negative impact on results of operations.
- Citizens could face unanticipated environmental liabilities or costs related to real property owned or acquired through foreclosure. Compliance with federal, state and local environmental laws and regulations, including those related to investigation and clean-up of contaminated sites, could have a negative effect on Citizens' expenses and results of operations.
- As a bank holding company that conducts substantially all of its operations through its subsidiaries, the ability of the Holding Company to pay dividends, repurchase its shares or to repay its indebtedness depends upon the results of operations of its subsidiaries and their ability to pay dividends to the Holding Company. Dividends paid by these subsidiaries are subject to limits imposed by federal and state law.
- Citizens' controls and procedures may fail or be circumvented, which could have a material adverse effect on its business, results of operations, and financial condition.
- Citizens' articles of incorporation and bylaws as well as certain banking laws may have an anti-takeover effect.

Other factors not currently anticipated may also materially and adversely affect Citizens' results of operations, cash flows and financial position. There can be no assurance that future results will meet expectations. While the Corporation believes that the forward-looking statements in this report are reasonable, the reader should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. Citizens does not undertake, and expressly disclaims, any obligation to update or alter any statements whether as a result of new information, future events or otherwise, except as may be required by applicable law.

Critical Accounting Policies

Citizens' Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industry in which the Corporation operates. Application of these principles requires management to make estimates, assumptions, and complex judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Actual results could differ significantly from those estimates. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates that are particularly susceptible to significant change include the allowance for loan losses, goodwill impairment, the benefit obligation and net periodic pension expense for employee pension plans, derivative financial instruments and hedging activities, and income taxes. Citizens believes that these estimates and the related policies are important to the portrayal of the Corporation's financial condition and results of operations. Therefore, management considers them to be critical accounting policies and discusses them directly with the Audit Committee of the Board of Directors. Citizens' significant accounting policies are more fully described in Note 1 to the audited Consolidated Financial Statements contained in the Corporation's 2007 Annual Report on Form 10-K and the more significant assumptions and estimates made by management are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Corporation's 2007 Annual Report on Form 10-K. Other than the following change, there have been no material changes to the policies or estimates made pursuant to those policies since the most recent fiscal year end. During the second quarter of 2008, Citizens recorded an estimated goodwill impairment charge of $178.1 million. See Note 6 to the unaudited Consolidated Financial Statements in this report for information on goodwill.

Fair Value Measurements
Effective January 1, 2008, Citizens adopted Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a standard framework for measuring fair value in GAAP, clarifies the definition of "fair value" within that framework, and expands disclosures about the use of fair value measurements. A number of valuation techniques are used to determine the fair value of assets and liabilities in Citizens' financial statements. These include quoted market prices for securities, interest rate swap valuations based upon the modeling of termination values adjusted for credit spreads with counterparties and appraisals of real estate from independent licensed appraisers, among other valuation techniques. Significant changes in the aggregate fair value of assets and liabilities required to be measured at fair value or for impairment will be recognized in the income statement under the framework established by GAAP. If an impairment is determined, it could limit the ability of Citizens' banking subsidiaries to pay dividends or make other payments to the Holding Company. See Note 10 to the unaudited Consolidated Financial Statements in this report for more information on fair value measurements.

Results of Operations

Summary
Citizens reported a net loss of $7.2 million for the three months ended September 30, 2008, compared with net income of $31.8 million for the third quarter of 2007. For the first nine months of 2008, Citizens recorded a net loss of $197.7 million, compared with net income of $72.9 million for the same period of 2007. The decrease from both prior periods was primarily the result of higher provision for loan losses in 2008. Additionally, the decrease in nine month period was primarily the result of the goodwill impairment charge, credit writedown and fair-value adjustments in the second quarter of 2008.

On June 11, 2008, Citizens issued $79.6 million of common stock and $120.4 million of contingent convertible perpetual non-cumulative preferred stock ("preferred stock") that together increased shareholders' equity by $189.5 million (net of issuance costs and the underwriting discount). The preferred stock was convertible into common stock upon shareholder approval of a charter amendment authorizing 50 million additional shares of common stock, at a conversion rate of $4.00 per share. On September 22, 2008, Citizens' shareholders approved the charter amendment to increase authorized common shares by 50 million, which triggered the conversion of the preferred stock into 30.1 million shares of common stock. Accordingly, the conversion resulted in a non-cash beneficial conversion of $11.7 million, representing the intrinsic value between the conversion rate of $4.00 and the common stock closing price of $4.39 on June 5, 2008, the date the preferred shares were offered. The beneficial conversion was recorded as a deemed dividend to the preferred shareholders, with a corresponding offset to retained earnings, and did not affect total shareholders' equity or the book value of the common stock. However, the preferred stock dividend increased the net loss attributable to common shareholders and affected the calculation of basic and diluted net loss per common share for the three and nine months ended September 30, 2008.

As a result of the aforementioned deemed dividend to the preferred shareholders, Citizens reported a net loss attributable to common shareholders of $18.9 million for the three months ended September 30, 2008. Diluted net income (loss) per common share was $(0.20), compared with $0.42 per common share for the same quarter of last year. Annualized returns on average assets and average equity during the third quarter of 2008 were (0.22)% and (1.84)%, respectively, compared with 0.96% and 8.20% for the third quarter of 2007. For the first nine months of 2008, Citizens recorded a net loss attributable to common shareholders of $209.4 million, or $(2.50) per diluted common share, compared with $0.96 per diluted common share for the same period of 2007.

The continued decline in real estate markets and deterioration in the credit environment continue to negatively impact Citizens' operations. The provision for loan losses for the third quarter of 2008 was $58.4 million, compared with $3.8 million for the third quarter of 2007. Net charge-offs for the third quarter of 2008 totaled $22.4 million, compared with $7.9 million for the third quarter of 2007. The significant increases in the provision for loan losses and net charge-offs were primarily due to higher charge-offs on commercial real estate due to declining real estate values and general economic deterioration in the Midwest. Additionally, the increase in the provision for loan losses reflects a higher level of nonperforming loans. As loans are migrated to nonperforming status, the underlying collateral is re-evaluated to determine the likelihood that portions of these loans may eventually be charged-off. Specifically, two commercial real estate loans that migrated to nonperforming status during the third quarter of 2008 accounted for approximately $16 million of the provision for loan losses in that quarter.

Citizens implemented the following initiatives during 2008 to manage credit quality challenges aggressively:

- Centralized and upgraded the commercial real estate portfolio management team, which now reports directly to the Chief Credit Officer and is comprised of 22 full-time equivalent employees ("FTE"). The group continues to monitor closely the servicing performance of real estate loans in the commercial portfolio, including age of appraisals, adherence to lot release schedules, rent roll updates, construction costs within forecasts, and that guarantor liquidity is affirmed by current financial statements; in short, that all aspects of the transactions are current and performing according to terms;
- Expanded the size of the special loans workout team by 4 FTE, bringing the total to 28, to support higher watchlist and nonperforming loan levels and improve oversight and monitoring of action plans to remediate the credits;
- Transitioned mortgage servicing and collection activities to PHH Mortgage, a nationally recognized servicing agent; and
- Tightened underwriting criteria for consumer loans to include:
    - Home equity loans: reduced maximum loan-to-value, or LTV, to 80% for primary residences and 70% for secondary residences and discontinued lending on rental properties;
    - Indirect loans: increased credit score cutoffs to improve collateral positioning and reduce risk, increased pricing spreads, and reduced advance rates.

Total assets at September 30, 2008 were $13.1 billion, a decrease of $390.0 million or 2.9% from December 31, 2007 and essentially unchanged from September 30, 2007. The decrease from December 31, 2007 was primarily the result of using the investment securities portfolio cash flow to reduce short-term borrowings and the aforementioned goodwill impairment charge. Total assets were essentially unchanged from September 30, 2007, as the investment securities and goodwill reductions were almost entirely offset by growth in commercial loans. Total deposits at September 30, 2008 were $9.0 billion, an increase of $704.2 million or 8.5% over December 31, 2007 and an increase of $1.1 billion or 13.4% over September 30, 2007. The increases were primarily the result of a new on-balance sheet sweep product for Citizens' commercial clients introduced in late 2007 and a shift in funding mix from short-term borrowings to longer-term brokered certificates of deposit.

Citizens continues to proactively manage its liquidity by leveraging a solid funding base comprised of approximately 68% deposits, 20% short-term and long-term debt, and 12% equity. During 2008, Citizens embarked on the following initiatives to strengthen the balance sheet and reduce reliance on short-term wholesale funding:

- Added longer-term brokered certificates of deposit;
- Increased focus on cross-sales through its retail delivery channel;
- Conducted targeted marketing campaigns for deposits;
- Increased available collateral for Federal Home Loan Bank ("FHLB") funding; and
- Increased discipline around loan funding and pricing to better align changes in loans outstanding with funding, liquidity, and profitability objectives.

Citizens maintained a strong capital position during the third quarter of 2008, which supports current and long-term needs, potential credit issues due to the economic downturn, and provides a solid foundation for future expansion. The Corporation's regulatory capital ratios are consistently above the 'well-capitalized' standards and all of its bank subsidiaries have sufficient capital to maintain a 'well-capitalized' designation. Citizens initiated the following strategies in 2008 to enhance and preserve its capital position:

- Implemented new incentive plans that promote a focus on profitability with targeted returns above Citizens' cost of capital;
- Suspended the dividend, preserving $88 million annually (based on December 31, 2007 shares outstanding and dividend rates);

- Raised $200 million of additional capital (before issuance costs and underwriting discount totaling $10.5 million); and
- Increased discipline around loan pricing to enhance returns on risk-adjusted capital, emphasizing full-relationship banking and reducing capital intensive credit-only business.

As of September 30, 2008, Citizens' key capital ratios are as follows:

	Regulatory Minimum for "Well-Capitalized"	**9/30/08**	6/30/08	3/31/08	Excess Capital over Minimum (in millions)
Tier 1 capital ratio	6.00%	**10.88%**	10.80%	9.04%	$493.2
Total capital ratio	10.00%	**13.13%**	13.03%	11.26%	$316.5
Tier 1 leverage ratio	5.00%	**8.76%**	8.71%	7.40%	$472.2
Tangible common equity to tangible assets		**7.33%**	6.44%	6.07%	
Tangible equity to tangible assets		**7.33%**	7.35%	6.07%	

Net Interest Income and Net Interest Margin

An analysis of net interest income, interest spread and net interest margin with average balances and related interest rates for the three and nine months ended September 30, 2008 and 2007 is presented below.

[Table of Contents](#)

Average Balances/Net Interest Income/Average Rates

Three Months Ended September 30, *(dollars in thousands)*	2008 Average Balance	2008 Interest (1)	2008 Average Rate (2)	2007 Average Balance	2007 Interest (1)	2007 Average Rate (2)
Earning Assets						
Money market investments	**$ 31,955**	**$ 160**	**1.99%**	$ 2,822	$ 53	7.44%
Investment securities (3):						
Taxable	**1,435,883**	**18,275**	**5.09**	1,650,012	21,238	5.15
Tax-exempt	**674,102**	**7,272**	**6.64**	672,679	7,310	6.69
FHLB and Federal Reserve stock	**148,782**	**1,917**	**5.13**	139,504	1,603	4.56
Portfolio Loans (4):						
Commercial and industrial	**2,738,993**	**36,633**	**5.42**	2,135,927	38,704	7.31
Commercial real estate	**3,087,556**	**48,698**	**6.28**	3,084,792	60,203	7.75
Residential mortgage	**1,294,952**	**19,100**	**5.90**	1,472,544	24,276	6.59
Direct consumer	**1,491,328**	**24,858**	**6.63**	1,617,340	32,110	7.88
Indirect consumer	**843,549**	**14,260**	**6.73**	852,885	14,511	6.75
Total portfolio loans	**9,456,378**	**143,549**	**6.07**	9,163,488	169,804	7.39
Loans held for sale	**110,377**	**550**	**1.99**	79,333	1,846	9.18
Total earning assets (3)	**11,857,477**	**171,723**	**5.92**	11,707,838	201,854	7.01
Nonearning Assets						
Cash and due from banks	**221,332**			209,278		
Bank premises and equipment	**124,343**			132,459		
Investment security fair value adjustment	**850**			(5,393)		
Other nonearning assets	**1,140,661**			1,301,482		
Allowance for loan losses	**(187,981)**			(180,394)		
Total assets	**$13,156,682**			$13,165,270		
Interest-Bearing Liabilities						
Deposits:						
Interest-bearing demand	**$ 788,495**	**$ 1,333**	**0.67%**	$ 811,955	$ 1,325	0.65%
Savings deposits	**2,601,866**	**10,414**	**1.59**	2,165,386	16,384	3.00
Time deposits	**4,300,715**	**41,254**	**3.82**	3,928,215	46,671	4.71
Short-term borrowings	**226,893**	**1,060**	**1.86**	465,980	5,439	4.63
Long-term debt	**2,420,601**	**30,344**	**4.99**	2,982,035	37,162	4.95
Total interest-bearing liabilities	**10,338,570**	**84,405**	**3.25**	10,353,571	106,981	4.10
Noninterest-Bearing Liabilities and Shareholders' Equity						
Noninterest-bearing demand	**1,146,010**			1,143,917		
Other liabilities	**121,521**			131,837		
Shareholders' equity	**1,550,581**			1,535,945		
Total liabilities and shareholders' equity	**$13,156,682**			$13,165,270		
Net Interest Income		**$ 87,318**			$ 94,873	
Interest Spread (5)			**2.67%**			2.91%
Contribution of noninterest bearing sources of funds			**0.42**			0.48
Net Interest Margin (5)(6)			**3.09%**			3.39%

(1) Interest income is shown on actual basis and does not include taxable equivalent adjustments.

(2) Average rates are presented on an annual basis and include taxable equivalent adjustments to interest income of $4.6 million and $4.6 million for the three months ended September 30, 2008 and 2007, respectively, based on a tax rate of 35%.

(3) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(4) Nonaccrual loans are included in average balances for each applicable loan category.

(5) The interest spread and net interest margin are presented on a tax-equivalent basis.

(6) Because noninterest-bearing funding sources, demand deposits, other liabilities and shareholders' equity also support earning

assets, the net interest margin exceeds the interest spread.

Table of Contents

Average Balances/Net Interest Income/Average Rates

Nine Months Ended September 30, *(dollars in thousands)*	2008 Average Balance	2008 Interest (1)	2008 Average Rate (2)	2007 Average Balance	2007 Interest (1)	2007 Average Rate (2)
Earning Assets						
Money market investments	**$ 13,011**	**$ 206**	**2.11%**	$ 2,150	$ 89	5.53%
Investment securities (3):						
Taxable	**1,482,512**	**58,319**	**5.25**	1,770,676	67,337	5.07
Tax-exempt	**674,529**	**21,922**	**6.67**	670,504	21,947	6.71
FHLB and Federal Reserve stock	**148,819**	**5,508**	**4.94**	135,122	4,736	4.68
Portfolio Loans (4):						
Commercial and industrial	**2,654,263**	**109,764**	**5.62**	2,055,575	113,988	7.54
Commercial real estate	**3,129,542**	**152,409**	**6.51**	3,112,813	179,722	7.72
Residential mortgage loans	**1,355,791**	**62,867**	**6.18**	1,504,709	74,947	6.64
Direct consumer	**1,520,591**	**77,967**	**6.85**	1,656,050	97,239	7.85
Indirect consumer	**829,704**	**41,825**	**6.73**	841,640	42,400	6.74
Total portfolio loans	**9,489,891**	**444,832**	**6.29**	9,170,787	508,296	7.44
Loans held for sale	**83,387**	**2,447**	**3.91**	105,815	6,518	8.17
Total earning assets (3)	**11,892,149**	**533,234**	**6.14**	11,855,054	608,923	7.02
Nonearning Assets						
Cash and due from banks	**206,709**			195,503		
Bank premises and equipment	**126,947**			137,428		
Investment security fair value adjustment	**17,354**			(677)		
Other nonearning assets	**1,231,893**			1,310,611		
Allowance for loan losses	**(177,119)**			(172,711)		
Total assets	**$13,297,933**			$13,325,208		
Interest-Bearing Liabilities						
Deposits:						
Interest-bearing demand	**$ 778,202**	**$ 3,863**	**0.66%**	$ 851,704	$ 4,389	0.69%
Savings deposits	**2,553,627**	**35,423**	**1.85**	2,202,134	48,827	2.96
Time deposits	**4,171,204**	**128,427**	**4.11**	4,046,052	141,799	4.69
Short-term borrowings	**398,345**	**7,867**	**2.64**	702,992	25,504	4.85
Long-term debt	**2,585,968**	**94,409**	**4.87**	2,676,820	98,413	4.91
Total interest-bearing liabilities	**10,487,346**	**269,989**	**3.44**	10,479,702	318,932	4.07
Noninterest-Bearing Liabilities and Shareholders' Equity						
Noninterest-bearing demand	**1,117,144**			1,142,272		
Other liabilities	**135,214**			156,845		
Shareholders' equity	**1,558,229**			1,546,389		
Total liabilities and shareholders' equity	**$13,297,933**			$13,325,208		
Net Interest Income		**$ 263,245**			$289,991	
Interest Spread (5)			**2.70%**			2.95%
Contribution of noninterest bearing sources of funds			**0.41**			0.47
Net Interest Margin (5)(6)			**3.11%**			3.42%

(1) Interest income is shown on actual basis and does not include taxable equivalent adjustments.

(2) Average rates are presented on an annual basis and include taxable equivalent adjustments to interest income of $13.9 million and $13.9 million for the nine months ended September 30, 2008 and 2007, respectively, based on a tax rate of 35%.

(3) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(4) Nonaccrual loans are included in average balances for each applicable loan category.

(5) The interest spread and net interest margin are presented on a tax-equivalent basis.

(6) Because noninterest-bearing funding sources, demand deposits, other liabilities and shareholders' equity also support earning assets, the net interest margin exceeds the interest spread.

Average interest rates, net interest margin and net interest spread are presented in "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" on a fully taxable equivalent basis. This presentation is customary in the banking industry because it permits comparability of yields on both taxable and tax-exempt sources of interest income.

The decrease in net interest margin from the third quarter of 2007 was primarily the result of deposit price competition, narrower commercial loan pricing spreads and the movement of loans to nonperforming status, partially offset by a shift in asset mix from investment securities to higher-yielding commercial loans. The shift in funding mix included funds migrating within the deposit portfolio from lower cost savings and transaction accounts to higher cost savings and time deposits. The decline in net interest margin for the first nine months of 2008 compared with the same period of 2007 was also a result of the aforementioned factors.

Net interest income for the third quarter of 2008 decreased $7.6 million or 8.0% from the third quarter of 2007. The decrease was primarily the result of the lower net interest margin, partially offset by an increase of $149.6 million in average earning assets. The increase in average earning assets was primarily the result of an increase in commercial loan balances, partially offset by decreases in the investment portfolio due to maturing balances not being fully reinvested, as well as decreases to the residential mortgage and consumer loan portfolios due to lower demand in the current Midwest economic environment. The decline in net interest income for the first nine months of 2008 compared with the same period of 2007 was also a result of the aforementioned factors.

The table below shows changes in interest income, interest expense and net interest income due to volume and rate variances for major categories of earning assets and interest-bearing liabilities.

Analysis of Changes in Interest Income and Interest Expense

2008 compared with 2007 *(in thousands)*	Three Months Ended September 30, Net Change (1)	Increase (Decrease) Due to Change in Rate (2)	Increase (Decrease) Due to Change in Volume (2)	Nine Months Ended September 30, Net Change (1)	Increase (Decrease) Due to Change in Rate (2)	Increase (Decrease) Due to Change in Volume (2)
Interest Income on Earning Assets:						
Money market investments	**$ 107**	$ (65)	$ 172	**$ 117**	$ (86)	$ 203
Investment securities:						
Taxable	**(2,963)**	(235)	(2,728)	**(9,018)**	2,252	(11,270)
Tax-exempt	**(38)**	(53)	15	**(25)**	(156)	131
FHLB and Federal Reserve stock	**314**	203	111	**772**	275	497
Loans:						
Commercial and industrial	**(2,071)**	(11,514)	9,443	**(4,224)**	(33,105)	28,881
Commercial real estate	**(11,505)**	(11,559)	54	**(27,313)**	(28,290)	977
Residential mortgage loans	**(5,176)**	(2,413)	(2,763)	**(12,080)**	(4,964)	(7,116)
Direct consumer	**(7,252)**	(4,881)	(2,371)	**(19,272)**	(11,812)	(7,460)
Indirect consumer	**(251)**	(93)	(158)	**(575)**	(74)	(501)
Total portfolio loans	**(26,255)**	(30,460)	4,205	**(63,464)**	(78,245)	14,781
Loans held for sale	**(1,296)**	(1,830)	534	**(4,071)**	(2,898)	(1,173)
Total	**(30,131)**	(32,440)	2,309	**(75,689)**	(78,858)	3,169
Interest Expense on Interest-Bearing Liabilities:						
Deposits:						
Interest-bearing demand	**8**	47	(39)	**(526)**	(165)	(361)
Savings	**(5,970)**	(8,806)	2,836	**(13,404)**	(20,370)	6,966
Time	**(5,417)**	(9,561)	4,144	**(13,372)**	(17,729)	4,357
Short-term borrowings	**(4,379)**	(2,360)	(2,019)	**(17,637)**	(9,066)	(8,571)
Long-term debt	**(6,818)**	219	(7,037)	**(4,004)**	(892)	(3,112)
Total	**(22,576)**	(20,461)	(2,115)	**(48,943)**	(48,222)	(721)
Net Interest Income	**$ (7,555)**	$(11,979)	$ 4,424	**$(26,746)**	$(30,636)	$ 3,890

(1) Changes are based on actual interest income and do not reflect taxable equivalent adjustments.

(2) The change in interest not solely due to changes in volume or rates has been allocated in proportion to the absolute dollar amounts of the change in each.

The decrease in net interest income of $7.6 million in the third quarter of 2008 compared with the same period of 2007 reflects rate variances that were unfavorable in the aggregate and volume variances that were favorable in the aggregate.

Unfavorable rate variances on assets were partially offset by favorable rate variances on liabilities as a result of lower market interest rates. The favorable rate variance for FHLB and Federal Reserve Stock was due to an increase in the dividend yield on these securities. The unfavorable rate variance for long-term debt resulted from the maturity of low fixed rate balances, causing the portfolio average yield to increase.

Volume variances were favorable for both assets and liabilities. Favorable volume variances on assets were the result of favorable volume variances on commercial loans, partially offset by unfavorable volume variances on investments, residential mortgages, and consumer loans. Unfavorable volume variances resulted from maturing investment portfolio balances not being fully reinvested and a decrease in residential mortgage and consumer loan portfolio balances due to lower demand in the current economic environment. Favorable volume variances on liabilities resulted from favorable volume variances on short-term borrowings, and long-term debt, partially offset by unfavorable volume variances on savings accounts and time deposits. The unfavorable volume variance on savings accounts resulted from growth in balances in the new commercial on-balance sheet sweep product. The unfavorable volume variance on time deposits resulted from growth in brokered time deposits. The favorable volume variances on short-term and long-term borrowings resulted from these balances being replaced by the increased deposit balances.

The decrease in net interest income of $26.7 million for the nine months ended September 30, 2008 compared with the same period of 2007 reflects both rate variances that were unfavorable in the aggregate and volume variances that were favorable in the aggregate.

Unfavorable rate variances on assets were partially offset by favorable rate variances on liabilities as a result of lower market interest rates. The favorable rate variances for taxable investment securities were the result of calls on four agency bonds that were held at a discount to their par values and an acceleration of the accretion of discounts on mortgage-backed securities resulting from an acceleration of principal repayments in the lower interest rate environment. The favorable rate variance for FHLB and Federal Reserve Stock was due to an increase in the dividend yield on these securities.

Volume variances were favorable for both assets and liabilities as a result of the aforementioned factors.

For the fourth quarter of 2008, Citizens anticipates net interest income will be slightly lower than that of the third quarter of 2008 due to slightly lower earning asset levels and continued migration of certain loans to nonperforming status.

Noninterest Income

Noninterest income for the third quarter of 2008 was $28.0 million, a decrease of $2.6 million or 8.5% from the third quarter of 2007. For the first nine months of 2008, noninterest income totaled $86.0 million, a decrease of $7.3 million or 7.8% from the same period of 2007.

Noninterest Income

	Three Months Ended September 30,		Change in 2008		Nine Months Ended September 30,		Change in 2008	
(dollars in thousands)	**2008**	2007	Amount	Percent	**2008**	2007	Amount	Percent
Service charges on deposit accounts	**$12,254**	$12,515	$ (261)	(2.1)%	**$35,756**	$35,701	$ 55	0.2%
Trust fees	**4,513**	4,973	(460)	(9.2)	**13,905**	14,931	(1,026)	(6.9)
Mortgage and other loan income	**3,269**	2,939	330	11.2	**9,636**	13,334	(3,698)	(27.7)
Brokerage and investment fees	**1,376**	2,141	(765)	(35.7)	**5,503**	5,872	(369)	(6.3)
ATM network user fees	**1,715**	1,601	114	7.0	**4,805**	4,820	(15)	(0.3)
Bankcard fees	**1,874**	1,695	179	10.6	**5,542**	4,318	1,224	28.3
Gains (losses) on held or sale loans	**(1,261)**	—	(1,261)	N/M	**(3,508)**	—	(3,508)	N/M
Other income	**4,265**	4,732	(467)	(9.9)	**14,349**	14,321	28	0.2
Total fees and other income	**28,005**	30,596	(2,591)	(8.5)	**85,988**	93,297	(7,309)	(7.8)
Investment securities gains	**—**	8	(8)	(100.0)	**—**	(25)	25	100.0
Total noninterest income	**$28,005**	$30,604	$(2,599)	(8.5)	**$85,988**	$93,272	$(7,284)	(7.8)

N/M — Not Meaningful

The decrease in noninterest income from the third quarter of 2007 was primarily due to a net loss on loans held for sale ($1.3 million), lower brokerage and investment fees ($0.8 million), and a net decrease from minor changes in several other categories. The net loss on loans held for sale was primarily the result of updated lower appraisal values on underlying collateral. The decline in brokerage and investment fees was primarily the result of lower demand for investment products due to attractively-priced traditional certificates of deposit in Citizens' markets.

The decrease in noninterest income from the first nine months of 2007 was primarily due to lower mortgage and other loan income ($3.7 million), a net loss on loans held for sale ($3.5 million), and a net decrease from minor changes in several other categories, partially offset by higher bankcard fees ($1.2 million). The decrease in mortgage and other loan income was primarily the result of lower mortgage sales during 2008. The net loss on loans held for sale was primarily the result of a $2.3 million fair-value adjustment during the second quarter of 2008 on commercial real estate loans held for sale. Bankcard fees increased as a result of higher client debit card volume. While the other income category was essentially unchanged from the same period of 2007, Citizens realized a $2.1 million gain in the first quarter of 2008 due to Citizens' receipt of proceeds from the partial redemption of its Visa shares. The effect of this item was substantially offset by lower revenue on bank owned life insurance policies due to lower market interest rates in 2008.

Table of Contents

Citizens anticipates total noninterest income for the fourth quarter of 2008 will be lower than the third quarter of 2008 primarily due to lower trust fees and brokerage and investment fees as a result of the recent dramatically negative investment market conditions, and due to lower mortgage and other loan income as a result of lower origination volume.

Noninterest Expense

Noninterest expense for the third quarter of 2008 was $74.3 million, a decrease of $3.0 million from the third quarter of 2007. For the first nine months of 2008, noninterest expense totaled $412.1 million, an increase of $163.5 million over the same period of 2007. The second quarter of 2008 included a $178.1 million goodwill impairment charge and a $5.0 million net loss as a result of the aforementioned fair-value adjustment on commercial and residential repossessed assets.

Noninterest Expense

	Three Months Ended September 30,		Change in 2008		Nine Months Ended September 30,		Change in 2008	
(dollars in thousands)	**2008**	2007	Amount	Percent	**2008**	2007	Amount	Percent
Salaries and employee benefits	**$39,728**	$42,115	$(2,387)	(5.7)%	**$120,999**	$132,251	$ (11,252)	(8.5)%
Occupancy	**6,749**	7,377	(628)	(8.5)	**21,378**	23,363	(1,985)	(8.5)
Professional services	**3,246**	5,096	(1,850)	(36.3)	**11,540**	13,599	(2,059)	(15.1)
Equipment	**3,160**	3,227	(67)	(2.1)	**9,810**	10,793	(983)	(9.1)
Data processing services	**4,185**	3,724	461	12.4	**12,722**	12,360	362	2.9
Advertising and public relations	**1,297**	1,003	294	29.4	**4,593**	6,070	(1,477)	(24.3)
Postage and delivery	**1,626**	1,777	(151)	(8.5)	**5,411**	5,937	(526)	(8.9)
Other loan expenses	**2,755**	1,245	1,510	121.2	**8,014**	3,237	4,777	147.6
ORE expenses, profits, and losses, net	**1,825**	360	1,465	406.8	**9,461**	394	9,067	2,302.2
Intangible asset amortization	**2,226**	2,803	(577)	(20.6)	**7,006**	8,875	(1,869)	(21.1)
Goodwill impairment	**—**	—	—	N/M	**178,089**	—	178,089	N/M
Restructuring and merger-related expenses	**—**	1,009	(1,009)	N/M	**—**	8,603	(8,603)	N/M
Other expenses	**7,504**	7,607	(103)	(1.4)	**23,068**	23,061	7	0.0
Total noninterest expense	**$74,301**	$77,343	$(3,042)	(3.9)	**$412,091**	$248,543	$163,548	65.8

N/M — Not Meaningful

The decrease in noninterest expense from the third quarter of 2007 was primarily the result of a general decline in all expenses due to cost savings and efficiencies implemented throughout 2007 following completion of the Republic merger as well as the effect of $1.0 million in restructuring and merger-related expenses incurred in the third quarter of 2007, partially offset by higher ORE expenses, profits, and losses, net ($1.5 million) and other loan expenses ($1.5 million). The increase in ORE expenses, profits, losses, net was primarily the result of owning more repossessed properties than one year ago. The increase in other loan expense was primarily the result of higher other mortgage processing fees due to the alliance with PHH Mortgage entered into in the first quarter of 2008 and higher foreclosure expenses associated with repossessing collateral underlying commercial and residential real estate loans, partially offset by the decrease in provisioning to fund the reserve for unused loan commitments, which fluctuates with the amount of unadvanced customer lines of credit.

Salary costs included severance expense of $2.0 million for the third quarter of 2008 and $0.2 million for the third quarter of 2007. Citizens had 2,261 full-time equivalent employees at September 30, 2008 compared with 2,469 at September 30, 2007.

The increase in noninterest expense over the first nine months of 2007 was primarily due to the aforementioned $178.1 million goodwill impairment charge, higher ORE expense, profits, and losses, net ($9.1 million, including the $5.0 million fair-value adjustment on ORE), as well as higher other loan expenses ($4.8 million) in 2008 due to the factors discussed above, partially offset by the general decline in all other expense categories due to cost savings and efficiencies implemented during 2007 as well as the effect of $8.6 million in restructuring and merger-related expenses incurred in 2007.

Citizens anticipates total noninterest expense for the fourth quarter of 2008 will be consistent with the third quarter of 2008 as increases in FDIC premiums are expected to offset current savings initiatives.

Income Taxes

Citizens recognized an income tax benefit of $10.2 million for the third quarter of 2008, compared with an income tax provision of $12.6 million for the same period of 2007. The effective tax rate was 58.68% for the third quarter

of 2008 and 28.41% for the third quarter of 2007. For the nine months ended September 30, 2008 and 2007, the income tax provision (benefit) was $(28.7) million and $22.7 million, respectively. The effective tax rate was 12.66% and 23.77% for the nine months ended September 30, 2008 and 2007, respectively. The provision for the nine months ended September 30, 2008 was impacted by increasing loan loss provisions and $178.1 million of non-deductible goodwill impairment charge.

Citizens anticipates that the effective tax rate for 2008 will be approximately 12%-17%.

Lines of Business Results

Citizens monitors financial performance using an internal profitability measurement system, which provides line of business results and key performance measures. Business line results are divided into four major business segments: Specialty Commercial, Regional Banking, Wealth Management and Other. For additional information about each line of business, see Note 17 to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K and Note 14 to the unaudited Consolidated Financial Statements in this report. A summary of net income by each business line is presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2008**	2007	**2008**	2007
Specialty Commercial	**$(21,619)**	$12,574	**$(215,538)**	$16,526
Regional Banking	**16,096**	20,618	**37,511**	60,572
Wealth Management	**321**	1,114	**1,796**	2,486
Other	**(1,974)**	(2,542)	**(21,452)**	(6,709)
Net Income (Loss)	**$ (7,176)**	$31,764	**$(197,683)**	$72,875

Specialty Commercial

Net income declined in both the three and nine month periods ended September 30, 2008 as compared with the same periods of the prior year. The decline in the three month period was primarily the result of higher provision for loan losses related to increased levels of nonperforming commercial real estate loans. Noninterest income also declined for the three month period primarily due to a loss on loans held for sale primarily as a result of updated lower appraisal values on underlying collateral. Net interest income and noninterest expense were essentially unchanged for the three month period. The decline in net income for the nine month period was a result of higher provision for loan losses, higher noninterest expense, lower net interest income, and lower noninterest income. The increase in provision for loan losses was primarily a result of higher levels of charge-offs and nonperforming loans from the commercial real estate loan portfolio. The increase in noninterest expense was primarily the result of the second quarter 2008 $178.1 million goodwill impairment charge which related entirely to the Specialty Commercial line of business, and to a lesser extent, an increase in foreclosure related expense. The decrease in net interest income was primarily due to an increase in nonaccrual commercial real estate loans. The decrease in noninterest income was primarily due to fair-value adjustments on commercial real estate loans held for sale.

Regional Banking

Net income declined in both the three and nine month periods ended September 30, 2008 as compared with the same periods of the prior year. The decline in the three month period was a result of higher provision for loan losses, lower net interest income, and higher noninterest expense, partially offset by an increase in noninterest income. The increase in provision for loan losses was primarily the result of higher net charge-offs related to the home equity and other direct consumer loan portfolios. The decrease in net interest income was primarily the result of lower spreads on deposits, which was driven by competitive pricing pressure and changes in the deposit product mix as funds continue to migrate into higher rate products. Noninterest expense increased slightly due to higher compensation, marketing, and delivery expenses, partially offset by lower core deposit intangible amortization. The increase in noninterest income was primarily a result of higher mortgage income. The decline in net income for the nine month period was primarily the result of higher provision for loan losses, and lower net interest income. Noninterest income and noninterest expense were essentially unchanged in the nine month period. The increase in provision for loan losses was due to higher net charge-offs and increases in nonperforming loans related to the home equity and other direct consumer loan portfolios. The decline in net interest income was primarily the result of lower spreads on deposits which was driven by competitive pricing pressure along with changes in the deposit product mix as funds continue to migrate into higher rate products.

Wealth Management

Net income declined in both the three month and nine month periods ended September 30, 2008 as compared with the same periods of the prior year. The decline in both periods was primarily the result of lower noninterest income, which was related to a decline in trust income for the three and nine month periods and a decline in brokerage income for the three month period. The decrease in trust income was the result of a decline in assets under administration driven by ongoing declines in market valuation. The decrease in brokerage income was primarily the result of lower demand for investment products due to attractively-priced traditional certificates of deposit in Citizens' markets. Trust assets under administration were $2.2 billion at September 30, 2008, a decrease of $0.6 billion from September 30, 2007.

Other

Net income improved slightly in the three month period and declined in the nine month period ended September 30, 2008 as compared with the same periods of the prior year. Both periods were impacted by lower net interest income and lower noninterest income, and benefited from lower noninterest expense. The nine month period was also negatively impacted by higher provision for loan losses. The decline in net interest income was primarily the result of the internal profitability methodology utilized at Citizens which insulates the other lines of business from interest-rate risk and assigns the risk to the asset/liability management function, which is a component of this segment. The decrease in noninterest income was primarily due to lower mortgage sales in 2008. The decrease in noninterest expense in the three month period was a result of lower compensation and consulting costs, and $1.0 million in restructuring and merger-related expenses that were recognized in the third quarter of 2007. The decrease in noninterest expense for the nine month period was primarily the result of restructuring and merger-related expenses, compensation expense, an advertising campaign to build awareness of the Citizens' brand, and other expenses related to integration activities that were incurred in the first nine months of 2007. The increase in the provision for loan losses for the nine month period was primarily the result of the fair-value adjustment on nonperforming residential mortgage loans which were transferred to loans held for sale in the second quarter of 2008.

Financial Condition

Total assets at September 30, 2008 were $13.1 billion, a decrease of $390.0 million or 2.9% from December 31, 2007 and essentially unchanged from September 30, 2007. The decrease from December 31, 2007 was primarily the result of using the investment securities portfolio cash flow to reduce short-term borrowings and the result of the aforementioned goodwill impairment charge. Total assets were essentially unchanged from September 30, 2007, as the investment securities and goodwill reductions were almost entirely offset by growth in commercial loans.

Investment Securities

Investment securities at September 30, 2008 decreased $102.8 million or 4.5% from December 31, 2007 to $2.2 billion and decreased $141.6 million or 6.2% from September 30, 2007. The decreases were primarily the result of using portfolio cash flow to fund commercial loan growth and to reduce short-term borrowings. Citizens does not have exposure to Freddie Mac or Fannie Mae common or preferred stock and did not have any other-than-temporary impairment charges during the first nine months of 2008.

Citizens holds a Whole-Loan CMO portfolio with a market value of $279.8 million as of September 30, 2008. All securities are Senior or Super Senior structures and are rated AAA. Of the $279.8 million, $219.0 million is comprised of securities that were originated prior to or during 2004. None were issued during 2006 or later. All of the holdings listed as mortgage-backed securities were issued by GNMA, FNMA or FHLMC.

Portfolio Loans

Total portfolio loans were $9.4 billion at September 30, 2008, essentially unchanged from December 31, 2007 and September 30, 2007.

Total commercial loans at September 30, 2008 were $5.8 billion, an increase of $119.6 million or 2.1% over December 31, 2007 and an increase of $469.3 million or 8.8% over September 30, 2007. The increases were primarily the result of new relationships in all of Citizens' markets, partially offset by a reduction in the commercial real estate portfolio due to the transfer of $86.2 million in nonperforming commercial real estate loans to loans held for sale during the second quarter of 2008 and managed reductions in several loans. When compared with September 30, 2007, the increase in commercial and industrial loans also reflects growth from the Citizens Bank Business Finance division (the asset-based lending unit). The following table displays historical commercial loan portfolios by segment.

Commercial Loan Portfolio

in millions	**Sep 30 2008**	Jun 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007
Land Hold	**$ 48.3**	$ 49.8	$ 61.6	$ 63.8	$ 78.9
Land Development	**125.0**	128.2	159.2	167.8	161.0
Construction	**364.2**	344.1	370.7	342.6	376.3
Income Producing	**1,533.2**	1,569.9	1,567.3	1,526.0	1,338.8
Owner-Occupied	**999.6**	1,009.3	1,015.6	997.0	1,113.5
Total Commercial Real Estate	**3,070.3**	3,101.3	3,174.4	3,097.2	3,068.5
Commercial and Industrial	**2,703.7**	2,703.8	2,653.8	2,557.1	2,236.2
Total Commercial Loans	**$5,774.0**	$5,805.1	$5,828.2	$5,654.3	$5,304.7

The following definitions are provided to clarify the types of loans included in each of the commercial real estate segments identified in the above table. Land hold loans are secured by undeveloped land which has been acquired for future development. Land development loans are secured by land being developed in terms of infrastructure improvements to create finished marketable lots for commercial or residential construction. Construction loans are secured by commercial, retail and residential real estate in the construction phase with the intent to be sold or become an income producing property. Income producing loans are secured by non-owner occupied real estate leased to one or more tenants. Owner occupied loans are secured by real estate occupied by the owner for ongoing operations.

Residential mortgage loans at September 30, 2008 decreased $165.5 million or 11.5% from December 31, 2007 to $1.3 billion and decreased $181.3 million or 12.4% from September 30, 2007. The decreases were primarily the result of weak consumer demand in Citizens' markets, the sale of more than 70% of new mortgage originations into the secondary market, and transferring $41.7 million in nonperforming residential mortgage loans to loans held for sale during the second quarter of 2008.

Direct consumer loans, which include direct installment, home equity, and other consumer loans, decreased $90.9 million or 5.8% from December 31, 2007 and decreased $120.7 million or 7.5% from September 30, 2007. The decreases were due to weak consumer demand, which is being experienced throughout the industry.

Indirect consumer loans, which are primarily marine and recreational vehicle loans, at September 30, 2008 totaled $843.1 million, essentially unchanged from December 31, 2007 and September 30, 2007.

In recognition of the evolving developments in the automotive sector, Citizens monitors the Corporation's commercial exposure to the manufacturers and tier suppliers in that industry. Citizens has determined that the commercial exposure for this industry is less than ten percent of the total loan exposure for the Corporation and the risk associated with this industry has been appropriately considered in the allowance for loan losses.

The quality of Citizens' loan portfolio is impacted by numerous factors, including the economic environment in the markets in which Citizens operates. Citizens carefully monitors its loans in an effort to identify and mitigate any potential credit quality issues and losses in a proactive manner. The following tables represent six qualitative aspects of the loan portfolio that illustrate the overall level of risk inherent in the loan portfolio.

- Delinquency Rates by Loan Portfolio — This table illustrates the loans where the contractual payment is 30 to 89 days past due and interest is still accruing. While these loans are actively worked to bring them current, past due loan trends may be a leading indicator of potential future nonperforming loans and charge-offs.
- Commercial Watchlist — This table illustrates the commercial loans that, while still accruing interest, may be at risk due to general economic conditions or changes in a borrower's financial status.

- Nonperforming Assets (3-quarter and 5-quarter versions) — These tables illustrate the loans that are in nonaccrual status, loans past due 90 days or more on which interest is still accruing, nonperforming loans that are held for sale, and other repossessed assets acquired. The commercial loans included in these tables are reviewed as part of the watchlist process in addition to the loans displayed in the commercial watchlist table.
- Analysis of Allowance for Loan Losses — This table illustrates the changes that result in the period-end allowance for loan losses position.
- Net Charge-Offs — This table illustrates the portion of loans that have been charged-off during each quarter.

Delinquency Rates by Loan Portfolio

The following table displays historical delinquency rates by loan portfolio.

Table 1 — Delinquency Rates By Loan Portfolio

30 to 89 days Past Due	**Sep 30, 2008**		Jun 30, 2008		Mar 31, 2008		Dec 31, 2007		Sep 30, 2007	
in millions	**$**	**% of Portfolio**	$	% of Portfolio	$	% of Portfolio	$	% of Portfolio	$	% of Portfolio
Land Hold	**$ 7.3**	**15.11**%	$ 9.3	18.67%	$ 6.6	10.71%	$ 4.6	7.21%	$ 4.2	5.32%
Land Development	**10.3**	**8.24**	1.1	0.86	16.3	10.24	28.7	17.10	18.4	11.43
Construction	**26.1**	**7.17**	11.9	3.46	10.5	2.83	31.7	9.25	17.6	4.68
Income Producing	**50.1**	**3.27**	48.5	3.09	29.3	1.87	54.0	3.54	31.2	2.33
Owner-Occupied	**21.3**	**2.13**	18.6	1.84	19.0	1.87	20.3	2.04	10.8	0.97
Total Commercial Real Estate	**115.1**	**3.75**	89.4	2.88	81.7	2.57	139.3	4.50	82.2	2.68
Commercial and Industrial	**29.1**	**1.08**	29.5	1.09	39.9	1.50	39.0	1.53	22.0	0.98
Total Commercial Loans	**144.2**	**2.50**	118.9	2.05	121.6	2.09	178.3	3.15	104.2	1.96
Residential Mortgage	**37.7**	**2.95**	38.5	2.94	33.5	2.40	46.4	3.21	37.7	2.58
Direct Consumer	**19.5**	**1.32**	18.4	1.22	21.7	1.42	24.3	1.55	21.5	1.34
Indirect Consumer	**13.6**	**1.61**	14.4	1.73	13.3	1.62	15.9	1.92	14.7	1.73
Total Delinquent Loans	**$215.0**	**2.29**%	$190.2	2.01%	$190.1	1.99%	$264.9	2.79%	$178.1	1.93%

Total delinquencies at September 30, 2008 increased $24.8 million or 13.0% over June 30, 2008, primarily as a result of higher commercial real estate delinquencies, while the other commercial and consumer delinquencies remained relatively flat. The increase in commercial real estate was primarily in the land development and construction segments due to the continued slowdown in these segments in Michigan and Ohio. While the majority of the increases are due to payment issues requiring proactive mitigation strategies, over 40% of the delinquency increases are attributable to administrative and renewal issues which are generally resolved through discussion with the borrowers.

Commercial Watchlist

As part of the overall credit underwriting and review process, Citizens carefully monitors commercial and commercial real estate credits that are current in terms of principal and interest payments but may deteriorate in quality as economic conditions change. Commercial relationship officers monitor their clients' financial condition and initiate changes in loan ratings based on their findings. Loans that have migrated within the loan rating system to a level that requires increased oversight are considered watchlist loans (generally consistent with the regulatory definition of special mention, substandard, and doubtful loans) and include loans that are in accruing or nonperforming status. Citizens utilizes the watchlist process as a proactive credit risk management practice to help mitigate the migration of commercial loans to nonperforming status and potential loss. Once a loan is placed on the watchlist, it is reviewed quarterly by the chief credit officer, senior credit officers, senior market managers, and commercial relationship officers to assess cash flows, collateral valuations, guarantor liquidity and other pertinent trends. During these reviews, action plans are affirmed to address emerging problem loans or to implement a specific plan for removing the loans from the portfolio. Additionally, loans viewed as substandard or doubtful are transferred to Citizens' special loans or small business workout groups and are subjected to an even higher level of monitoring and workout activity.

Table 2 — Commercial Watchlist

Accruing loans only *in millions*	Sep 30, 2008 $	Sep 30, 2008 % of Portfolio	Jun 30, 2008 $	Jun 30, 2008 % of Portfolio	Mar 31, 2008 $	Mar 31, 2008 % of Portfolio	Dec 31, 2007 $	Dec 31, 2007 % of Portfolio	Sep 30, 2007 $	Sep 30, 2007 % of Portfolio
Land Hold	**$ 20.7**	**42.86%**	$ 24.2	48.59%	$ 27.7	44.97%	$ 27.1	42.48%	$ 27.0	34.22%
Land Development	**51.8**	**41.44**	47.5	37.05	55.9	35.11	72.7	43.33	52.3	32.48
Construction	**104.8**	**28.78**	86.3	25.08	66.7	17.99	90.1	26.30	91.7	24.37
Income Producing	**290.3**	**18.93**	239.3	15.24	221.3	14.12	225.5	14.78	173.8	12.98
Owner-Occupied	**167.0**	**16.71**	161.8	16.03	155.8	15.34	153.0	15.35	213.0	19.13
Total Commercial Real Estate	**634.6**	**20.67**	559.1	18.03	527.4	16.61	568.4	18.35	557.8	18.18
Commercial and Industrial	**431.2**	**15.95**	432.5	16.00	407.1	15.34	387.4	15.15	362.4	16.21
Total Watchlist Loans	**$1,065.8**	**18.46%**	$991.6	17.08%	$934.5	16.03%	$955.8	16.90%	$920.2	17.35%

Accruing watchlist loans at September 30, 2008 increased $74.2 million or 7.5% over June 30, 2008. The increase was primarily the result of $106.6 million of commercial real estate loans which were transitioned to watchlist status by the newly centralized commercial real estate portfolio management team.

Nonperforming Assets

Nonperforming assets are comprised of nonaccrual loans, loans past due over 90 days and still accruing interest, restructured loans, nonperforming loans held for sale, and other repossessed assets acquired. Although these assets have more than a normal risk of loss, they may not necessarily result in future losses. The table below provides a summary of nonperforming assets as of September 30, 2008, December 31, 2007 and September 30, 2007.

Nonperforming Assets

(in thousands)	**September 30, 2008**	December 31, 2007	September 30, 2007
Nonperforming Loans			
Commercial and industrial	**$ 38,168**	$ 12,659	$ 9,386
Commercial real estate	**132,629**	110,159	97,557
Total commercial	**170,797**	122,818	106,943
Residential mortgage	**40,234**	46,865	32,824
Direct consumer	**16,270**	13,657	10,926
Indirect consumer	**2,090**	2,057	1,806
Total consumer	**18,360**	15,714	12,732
Total nonaccrual loans	**229,391**	185,397	152,499
Loans 90 days past due and still accruing	**1,635**	3,650	1,923
Restructured loans	**271**	315	332
Total nonperforming portfolio loans	**231,297**	189,362	154,754
Nonperforming loans held for sale	**86,645**	21,676	5,846
Other Repossessed Assets Acquired (ORAA)	**46,459**	40,502	30,395
Total nonperforming assets	**$ 364,401**	$ 251,540	$ 190,995
Nonperforming assets as a percent of portfolio loans plus ORAA (1)	**3.87%**	2.64%	2.06%
Nonperforming assets as a percent of total assets	**2.78**	1.86	1.44
Allowance for loan loss as a percent of nonperforming loans	**94.13**	86.26	114.35
Allowance for loan loss as a percent of nonperforming assets	**59.75**	64.94	92.65

(1) Portfolio loans exclude mortgage loans held for sale.

Nonperforming assets totaled $364.4 million at September 30, 2008, an increase of $112.9 million over December 31, 2007 and an increase of $173.4 million over September 30, 2007. The increase over December 31, 2007 was primarily the result of higher nonperforming commercial real estate loans, which migrated from accruing watchlist due to the continued deterioration of the Midwest economy, higher other repossessed assets acquired which migrated from the loan portfolio after incurring partial charge-offs, an increase in nonperforming commercial and industrial loans due to accruing loans migrating from the watchlist, and an increase in nonperforming residential mortgage loans. As part of the conversion to the PHH servicing platform, Citizens has seen an expected near term increase in nonperforming residential mortgage loans due to changes in collection practices on delinquent

loans. PHH has a proven track record of long-term improvement in the performance of portfolios after conversion to their process, which Citizens believes will have a positive impact on Citizens' long-term results. These increases were partially offset by the effects of the second quarter of 2008 $42.4 million net credit writedown and fair-value adjustments, which were comprised of: 1) a $127.9 million decrease in nonperforming loans ($86.2 million in commercial real estate and $41.7 million in residential mortgage); 2) a $5.0 million decrease in other repossessed assets acquired; and 3) a net increase of $90.4 million in nonperforming held for sale loans. The increase over September 30, 2007 was primarily the result of deterioration in the real estate secured portfolios (particularly commercial) and general economic deterioration in the Midwest, partially offset by the aforementioned credit writedown and fair-value adjustments. Nonperforming assets at September 30, 2008 represented 3.87% of total loans plus other repossessed assets acquired compared with 2.64% at December 31, 2007 and 2.06% at September 30, 2007. Nonperforming commercial loan inflows were $102.6 million in the third quarter of 2008 compared with $60.0 million in the third quarter of 2007.

Nonperforming commercial loan outflows were $38.5 million in the third quarter of 2008 compared with $22.4 million in the third quarter of 2007. The third quarter of 2008 outflows included $8.5 million in loans that returned to accruing status, $11.7 million in loan payoffs and paydowns, $17.2 million in charged-off loans, and $1.1 million transferring to other repossessed assets acquired.

Table 3 — Nonperforming Assets

	Sep 30, 2008		Jun 30, 2008		Mar 31, 2008		Dec 31, 2007		Sep 30, 2007	
in millions	**$**	**% of Portfolio**	$	% of Portfolio	$	% of Portfolio	$	% of Portfolio	$	% of Portfolio
Land Hold	**$ 11.0**	**22.77**%	$ 3.4	6.83%	$ 5.5	8.93%	$ 4.5	7.05%	$ 3.0	3.80%
Land Development	**20.6**	**16.48**	22.8	17.78	46.4	29.15	35.6	21.22	40.4	25.09
Construction	**25.7**	**7.06**	12.6	3.66	51.9	14.00	28.8	8.41	18.6	4.94
Income Producing	**57.6**	**3.76**	23.1	1.47	40.5	2.58	21.5	1.41	26.5	1.98
Owner-Occupied	**17.7**	**1.77**	13.1	1.30	23.5	2.31	19.7	1.98	9.0	0.81
Total Commercial Real Estate	**132.6**	**4.32**	75.0	2.42	167.8	5.29	110.1	3.55	97.5	3.18
Commercial and Industrial	**38.2**	**1.41**	31.6	1.17	20.3	0.76	12.7	0.50	9.4	0.42
Total Nonperforming Commercial Loans	**170.8**	**2.96**	106.6	1.84	188.1	3.23	122.8	2.17	106.9	2.02
Residential Mortgage	**40.2**	**3.14**	12.4	0.95	45.8	3.29	46.9	3.25	32.8	2.25
Direct Consumer	**16.3**	**1.10**	16.3	1.09	13.5	0.88	13.7	0.87	10.9	0.68
Indirect Consumer	**2.1**	**0.25**	1.4	0.17	1.7	0.21	2.1	0.25	1.8	0.21
Loans 90+ days still accruing and restructured	**1.9**	**0.02**	2.5	0.03	4.4	0.05	3.9	0.04	2.4	0.03
Total Nonperforming Portfolio Loans	**231.3**	**2.47**%	139.2	1.47%	253.5	2.65%	189.4	1.99%	154.8	1.68%
Nonperforming Held for Sale	**86.6**		92.6		22.8		21.6		5.8	
Other Repossessed Assets Acquired	**46.5**		54.1		50.3		40.5		30.4	
Total Nonperforming Assets	**$364.4**		$285.9		$326.6		$251.5		$191.0	

Some of the Citizens' nonperforming loans included in the nonperforming loan table above are considered to be impaired. A loan is considered impaired when Citizens determines that it is probable that all the contractual principal and interest due under the loan may not be collected. See Note 5 to the unaudited Consolidated Financial Statements in this report for information on impaired loans.

Allowance for Loan Losses, Provision for Loan Losses, and Net Charge-Offs
A summary of loan loss experience during the three and nine months ended September 30, 2008 and 2007 is provided below.

Analysis of Allowance for Loan Losses

(in thousands)	Three Months Ended September 30, **2008**	Three Months Ended September 30, 2007	Nine Months Ended September 30, **2008**	Nine Months Ended September 30, 2007
Allowance for loan losses — beginning of period	**$ 181,718**	$ 181,118	**$ 163,353**	$ 169,104
Provision for loan losses	**58,390**	3,765	**163,489**	39,122
Charge-offs	**25,309**	9,990	**114,958**	38,201
Recoveries	**2,928**	2,065	**5,843**	6,933
Net charge-offs	**22,381**	7,925	**109,115**	31,268
Allowance for loan losses — end of period	**$ 217,727**	$ 176,958	**$ 217,727**	$ 176,958
Portfolio loans outstanding at period end (1)	**$9,378,198**	$ 9,219,226	**$9,378,198**	$9,219,226
Average portfolio loans outstanding during period (1)	**9,456,378**	9,163,,488	9,489,891	9,170,787
Allowance for loan losses as a percentage of portfolio loans	**2.32%**	1.92%	**2.32%**	1.92%
Ratio of net charge-offs during period to average portfolio loans (annualized)	**0.94**	0.34	**1.54**	0.46

(1) Balances exclude mortgage loans held for sale.

A summary of net charge-off experience in each of the five most recent fiscal quarters is provided below.

Table 4 — Net Charge-Offs

in millions	**Sep 30, 2008 $**	**Sep 30, 2008 % of Portfolio****	Jun 30, 2008 $	Jun 30, 2008 % of Portfolio**	Mar 31, 2008 $	Mar 31, 2008 % of Portfolio**	Dec 31, 2007 $	Dec 31, 2007 % of Portfolio**	Sep 30, 2007 $	Sep 30, 2007 % of Portfolio**
Land Hold	**$ 1.7**	**14.08%**	$ 0.7	5.62%	$ 0.5	3.25%	$ 0.4	2.51%	$ —	—%
Land Development	**6.9**	**22.08**	16.4	51.17	6.6	16.58	6.3	15.02	0.4	0.99
Construction	**0.5**	**0.55**	13.8	16.04	1.2	1.29	1.8	2.10	0.1	0.11
Income Producing	**4.4**	**1.15**	7.7	1.96	0.9	0.23	2.4	0.63	0.1	0.03
Owner-Occupied	**1.3**	**0.52**	3.4	1.35	(0.1)	(0.04)	(0.2)	(0.08)	0.6	0.22
Total Commercial Real Estate	**14.8**	**1.93**	42.0	5.42	9.1	1.15	10.7	1.38	1.2	0.16
Commercial and Industrial	**0.4**	**0.06**	0.6	0.09	0.9	0.14	1.4	0.22	0.6	0.11
Total Commercial Loans	**15.2**	**1.05**	42.6	2.94	10.0	0.69	12.1	0.86	1.8	0.14
Residential Mortgage	**0.5**	**0.16**	20.7	6.33	1.8	0.52	2.0	0.55	1.6	0.44
Direct Consumer	**3.3**	**0.89**	3.1	0.83	3.0	0.79	2.3	0.59	2.6	0.65
Indirect Consumer	**3.4**	**1.61**	2.9	1.39	2.6	1.27	3.3	1.59	1.9	0.88
Total Net Charge-offs	**$22.4**	**0.94%**	$69.3	2.93%	$17.4	0.74%	$19.7	0.84%	$7.9	0.34%

** Represents an annualized rate.

The increase in net charge-offs in the third quarter of 2008 over the third quarter of 2007 was primarily the result of higher charge-offs on commercial real estate due to declining real estate values and general economic deterioration in the Midwest.

After determining what Citizens believes is an adequate allowance for loan losses, the provision for loan losses is calculated as a result of the net effect of the quarterly change in the allowance for loan losses identified based on the risk in the portfolio and the quarterly net charge-offs. The provision for loan losses was $58.4 million in the third quarter of 2008, compared with $3.8 million in the third quarter of 2007. The increase was primarily the result of higher commercial real estate charge-offs and the continued migration of certain commercial real estate watchlist loans to nonperforming status. This migration, and the associated re-evaluation of the underlying collateral supporting these loans, caused an increase in the allowance for loan losses due to the higher likelihood that portions of these loans may eventually be charged-off. For the first nine months of 2008, the provision for loan losses totaled $163.5 million compared with $39.1 million for the same period of 2007 due to the aforementioned factors.

The allowance for loan losses totaled $217.7 million or 2.32% of portfolio loans at September 30, 2008, compared with $163.4 million or 1.72% at December 31, 2007. The increase was primarily the result of higher nonperforming commercial real estate loans and, to a lesser extent, an increase in the historical loss migration

rates and extended duration of residential mortgage and consumer loans. Based on current conditions and expectations, Citizens believes that the allowance for loan losses at September 30, 2008 is adequate to address the estimated loan losses inherent in the loan portfolio at that date. The Corporation's methodology for measuring the adequacy of the allowance includes several key elements, which include specific allowances for identified problem loans, a risk allocated allowance that is comprised of several homogeneous loan pool valuation allowances based on historical data with additional qualitative risk determined by the judgment of management, and a general valuation allowance that reflects Citizens' evaluation of a number of other risk factors. The specific allowance was $35.6 million at September 30, 2008, compared with $17.8 million at December 31, 2007. The increase was primarily the result of anticipated loss of approximately $16 million on two income producing commercial real estate relationships. The risk allocated allowance was $174.0 million at September 30, 2008, compared with $139.5 million at December 31, 2007. The increase was primarily the result of higher nonperforming commercial real estate loans and an increase in recent loss history for the residential mortgage and direct consumer portfolios. The general valuation allowance was $8.1 million at September 30, 2008, compared with $6.1 million at December 31, 2007. Additional information regarding Citizens' methodology is discussed in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" in Citizens' 2007 Annual Report on Form 10-K.

Given the uncertainties in the Midwest economy, continued downturn in real estate markets, and volatility in borrower capacities, Citizens has found it very difficult to give a narrow range of qualitative guidance on net charge-offs and provision expense at this time. Citizens anticipates net charge-offs and provision for loan losses for the fourth quarter of 2008 will be equal to or higher than the third quarter of 2008, depending on the level of continued change in nonperforming loans and challenges in the economy.

Loans Held for Sale

Loans held for sale at September 30, 2008 increased $30.7 million or 40.5% over December 31, 2007 to $106.5 million and increased $30.1 million or 39.5% over September 30, 2007. The increases were primarily the result of transferring $92.8 million (the aforementioned $127.9 million net of the fair-value adjustment) in nonperforming commercial real estate and residential mortgage loans to loans held for sale, partially offset by a decrease in residential mortgage origination volume awaiting sale in the secondary market as a result of faster funding through Citizens' alliance with PHH Mortgage that began in the first quarter of 2008 and, to a lesser extent, a decline in commercial loans held for sale due to customer paydowns, adjustments to reflect current fair-market value, and transfers to ORE status.

Goodwill

Goodwill at September 30, 2008 was $597.2 million, a decrease of $178.1 million or 23.0% from December 31, 2007 and a decrease of $181.3 million or 23.3% from September 30, 2007. The declines were due to a non-cash, non-taxable $178.1 million goodwill impairment charge recorded in the second quarter of 2008 with respect to the entire amount of goodwill previously allocated to the Specialty Commercial line of business after Citizens conducted interim analyses to determine if the fair value of the assets and liabilities in the Regional Banking and Specialty Commercial lines of business exceeded their carrying amounts. Citizens determined it was necessary to perform these analyses as a result of ongoing volatility in the financial industry, Citizens' market capitalization decreasing to a level below tangible book value, and continued deterioration in the credit quality of Citizens' commercial real estate portfolio. During the third quarter of 2008, Citizens concluded its interim analyses with no additional impairment charges being recorded. As required by SFAS 142, "Goodwill and Other Intangible Assets," Citizens is still required to perform its annual goodwill impairment test during the fourth quarter. There can be no assurance that such test will not result in additional material impairment charges due to further developments in the banking industry or Citizens' markets.

Deposits

Total deposits at September 30, 2008 were $9.0 billion, an increase of $704.2 million or 8.5% over December 31, 2007 and an increase of $1.1 billion or 13.4% over September 30, 2007. Core deposits, which exclude all time deposits, totaled $4.5 billion at September 30, 2008, an increase of $402.2 million or 9.5% over December 31, 2007 and an increase of $495.8 million or 12.3% over September 30, 2007. The increases in core deposits were primarily the result of a new on-balance sheet sweep product for Citizens' commercial clients introduced in late 2007 and migration of funds from time deposits to savings. The increase over September 30, 2007 was partially offset by the migration of funds from lower-cost deposits to time deposits with higher yields. Time deposits totaled $4.5 billion at September 30, 2008, an increase of $302.0 million or 7.2% over December 31, 2007 and an increase of $568.5 million or 14.6% over September 30, 2007. The increases were primarily the result of a shift in funding mix from short-term borrowings to longer-term brokered certificates of deposit.

At September 30, 2008, Citizens had approximately $1.4 billion in time deposits of $100,000 or more, compared with $1.6 billion at December 31, 2007 and $1.6 billion at September 30, 2007. Time deposits of $100,000 or more consist of commercial, consumer and public fund deposits derived almost exclusively from local markets. In order to minimize the use of higher-cost funding alternatives, Citizens continues to promote relationship-based core deposit growth and stability through focused marketing efforts and competitive pricing strategies. Although, Citizens has not traditionally relied on brokered or out of market purchased deposits for any significant portion of funding, Citizens has increased the use of this funding source when appropriate. At September 30, 2008, Citizens had $1.0 billion in brokered deposits, compared with $574.3 million at December 31, 2007 and $299.8 million at September 30, 2007. Citizens will continue to evaluate the use of alternative funding sources, such as brokered deposits, as funding needs change.

Borrowed Funds

Short-term borrowings are comprised of federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings which consists of treasury tax and loans. Short-term borrowed funds at September 30, 2008 totaled $123.1 million, a decrease of $419.1 million from December 31, 2007 and a decrease of $674.7 million from September 30, 2007. The decrease from December 31, 2007 was primarily the result of a decline in federal funds purchased. The decrease from September 30, 2007 was primarily the result of a decline in federal funds purchased and retiring dealer repurchase agreements, partially offset by the reclassification of the $50 million variable rate note.

Long-term debt consists of advances from the Federal Home Loan Bank ("FHLB") to our subsidiary banks, debt issued by the Holding Company, and other borrowed funds. Long-term debt at September 30, 2008 totaled $2.3 billion, a decrease of $591.9 million or 20.1% from December 31, 2007 and a decrease of $453.1 million or 16.2% from September 30, 2007. The decreases were primarily the result of a shift in the mix of funding to deposits and the use of the proceeds from the issuance of equity securities in June 2008 to paydown debt.

Citizens issued a five year variable rate promissory note for $50.0 million on April 2, 2007. The related credit agreement required Citizens to maintain certain financial and non-financial covenants including capital adequacy, nonperforming asset levels and loan loss reserve coverage as a percent of nonperforming loans. Citizens was not in compliance with the covenants regarding nonperforming asset levels as of September 30, 2008. The note was reclassified to a short-term borrowing at September 30, 2008 and Citizens retired the $50.0 million note on October 7, 2008.

Capital Resources

Citizens continues to maintain a strong capital position, which supports current needs and provides a sound foundation to support future expansion. The Corporation’s regulatory capital ratios are consistently at or above the "well-capitalized" standards and all bank subsidiaries have sufficient capital to maintain a "well-capitalized" designation. The Corporation’s capital ratios as of September 30, 2008, December 31, 2007 and September 30, 2007 are presented below.

Capital Ratios

	Regulatory Minimum				
	Required	"Well-Capitalized"	**September 30, 2008**	December 31, 2007	September 30, 2007
Risk based:					
Tier 1 capital	4.00%	6.00%	**10.88%**	9.18%	9.28%
Total capital	8.00	10.00	**13.13**	11.66	11.79
Tier 1 Leverage	4.00	5.00	**8.76**	7.53	7.49

Shareholders’ equity at September 30, 2008 was $1.5 billion, essentially unchanged from December 31, 2007 and September 30, 2007. Book value per common share at September 30, 2008, December 31, 2007, and September 30, 2007 was $12.20, $20.84, and $20.65, respectively. Citizens has taken actions during 2008 to enhance capital and maintain a strong balance sheet. On April 17, 2008, the Board of Directors voted to suspend the common stock quarterly cash dividend. During May 2008, Citizens recorded the aforementioned goodwill impairment, credit writedown, and fair-value adjustments that together reduced shareholder’s equity by $205.6 million. On June 11, 2008, Citizens issued $79.6 million of common stock and $120.4 million of contingent convertible perpetual non-cumulative preferred stock ("preferred stock") that together increased shareholders' equity by $189.5 million (net of issuance costs and the underwriting discount). The preferred stock converted to 30.1 million shares of Citizens' common stock on September 29, 2008 after shareholders approved the required increase in authorized common stock on September 22, 2008. Management believes these are crucial steps to weathering the current adverse economic conditions and providing a better return for its shareholders in the long run.

During the third quarter of 2008, the Holding Company did not purchase any shares of common stock as part of the Corporation's share repurchase program approved by the Board of Directors in October 2003. Information regarding the Corporation's share repurchase program is set forth later in this report under Part II, Item 2 "Unregistered Sales of Equity Securities and Use of Proceeds."

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual obligations and off-balance sheet arrangements are described in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Corporation's 2007 Annual Report on Form 10-K. There have been no material changes to those obligations or arrangements outside the ordinary course of business since the most recent fiscal year end.

Liquidity and Debt Capacity

Citizens monitors and manages its liquidity position so that funds will be available at a reasonable cost to meet financial commitments, to finance business expansion and to take advantage of unforeseen opportunities. Citizens manages the liquidity of its Holding Company to pay dividends to shareholders, to service debt, to invest in subsidiaries and to satisfy other operating requirements. It also manages the liquidity of its subsidiary banks to meet client cash flow needs while maintaining funds available for loan and investment opportunities.

The Holding Company's subsidiary banks derive liquidity through deposit growth, maturity of money market investments, and maturity and sale of investment securities and loans. Additionally, its subsidiary banks have access to financial market borrowing sources on an unsecured, as well as a collateralized basis, for both short-term and long-term purposes including, but not limited to, the Federal Reserve and Federal Home Loan Banks of which the subsidiary banks are members.

The primary sources of liquidity for the Holding Company are dividends from and returns on investment in its subsidiaries and existing cash resources. Banking regulations limit the amount of dividends a financial institution may declare to a parent company in any calendar year. Each of the banking subsidiaries is subject to dividend limits under the laws of the state in which it is chartered and to the banking regulations mentioned above. Federal and national chartered financial institutions are allowed to make dividends or other capital distributions in an amount not exceeding the current calendar year's net income, plus retained net income of the preceding two years. Distributions in excess of this limit require prior regulatory approval. For the first nine months of 2008, the Holding Company received $28.5 million in dividends from subsidiaries and paid $22.0 million in dividends to its shareholders. In April 2008, the Holding Company's board voted to suspend the common stock quarterly cash dividend as a means of bolstering the Holding Company's capital position and strengthening its balance sheet. As of September 30, 2008 the subsidiary banks are able to pay dividends of $4.6 million to the Holding Company without prior regulatory approval.

The ability to borrow funds on both a short-term and long-term basis provides an additional source of liquidity for the Holding Company. The ability to gain access to funds may be impaired by adverse general economic conditions. Due to the significant increase in the Holding Company's cash resources resulting from the June 2008 capital offering as well as a potential increase in rates and fees associated with renewal of the $65.0 million credit facility with three unaffiliated banks reflecting general conditions in the credit market, Citizens elected not to renew the credit facility, which expired in August 2008. In addition, Citizens had issued a $50.0 million five year variable rate promissory note on April 2, 2007. The credit agreement required Citizens to maintain certain financial and non-financial covenants including capital adequacy, nonperforming asset levels and loan loss reserve coverage as a percent of nonperforming loans. Citizens was not in compliance with the covenants regarding nonperforming asset levels as of September 30, 2008 and the note was reclassified to a short-term borrowing. The Holding Company's cash resources totaled $270.3 million at September 30, 2008. On October 7, 2008, Citizens paid off the note, leaving $220.3 million of cash resources at the Holding Company. After paying off the note, the Holding Company's interest and preferred dividend payment obligations are approximately $20 million annually. Citizens believes that the Holding Company has adequate liquidity to meet its currently anticipated short and long-term needs.

Citizens also has contingent letter of credit commitments that may impact liquidity. Since many of these commitments have historically expired without being drawn upon, the total amount of these commitments does not necessarily represent the Corporation's future cash requirements in connection with them.

The Corporation's long-term debt to equity ratio was 152.8% as of September 30, 2008 compared with 186.3% at December 31, 2007 and 179.3% as of September 30, 2007. Changes in deposit obligations and short-term and long-term debt during the third quarter of 2008 are further discussed in the sections titled "Deposits" and "Borrowed Funds."

The Corporation believes that it has sufficient liquidity and capital sources to meet presently known short-term and long-term cash flow requirements arising from ongoing business transactions.

Credit ratings by the nationally recognized statistical rating agencies are an important component of Citizens' liquidity profile. Credit ratings relate to the Corporation's ability to issue long-term debt and should not be viewed as an indication of future stock performance or a recommendation to buy, sell, or hold securities. Among other factors, the credit ratings are based on financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of the balance sheet, the availability of a significant base of core deposits, and Citizens' ability to access a broad array of wholesale funding sources. Adverse changes in these factors could result in a negative change in credit ratings and impact not only the ability to raise funds in the capital markets, but also the cost of these funds. Citizens' credit rating was reviewed by Moody's Investor Service in October 2008 and maintained, and was downgraded by Standard and Poor's in October 2008, Dominion Bond Rating Service in April 2008, and Fitch Ratings in February 2008. Citizens does not believe the recent downgrades will negatively affect its ability to obtain wholesale funding. Ratings are subject to revision or withdrawal at any time and each rating should be evaluated independently. The current credit ratings for Citizens' Holding Company and subsidiary banks are displayed in the following table.

Credit Ratings

	Standard & Poor's	Moody's Investor Service	Fitch Ratings	Dominion Bond Rating Seervice
Citizen Republic Bancorp (Holding Company)				
Long-Term Debt	BBB-	A3	BBB-	BBB
Short-Term Debt	A-3	P -2	F3	R-2 (middle)
Trust Preferred	BB	Baa 1	BB+	BBB (low)
Citizens Bank				
Certificate of Deposit	—	A2	BBB	BBB (high)
F & M Bank-Iowa				
Certificate of Deposit	—	—	BBB	BBB (high)

Interest Rate Risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. The risk of loss can be assessed by examining the potential for adverse changes in fair values, cash flows, and future earnings resulting from changes in market interest rates. Interest rate risk on Citizens' balance sheet consists of reprice, option, and basis risks. Reprice risk results from differences in the maturity or repricing timing of asset and liability portfolios. Option risk arises from embedded options present in many financial instruments such as loan prepayment options, deposit early withdrawal options, and interest rate options. These options allow certain of Citizens' customers and counterparties to the investment and wholesale funding portfolios the opportunity to benefit when market interest rates change, which typically results in higher costs or lower revenues for the Corporation. Basis risk results when assets and liabilities reprice at the same time but based on different market rates or indices, which can change by different amounts, resulting in a narrowing of profit spread.

The asset/liability management process seeks to insulate net interest income from large fluctuations attributable to changes in market interest rates and to maximize net interest income within acceptable levels of risk through periods of changing interest rates. Accordingly, the Corporation's interest rate sensitivity is monitored on an ongoing basis by its Asset and Liability Committee, which oversees interest rate risk management and establishes risk measures, limits, and policy guidelines. A combination of complementary techniques is used to measure interest rate risk exposure, the distribution of risk, the level of risk over time, and the exposure to changes in certain interest rate relationships. These measures include static repricing gap analysis, simulation of earnings, and estimates of economic value of equity.

Static repricing gap analysis provides a measurement of reprice risk on the Corporation's balance sheet as of a point in time. This measurement is accomplished through stratification of the Corporation's rate sensitive assets and liabilities into repricing periods. The sums of assets and liabilities maturing or repricing in each of these periods are compared for mismatches within each time segment. Core deposits lacking contractual maturities or repricing frequencies are placed into repricing and maturity periods based upon historical experience. Repricing periods for assets include the effects of expected prepayments on cash flows.

Rate sensitive assets repricing within one year exceeded rate sensitive liabilities repricing within one year by $355.1 million or 2.7% of total assets as of September 30, 2008, compared with rate sensitive liabilities repricing within one year exceeding rate sensitive assets repricing within one year by $203.0 million or 1.5% of total assets at December 31, 2007. This reflects a more asset sensitive position than at December 31, 2007 due to the reduction of the fixed-rate investment portfolio, the replacement of short-term variable rate funding with longer term fixed rate funding, and the aforementioned capital issuance. These results incorporate the impact of off-balance sheet derivatives and reflect interest rates consistent with September 30, 2008 levels. Repricing gap analysis is limited in its ability to measure interest rate sensitivity, as embedded options can change the repricing characteristics of assets, liabilities, and off-balance sheet derivatives in different interest rate scenarios, thereby changing the repricing position from that outlined above. Further, basis risk is not captured by repricing gap analysis.

Citizens utilizes a net interest income simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model measures the impact of net interest income relative to a base case scenario of hypothetical fluctuations in interest rates over the next 12 months. These simulations incorporate assumptions including prepayment speeds on various loan and investment assets, cash flows and maturities of financial instruments, market conditions, balance sheet growth and mix, pricing, client preferences, and Citizens' financial capital plans. These assumptions are inherently uncertain and subject to fluctuation and revision in a dynamic environment and as a result the model cannot perfectly forecast net interest income nor exactly predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to the timing, magnitude, and frequency of balance sheet component and interest rate changes, and differences in client behavior, market conditions and management strategies, among other factors.

Net interest income simulations were performed as of September 30, 2008 to evaluate the impact of market rate changes on net interest income over the subsequent 12 months assuming expected changes in balance sheet composition over that time period. If market interest rates were to increase immediately by 100 or 200 basis points (a parallel and immediate shift of the yield curve) net interest income would be expected to increase by 1.3% and 2.6%, respectively, from what it would be if rates were to remain at September 30, 2008 levels. An immediate 100 basis point parallel decline in market rates would be expected to decrease net interest income by 0.7% from what it would be if rates were to remain at September 30, 2008 levels. A net interest income simulation for a 200 basis point parallel decline in market rates was not performed at September 30, 2008, as the results would not have been meaningful given the current level of short-term market interest rates. These measurements represent less exposure to increasing interest rates and slightly less exposure to decreasing interest rates than at December 31, 2007, resulting from the extension of short-term borrowings and a reduction in option risk from the balance sheet. This reduction in option risk resulted from the runoff of assets with prepayment options and the addition of liabilities where Citizens has the ability to prepay without penalty. Net interest income is not only affected by the level and direction of interest rate changes, but also by the shape of the yield curve, pricing spreads in relation to market rates, balance sheet growth, the mix of different types of assets and liabilities, and the timing of changes in these variables. Scenarios different from those outlined above, whether different by timing, level, or a combination of factors, could produce different results.

From time-to-time, derivative contracts are used to help manage or hedge exposure to interest rate risk and market value risk in conjunction with mortgage banking operations. These currently include interest rate swaps and forward mortgage loan sales. Interest rate swaps are contracts with a third party (the "counter-party") to exchange interest payment streams based upon an assumed principal amount (the "notional amount"). The notional amount is not advanced from the counter-party. Swap contracts are carried at fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts and payments based on market interest rates as of the balance sheet date. The fair values of the contracts change daily as market interest rates change.

Holding residential mortgage loans for sale and committing to fund residential mortgage loan applications at specific rates exposes Citizens to market value risk caused by changes in interest rates during the period from rate commitment issuance until sale. To minimize this risk, Citizens enters into mandatory forward commitments to sell residential mortgage loans at the time a rate commitment is issued which are considered derivatives under SFAS 133. As of September 30, 2008, Citizens had no forward commitments to sell mortgage loans. Further discussion of derivative instruments is included in Note 16 to the Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the information concerning quantitative and qualitative disclosures about market risk contained in Item 7A of Citizens' 2007 Annual Report on Form 10-K, except as set forth in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Risk" of this Form 10-Q.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15 of the Securities Exchange Act of 1934, that are designed to cause the material information required to be disclosed by Citizens in the reports it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the Securities and Exchange Commission's rules and forms. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, Citizens performed an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No changes were made to the Corporation's internal control over financial reporting (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1A. Risk Factors

For information regarding risk factors affecting Citizens, see "Risk Factors" in Item 1A of Part I of Citizens' 2007 Annual Report on Form 10-K. There have been no material changes to the risk factors described in such Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under The Plans or Programs
July 2008	38(a)	2.54	—	1,241,154
August 2008	166(a)	3.88	—	1,241,154
September 2008	729(a)	4.87	—	1,241,154
Total	933	4.60	—	1,241,154

(a) Shares repurchased in connection with taxes due from employees as a result of the vesting of certain restricted share awards in accordance with the related grant agreements. These repurchases were not part of the repurchase program approved in October 2003.

In October 2003, the Board of Directors approved the repurchase of 3,000,000 shares of common stock from time to time in the market. There is no expiration date for the repurchase program. As of September 30, 2008, 1,241,154 shares remain to be purchased under this program. The purchase of shares is subject to limitations that may be imposed by applicable securities laws and regulations and the rules of the NASDAQ Global Select Market®. The timing of the purchases and the number of shares to be bought at any one time depend on market conditions and Citizens' capital requirements. There can be no assurance that Citizens will repurchase the remaining shares authorized to be repurchased, or that any additional repurchases will be authorized by the Board of Directors.

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

Citizens held a special meeting of shareholders on September 22, 2008 at which the shareholders voted to amend Article III of the Corporation's Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 100 million to 150 million shares. The amendment was filed with the State of Michigan and became effective September 23, 2008. The following table sets forth the number of votes for and against the item as well as abstentions and broker non-votes.

	For	Against	Abstain	Broker Non-Votes
Approve amendment to Article III of the Corporation's Amended and Restated Articles of Incorporation	75,422,010	4,718,747	621,173	205,108

Item 6. Exhibits

3.1 Amended and Restated Articles of Incorporation of Citizens Republic Bancorp, Inc., as amended through September 23, 2008

10.43 2008 Management Incentive Plan* (incorporated by reference from Citizens' Current Report on Form 8-K filed September 17, 2008)

10.44 Agreement between Citizens Republic Bancorp, Inc., and Clinton A. Sampson, dated November 4, 2008.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

32.1 Certification pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934

* Portions of this exhibit have been omitted pursuant to Citizens' request to the Secretary of the Securities and Exchange Commission for confidential treatment pursuant to Rule 24b-2 under the Securities and Exchange Act of 1934, as amended.

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.

CITIZENS REPUBLIC BANCORP, INC.

Date: November 10, 2008	By /s/ Charles D. Christy
	Charles D. Christy Chief Financial Officer (principal financial officer and duly authorized officer)

Table of Contents

10-Q EXHIBIT INDEX

Exhibit No.	Description
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Section 2: EX-3.1 (EX-3.1)

Exhibit 3.1

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
CITIZENS REPUBLIC BANCORP, INC.

The present name of the Corporation is Citizens Republic Bancorp, Inc. (CID No. 031-208). The previous name of the Corporation was Citizens Banking Corporation. The original Articles of Incorporation of the Corporation were filed on November 10, 1980. These Amended and Restated Articles of Incorporation were duly adopted by the directors and the shareholders in accordance with Sections 641 and 642 of the Business Corporation Act of Michigan.

Pursuant to the provisions of Act 284, Public Acts of 1972, the undersigned corporation executes the following Articles:

ARTICLE I

The name of the Corporation is CITIZENS REPUBLIC BANCORP, INC.

ARTICLE II

The purpose or purposes for which the Corporation is organized is to engage in any activity within the purposes for which a Corporation may be organized under the Business Corporation Act of Michigan, and specifically, but not in limitation of the foregoing, to be a bank holding company under the Bank Holding Company Act of 1956, as amended, and to engage in, or acquire an interest in other companies which engage in, activities closely related to banking as such activities are defined by the Board of Governors of the Federal Reserve System.

ARTICLE III

The total authorized capital stock is:

Common shares 100,000,000 No Par Value
Preferred shares 5,000,000 No Par Value

ARTICLE IV

(A) A statement of all or any of the relative rights, preferences and limitations of the common shares is as follows:

(1) Any distribution of profits of the Corporation voted by the directors as dividends payable in cash, or in shares of the Corporation, or in other securities of the Corporation or in other securities, shall be distributed to the shareholders in proportion to their ownership of the shares of the Corporation.

(2) Each shareholder shall have one vote per share in elections of directors and on any other matters properly coming up at shareholders' meetings for action by shareholders.

(3) Voting in elections of directors shall not be cumulative.

(4) Shareholders shall not have preemptive rights to subscribe for or purchase any authorized but unissued shares of the Corporation or any other securities or rights to be issued by the Corporation.

(5) In the event of liquidation of the assets of the Corporation after payment of all of its debts, the remainder of such assets shall be distributed to the shareholders in proportion to their ownership of the shares of the Corporation.

(B) The relative rights, preferences and limitations of the preferred shares shall be determined as follows:

The board of directors is empowered to determine the stated value per share thereof and to divide and redivide said preferred shares into classes and series and to designate and redesignate the rights, preferences and limitations of each class or series.

ARTICLE V

The address of the registered office is:

328 S. Saginaw Street
Flint, Michigan 48502

The name of the initial resident agent at the registered office is:

Thomas W. Gallagher

ARTICLE VI

The business and affairs of the Corporation shall be managed by or under the direction of a board of directors consisting of not less than ten nor more than twenty-five directors, the exact number of directors to be determined from time to time by resolution adopted by affirmative vote of a majority of the board of directors elected and serving. At the 2009 annual meeting of stockholders, the successors of the directors whose terms expire at that meeting shall be elected for a term expiring at the 2010 annual meeting of stockholders and shall hold office until the next succeeding annual meeting and until his or her successor shall be elected and shall qualify, but subject to prior death, resignation, retirement, disqualification or removal from office; at the 2010 annual meeting of stockholders, the successors of the directors whose terms expire at that meeting shall be elected for a term expiring at the 2011 annual meeting of stockholders and shall hold office until the next succeeding annual meeting and until his or her successor shall be elected and shall qualify, but subject to prior death, resignation, retirement, disqualification or removal from office; and at each annual meeting of stockholders thereafter, the directors shall be elected for terms expiring at the next annual meeting of stockholders and shall hold office until the next succeeding annual meeting and until his or her successor shall be elected and shall qualify, but subject to prior death, resignation, retirement, disqualification or removal from office. Any vacancy on the board of directors that results from an increase in the number of directors may be filled by a majority of the board of directors elected and serving, and any other vacancy occurring in the board of directors may be filled by a majority of the directors elected and serving, although less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by the corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of these articles of incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this article VI unless expressly provided by such terms.

Except as otherwise provided in these Articles, directors shall be elected by a majority of the votes cast at an election as specified in greater detail in the bylaws of the Corporation.

ARTICLE VII

The directors shall have the power to make, alter, amend, change, add to or repeal the bylaws of the Corporation not inconsistent with the provisions of these articles of incorporation. The affirmative vote of the holders of not less than two thirds of the outstanding shares of capital stock of the Corporation entitled to vote shall be required for the approval and adoption of any amendment, alteration, change, addition to or repeal of article II, section 3 of the bylaws of the Corporation proposed by any shareholder of the Corporation.

Any amendment, change or repeal of this article VII, or any other amendment of these articles of incorporation which will have the effect of modifying or permitting circumvention of this article VII, shall require the favorable vote, at a meeting of the shareholders of the Corporation, of the holders of at least two thirds of the then outstanding shares of capital stock of the Corporation entitled to vote; provided, however, that such two thirds vote shall not be required for any such amendment, change or repeal recommended to shareholders by the affirmative vote of not less than three-fourths of the board of directors, and such amendment, change, or repeal so recommended shall require only the vote, if any, required under the applicable provision of the Business Corporation Act of Michigan.

ARTICLE VIII

Any action required or permitted to be taken at any annual or special meeting of shareholders of the Corporation, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of not less than two thirds of the outstanding shares of capital stock of the Corporation entitled to vote. Any amendment, change or repeal of this article VIII, or any other amendment of these articles of incorporation which will have the effect of modifying or permitting circumvention of this article VIII, shall require the favorable vote, at a meeting of the shareholders of the Corporation, of the holders of at least two thirds of the then outstanding shares of capital stock of the Corporation entitled to vote; provided, however, that such two thirds vote shall not be required for, any such amendment, change or repeal recommended to shareholders by the affirmative vote of not less than three-fourths of the board of directors elected and serving, and such amendment, change, or repeal so recommended shall require only the vote, if any, required under the applicable provision of the Business Corporation Act of Michigan.

ARTICLE IX

(a) No director of the Corporation shall be personally liable to the Corporation or to its shareholders for monetary damages for breach of the director's fiduciary duty except for liability (i) for a breach of the director's duty of loyalty to the Corporation or its shareholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for a violation of Section 551(1) of the Business Corporation Act of Michigan; (iv) for a transaction from which the director derived an improper personal benefit, or (v) for an act or omission occurring before March 1, 1987.

(b) The indemnification or advancement of expenses provided by law is not exclusive of other rights to which a person seeking indemnification or advancement of expenses may be entitled under these articles of incorporation, the bylaws of the Corporation or a contractual agreement.

These Amended and Restated Articles of Incorporation were duly adopted by the Board of Directors without a vote of the shareholders. These Amended and Restated Articles of Incorporation only restate and integrate and do not further amend the provisions of the Articles of Incorporation as heretofore amended and there is no material discrepancy between these provisions and the provisions of these Amended and Restated Articles of Incorporation.

Signed this 29 th day of April, 2008.

By: /s/ Thomas W. Gallagher
(Signature of an authorized officer or agent)
Thomas W. Gallagher
General Counsel and
Secretary
(Type or Print Name)

Name of person or organization remitting fees:	Preparer's name and business telephone number:
Dykema Gossett PLLC	Mark A. Metz, Esq. (313)568-5434

CERTIFICATE OF DESIGNATIONS
OF
CONTINGENT CONVERTIBLE PERPETUAL NON-CUMULATIVE
PREFERRED STOCK, SERIES A
OF
CITIZENS REPUBLIC BANCORP, INC.

Pursuant to Section 302(4) of the
Michigan Business Corporation Act

Citizens Republic Bancorp, Inc., a Michigan corporation (the "Corporation"), does hereby certify that the following resolution was duly adopted by a committee of the Board of Directors of the Corporation at a meeting duly called and held on June 5, 2008, pursuant to authority conferred upon such committee by the Board of Directors pursuant to the provisions of the Amended and Restated Articles of Incorporation, and that the complete text of such resolution is as follows:

"RESOLVED: That pursuant to the authority vested in the Board of Directors by its Amended and Restated Articles of Incorporation and delegated to this committee, a series of preferred stock, no par value, of the Corporation be and hereby is created, and that the determination of the terms and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as set forth in the Certificate of Designations attached hereto as Annex A, which is incorporated herein and made a part of these resolutions by reference, and that the Amended and Restated Articles of Incorporation of the Corporation be and hereby are amended by adopting a Certificate of Designations containing the terms and conditions contained in Annex A hereto."

[Signature page follows]

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designations to be duly executed by the undersigned this 10th day of June, 2008.

CITIZENS REPUBLIC BANCORP, INC.

By: /s/ Thomas W. Gallagher
Name: Thomas W. Gallagher
Title: General Counsel & Secretary

CERTIFICATE OF DESIGNATIONS
OF
CONTINGENT CONVERTIBLE PERPETUAL NON-CUMULATIVE
PREFERRED STOCK, SERIES A
OF
CITIZENS REPUBLIC BANCORP, INC.

There is hereby established a series of preferred stock to which the following provisions shall be applicable:

Section 1. Designation and Amount. The shares of such series shall be designated as "Contingent Convertible Perpetual Non-Cumulative Preferred Stock, Series A," no par value, with a liquidation preference of $50 per share (or such other amount as may be determined pursuant to Section 5(a)) (the "Preferred Stock") and the number of shares constituting the Preferred Stock initially shall be 2,768,791. Subject to Section 4(b), such number of shares may be increased or decreased by resolution of the Board of Directors (hereinafter called the "Board of Directors" or the "Board") of Citizens Republic Bancorp, Inc. (the "Corporation"); *provided*, that no decrease shall reduce the number of shares of Preferred Stock to a number less than the number of shares then outstanding.

Section 2. Ranking. The Preferred Stock shall rank, as to payment of dividends and distribution of assets upon dissolution, liquidation or winding up of the Corporation, (a) senior to (i) the Common Stock and (ii) each other class or series of capital stock issued by the Corporation which by its terms does not expressly provide that it ranks on a parity with or senior to the Preferred Stock (collectively, the "Junior Securities") and (b) *pari passu* with each class or series of preferred stock issued by the Corporation the terms of which expressly provide that such class or series will rank on parity with the Preferred Stock (collectively, the "Parity Securities"), in each case, whether now outstanding or to be issued in the future.

Section 3. Dividends and Distributions.

(a) From and after the Effective Date, Holders shall be entitled to receive, when, as and if declared by the Board of Directors, out of the funds legally available therefor, non-cumulative cash dividends in the amount determined as set forth in Section 3(b) and in Section 3(c), and no more.

(b) Subject to Section 3(a), the Board of Directors may not declare and pay any dividend or make any distribution (including, but not limited to, regular quarterly dividends) in respect of Common Stock, whether in the form of cash or securities or any other form of property or assets, unless the Board of Directors declares and pays to the Holders of the Preferred Stock, at the same time and on the same terms as holders of Common Stock, an amount per share of Preferred Stock equal to the product of (i) any per share dividend or distribution, as applicable, declared and paid or made in respect of each share of Common Stock and (ii) the number of shares of Common Stock into which each share of Preferred Stock is then convertible.

(c) Commencing with the Section 3(c) Dividend Period (as defined below) ending on January 9, 2009, in addition to dividends payable under Section 3(b), dividends shall be payable quarterly in arrears, when, as and if declared by the Board of Directors, on January 9, April 9, July 9 and October 9 of each year, or, if any such day is not a Business Day, the next Business Day, commencing January 9, 2009, and on the Mandatory Conversion Date (each, a "Section 3(c) Dividend Payment Date") for each outstanding share of Preferred Stock, payable at an annual rate on the Liquidation Preference equal to the Special Dividend Rate (such dividend, the "Special Dividend"). Dividends payable pursuant to this Section 3 (c), including for the first Special Dividend Period and any Special Dividend Period that is shorter or longer than a fully quarterly Special Dividend Period, will be computed on the basis of a 360-day year of twelve 30-day months. No interest or sum of money in lieu of interest will be paid on any dividend payment on a Preferred Stock paid later than the scheduled Section 3(c) Dividend Payment Date. Each period from and including a Section 3(c) Dividend Payment Date to but excluding the following Section 3(c) Dividend Payment Date is herein referred to as a "Section 3(c) Dividend Period."

(d) Each dividend will be payable to Holders of record as they appear in the records of the Company at the close of business on the same record date, which (i) with respect to dividends payable pursuant to Section 3(b), shall be the same day as the record date for the payment of the corresponding dividends to the holders of shares of Common Stock and (ii) with respect to dividends payable pursuant to Section 3(c), shall be on the first Business Day of the month in which the relevant Section 3(c) Dividend Payment Date occurs.

(e) Dividends on the Preferred Stock, including Special Dividends, are non-cumulative. If the Board of Directors does not declare a dividend on the Preferred Stock in respect of any dividend period, the Holders will have no right to receive any dividend for such dividend period, and the Company will have no obligation to pay a dividend for such dividend period, whether or not dividends are declared and paid for any future dividend period with respect to the Preferred Stock or the Common Stock or any other class or series of the Company's preferred stock.

(f) If full dividends payable pursuant to Section 3(b) or Section 3(c) on all outstanding shares of the Preferred Stock have not been declared and paid, or declared and a sum sufficient for the payment of those dividends been set aside, the Corporation may not: (i) declare and pay or set aside for payment or declare and make or set aside for payment any distribution on any Junior Securities (other than a dividend payable solely in Junior Securities); (ii) repurchase, redeem, or otherwise acquire for consideration, directly or indirectly, any Junior Securities (other than as a result of a reclassification of Junior Securities for or into other Junior Securities, or the exchange or conversion of one Junior Security for or into another Junior Security, and other than through the use of the proceeds of a substantially contemporaneous sale of other Junior Securities), nor shall any monies be paid to or made available for a sinking fund for the redemption of any Junior Securities by the Corporation; or (iii) repurchase, redeem, or otherwise acquired for consideration any Parity Securities otherwise than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Preferred Stock and such Parity Securities except by conversion into or exchange for Junior Securities. The foregoing limitations do not apply to purchases or acquisitions of Junior Securities pursuant to any employee or director incentive or benefit plan or arrangement (including any of the Corporation's employment, severance, or consulting agreements) of the Corporation or of any of its subsidiaries adopted before or after the Effective Date.

(g) If full dividends payable pursuant to Section 3(b) or Section 3(c) on all outstanding shares of the Preferred Stock have not been declared and paid, or declared and a sum sufficient for the payment of those dividends been set aside, the Corporation may not declare, pay, or set aside for payment dividends on any Parity Securities for any period; provided, however, that to the extent that the Corporation declares dividends on the Preferred Stock and on any Parity Securities but does not make full payment of such declared dividends, the Corporation will allocate the dividend payments on a pro rata basis among the Holders of the shares of Preferred Stock and the holders of any Parity Securities. For purposes of calculating the pro rata allocation of partial dividend payments, the Corporation will allocate dividend payments based on the ratio between the then-current dividend payments due on the shares of Preferred Stock and the aggregate of the current and accrued dividends due on any Parity Securities.

Section 4. Voting Rights.

(a) Except as otherwise required by law, the Amended and Restated Articles of Incorporation or set forth in this Section 4, Holders of the Preferred Stock are not entitled to any voting rights.

(b) Unless the approval of a greater number of shares of Preferred Stock is required by law, the Corporation will not, without the approval of the Holders of at least two-thirds of the shares of Preferred Stock then outstanding, given in person or by proxy either at an annual meeting or at a special meeting called for that purpose, at which the Holders of the Preferred Stock shall vote separately as a single class, amend, alter or repeal any provisions of the Amended and Restated Articles of Incorporation by way of merger, consolidation, combination, reclassification or otherwise, so as to increase or decrease the aggregate number of authorized shares of Preferred Stock or to affect adversely any, right, preference or voting power of the Holders of the Preferred Stock; provided that any amendment of the provisions of the Amended and Restated Articles of Incorporation so as to issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any Parity Securities or Junior Securities shall be deemed not to affect adversely the right, preference or voting power of the Holders of the Preferred Stock. Notwithstanding anything in the foregoing to the contrary, any amendment, alteration or repeal of any of the provisions of the Amended and Restated Articles of Incorporation occurring in connection with any merger or consolidation of the Corporation of the type described in Section 13(a)(i) or any statutory exchange of our securities with another Person (other than in connection with a merger or acquisition) of the type described in Section 13(a)(iv) shall be deemed not to adversely affect the rights, preferences or voting power of the Holders of the Preferred Stock; provided that the shares of the Preferred Stock will remain outstanding or will become shares of the successor Person or its ultimate parent, having in respect of such Person rights, preferences or voting powers that would not alter or change the rights, preferences or voting powers of the Holders of Preferred Stock immediately prior to the consummation of such merger, consolidation, or statutory exchange so as to affect them adversely and shall be convertible into the kind and amount of net cash, securities and other property as determined in accordance with the provisions governing Reorganization Events as described in Section 13.

(c) If and whenever an amount equal to six full quarterly dividends, whether or not consecutive, payable on any class or series of the preferred shares of the Corporation, including the Preferred Stock, are not paid or otherwise declared and set aside for payment, the holders of preferred shares of the Corporation, including the Preferred Stock, voting separately as a single class shall be entitled to increase the authorized number of directors on the Board of Directors by two and elect such two additional directors to the Board of Directors at the next annual meeting or special meeting of the shareholders. Not later than 40 days after the entitlement arises the Board of Directors shall convene a special meeting of the holders of the preferred shares for the purpose of electing the additional two directors. If the Board of Directors fails to convene such meeting within such 40-day period, then holders of 10% of the outstanding preferred shares of the Corporation, including the Preferred Stock, taken as a single class, may call the meeting. If all declared and unpaid dividends in default on preferred shares of the Corporation, including the Preferred Stock, have been paid in full or declared and set apart for payment, the Holders of the Preferred Stock and the other preferred shares will no longer have the right to vote on directors and the term of office of each director so elected will terminate at the next annual meeting of shareholders and the authorized number of the directors of the Corporation will, without further action, be reduced accordingly.

(d) The Corporation will not, without the consent of Holders of at least two-thirds of the shares of Preferred Stock and any class or series of Parity Securities then outstanding, voting together as a single class:

(i) reclassify any authorized shares of the Corporation into any shares of any class, or any obligation or security convertible into or evidencing a right to purchase such shares, ranking senior to the Preferred Stock as to payment of dividends or distribution of assets upon the dissolution, liquidation or winding up; or

(ii) issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase any stock of any class or series ranking senior to the Preferred Stock as to payment of dividends or distribution of assets upon the dissolution, liquidation or winding up of the Corporation, provided that the Corporation may issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any shares of capital stock ranking on a parity with or junior to the Preferred Stock as to payment of dividends or distribution of assets upon the dissolution, liquidation or winding up of the Corporation without the vote of the Holders of the Preferred Stock.

(e) In exercising the voting rights set forth in this Section 4, each share of Preferred Stock shall have one vote per share. In any case where the Holders of the Preferred Stock are entitled to vote as a class with holders of Parity Securities or other classes or series of Preferred Shares, each class or series shall have a number of votes proportionate to the aggregate liquidation preference of its outstanding shares.

Section 5. Liquidation, Dissolution or Winding Up.

(a) In the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, subject to the rights of holders of Parity Securities or holders of any shares of the capital stock then outstanding ranking senior to the Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Corporation, the Holders of the Preferred Stock then outstanding will be entitled to receive, out of the net assets legally available for distribution to shareholders, before any distribution or payment is made on any Junior Securities, a liquidating distribution equal to the greater of (i) $50 per share and (ii) the value of the number of Common Shares into which a share of Preferred Stock would convert at the then Conversion Rate if Shareholder Approval were obtained, subject to adjustment for stock splits, combinations, reclassifications or other similar events involving the Preferred Stock, plus an amount equal to the sum of all declared and unpaid dividends, and such Holders shall be deemed to be the Holders of record for such dividend periods or portions thereof. After the payment to the Holders of the Preferred Stock of the full amounts provided for in this Section 5(a), the Holders of the Preferred Stock will have no right or claim to any of the Corporation's remaining assets.

(b) For the purpose of this Section 5, none of the following shall constitute or be deemed to constitute a voluntary or involuntary liquidation, dissolution or winding up of the Corporation:

(i) the sale, transfer, lease or conveyance of all or substantially all of the Corporation's property or business;

(ii) the consolidation or merger of the Corporation with or into any other Person; or

(iii) the consolidation or merger of any other Person with or into the Corporation.

(c) In the event the assets of the Corporation available for distribution to the holders of preferred shares of the Corporation, including the Preferred Stock, upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, are insufficient to pay in full all amounts to which such holders are entitled, the Holders of the Preferred Stock and the holders of Parity Securities, shall share ratably in any distribution of the assets of the Corporation based upon the proportion of the full respective liquidation preference of such series to the aggregate liquidation preference for all outstanding shares for each series.

(d) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty calendar days prior to any payment date stated therein, to the Holders of Preferred Stock, at the address shown on the books of the Corporation or the Transfer Agent; *provided, however*, that a failure to give notice as provided above or any defect therein shall not affect the Corporation's ability to consummate a voluntary or involuntary liquidation, dissolution or winding up of the Corporation.

Section 6. Mandatory Conversion on the Mandatory Conversion Date.

Effective as of the close of business on the Mandatory Conversion Date with respect to any share of Preferred Stock, such share of Preferred Stock shall automatically convert into shares of Common Stock at the Conversion Rate (subject to the conversion procedures of Section 9 hereof) plus cash in lieu of fractional shares in accordance with Section 11 hereof.

Section 7. Maturity. The Preferred Stock shall be perpetual.

Section 8. Redemption. The Preferred Stock shall not be redeemable either at the Corporation's option or at the option of the Holders at any time.

Section 9. Conversion Procedures.

(a) No later than two Business Days following the Shareholder Approval, the Corporation shall provide notice of the conversion to each Holder (the "Notice of Mandatory Conversion"). In addition to any information required by applicable law or regulation, the Notice of Mandatory Conversion with respect to such Holder shall state, as appropriate.

(i) the Mandatory Conversion Date;

(ii) the number of shares of Common Stock to be issued upon conversion of each share of Preferred Stock held of record by such Holder and subject to such mandatory conversion; and

(iii) the place or places where certificates for shares of Preferred Stock held of record by such Holder are to be surrendered for issuance of certificates representing shares of Common Stock.

(b) Effective immediately prior to the close of business on the Mandatory Conversion Date with respect to any share of Preferred Stock, dividends shall no longer be declared on any share of Preferred Stock and each share of Preferred Stock shall cease to be outstanding, in each case, subject to the right of the Holder to receive any declared and unpaid dividends on such share to the extent provided in Section 3 and any other payments to which such Holder is otherwise entitled pursuant to Section 6, Section 11 or Section 13, as applicable.

(c) No allowance or adjustment, except pursuant to the provisions contained in Section 12, shall be made in respect of dividends payable to holders of Common Stock of record as of any date prior to the close of business on the Mandatory Conversion Date with respect to any share of Preferred Stock. Prior to the close of business on the Mandatory Conversion Date with respect to any share of Preferred Stock, shares of Common Stock issuable upon conversion thereof, or other securities issuable upon conversion thereof, shall not be deemed outstanding for any purpose, and the holder thereof shall have no rights with respect to Common Stock or other securities issuable upon conversion (including voting rights, rights to respond to tender offers for Common Stock or other securities issuable upon conversion) by virtue of holding such share of Preferred Stock (except to the extent of the dividends described in Section 3(b)).

(d) Shares of Preferred Stock duly converted in accordance with this Certificate of Designations, or otherwise reacquired by the Corporation, will resume the status of authorized and unissued preferred stock, undesignated as to series and available for future issuance. Subject to Section 4 (b), the Corporation may from time to time take such appropriate action as may be necessary to reduce the authorized number of shares of Preferred Stock

(e) The person or persons entitled to receive Common Stock and/or cash, securities or other property issuable upon conversion of Preferred Stock shall be treated for all purposes as the record holder(s) of such shares of Common Stock and/or securities as of the close of business on the Mandatory Conversion Date with respect thereto. In the event that a Holder shall not by written notice designate the name in which shares of Common Stock and/or cash, securities or other property (including payments of cash in lieu of fractional shares) to be issued or paid upon conversion of shares of Preferred Stock should be registered or paid or the manner in which such shares should be delivered, the Corporation shall be entitled to register and deliver such shares, and make such payment, in the name of the Holder and in the manner shown on the records of the Corporation.

(f) On the Mandatory Conversion Date with respect to any share of Preferred Stock, certificates representing shares of Common Stock shall be issued and delivered to the Holder thereof or such Holder’s designee upon presentation and surrender of the certificate evidencing the Preferred Stock to the Corporation, or in the case of global certificates, a book-entry transfer through DTC will be made by the conversion agent, and, if required, the furnishing of appropriate endorsements and transfer documents and the payment of all transfer and similar taxes

Section 10. Reservation of Common Stock.

(a) Following receipt of the Shareholder Approval, the Corporation shall at all times reserve and keep available out of the authorized and unissued shares of Common Stock or shares held in the treasury by the Corporation, solely for issuance upon the conversion of the Preferred Stock, that number of shares of Common Stock as shall be issuable upon the conversion of all the Preferred Stock then outstanding.

(b) All shares of Common Stock delivered upon conversion of the Preferred Stock shall be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances (other than liens, charges, security interests and other encumbrances created by the Holders).

Section 11. Fractional Shares.

(a) No fractional shares of Common Stock will be issued as a result of any conversion of shares of Preferred Stock.

(b) In lieu of any fractional share of Common Stock otherwise issuable in respect of any mandatory conversion pursuant to Section 6 hereof, the Corporation shall pay an amount in cash (computed to the nearest cent) equal to the same fraction of the average daily Closing Price per share of the Common Stock for each of the five consecutive Trading Days preceding the Trading Day immediately preceding the Mandatory Conversion Date.

(c) If more than one share of the Preferred Stock is surrendered for conversion at one time by or for the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Preferred Stock so surrendered.

Section 12. Anti-Dilution Adjustments to the Conversion Rate.

(a) ***Anti-Dilution Adjustments.*** The Conversion Rate and the number of shares of Common Stock to be delivered upon conversion shall be subject to the following adjustments if occurring at any time prior to the Mandatory Conversion Date:

(i) *Stock Dividends and Distributions*. If the Corporation pays dividends or other distributions on the Common Stock in shares of Common Stock, then the Conversion Rate in effect immediately prior to the "ex-date" for such dividend or distribution will be multiplied by the following fraction:

$$\frac{OS^1}{OS_o}$$

Where,

OS_o = the number of shares of Common Stock outstanding immediately prior to the "ex-date" for such dividend or distribution.

OS^1 = the sum of the number of shares of Common Stock outstanding immediately prior to the "ex-date" for such dividend or distribution plus the total number of shares of Common Stock constituting such dividend.

(ii) *Subdivisions, Splits and Combinations of the Common Stock*. If the Corporation subdivides, splits, or combines the shares of Common Stock, then the Conversion Rate in effect immediately prior to the "ex-date" for such dividend or distribution will be multiplied by the following fraction:

$$\frac{OS^1}{OS_o}$$

Where,

OS_o = the number of shares of Common Stock outstanding immediately prior to the effective date of such share subdivision, split, or combination.

OS^1 = the number of shares of Common Stock outstanding immediately after the opening of business on the effective date of such share subdivision, split, or combination.

(iii) *Issuance of Stock Purchase Rights*. If the Corporation issues to all holders of shares of Common Stock rights or warrants (other than rights or warrants issued pursuant to a dividend reinvestment plan or share purchase plan or other similar plans) entitling them, for a period of up to 45 days from the date of issuance of such rights or warrants, to subscribe for or purchase the shares of Common Stock at less than the Current Market

Price on the date fixed for the determination of stockholders entitled to receive such rights or warrants, then the Conversion Rate in effect immediately prior to the "ex-date" for such distribution will be multiplied by the following fraction:

$$\frac{OS_o + X}{OS_o + Y}$$

Where,

OS_o = the number of shares of Common Stock outstanding immediately prior to the "ex-date" for such distribution.

X = the total number of shares of Common Stock issuable pursuant to such rights or warrants.

Y = the number of shares of Common Stock equal to the aggregate price payable to exercise such rights or warrants divided by the Current Market Price.

To the extent that such rights or warrants are not exercised prior to their expiration or shares of Common Stock are otherwise not delivered pursuant to such rights or warrants upon the exercise of such rights or warrants, the Conversion Rate shall be readjusted to such Conversion Rate that would then be in effect had the adjustment made upon the issuance of such rights or warrants been made on the basis of the delivery of only the number of shares of Common Stock actually delivered. In determining the aggregate offering price payable for such shares of Common Stock, the conversion agent will take into account any consideration received for such rights or warrants and the value of such consideration (if other than cash, to be determined by the Board).

(iv) *Debt or Asset Distribution.*

(A) If the Corporation shall distribute to all holders of its Common Stock evidences of its indebtedness, shares of capital stock, securities, cash or other assets (excluding any dividend or distribution referred to in Section 12(a)(i) or Section 12(a)(ii) hereof, any rights or warrants referred to in Section 12(a)(iii) hereof, any dividend or distribution paid exclusively in cash, any consideration payable in connection with a tender or exchange offer made by the Corporation or any subsidiary of the Corporation, and any dividend of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in the case of a spin-off referred to in Section 12(a)(iv)(B) below), then the Conversion Rate in effect immediately prior to the close of business on the date fixed for the determination of shareholders entitled to receive such distribution will be multiplied by the following fraction:

$$\frac{SPo}{SPo - FMV}$$

Where,

SPo = the Current Market Price per share of Common Stock on the date fixed for distribution.

FMV= the fair market value of the portion of the distribution applicable to one share of Common Stock as determined by the Board.

(B) In a spin-off, where the Corporation makes a distribution to all holders of shares of Common Stock consisting of capital stock of, or similar equity interests in, or relating to a subsidiary or other business unit, the Conversion Rate will be adjusted on the fifteenth Trading Day after the "ex-date" for the distribution by multiplying the Conversion Rate in effect immediately prior to the close of business on the date fixed for the determination of shareholders entitled to receive such distribution by the following fraction:

$$\frac{MPo + MPs}{MPo}$$

Where,

MPo = the Current Market Price per share of Common Stock on the fifteenth Trading Day after the "ex-date" for the distribution.

MPs = the Current Market Price of the shares of the subsidiary representing the portion of distribution applicable to one share of Common Stock on the fifteenth Trading Day after the "ex-date" for the distribution.

(v) *Self Tender Offers and Exchange Offers.* If the Corporation or any of its subsidiaries successfully complete a tender or exchange offer for Common Stock where the cash and the value of any other consideration included in the payment per share of Common Stock exceeds the Current Market Price per share of Common Stock on the seventh Trading Day after the expiration of the tender or exchange offer, immediately prior to the opening of business on the eighth Trading Day after the expiration date of the tender or exchange offer, then the Conversion Rate in effect on the eighth Trading Day after the expiration of the tender or exchange offer will be divided by the following fraction:

$$\frac{(SPo \times OSo) - AC}{SPo \times (OSo - TS)}$$

Where,

SPo = the Current Market Price per share of Common Stock on the seventh Trading Day after the expiration of the tender or exchange offer.

OSo = the number of shares of Common Stock outstanding at the expiration of the tender or exchange offer, including any shares validly tendered and not withdrawn.

AC = the aggregate cash and fair market value of the other consideration payable in the tender or exchange offer, as determined by the Board of Directors.

TS = the number of shares of Common Stock validly tendered and not withdrawn at the expiration of the tender or exchange offer.

(vi) *Rights Plans.* To the extent that the Corporation has a rights plan in effect on the Mandatory Conversion Date, upon conversion of any Preferred Stock, Holders shall receive, in addition to the Common Stock, the rights under such rights plan, unless, prior to the Mandatory Conversion Date, the rights have separated from the Common Stock, in which case the Conversion Rate will be adjusted at the time of separation of such rights as if the Corporation made a distribution to all holders of the Common Stock as described in clause (iv) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

(b) ***Adjustment for Tax Reasons.*** The Corporation may make such increases in the Conversion Rate, in addition to any other increases required by this Section 12, if the Board deems it advisable to avoid or diminish any income tax to holders of the Common Stock resulting from any dividend or distribution (or issuance of rights or warrants to acquire shares) or from any event treated as such for income tax purposes or for any other reason.

(c) ***Calculation of Adjustments.***

(i) Adjustments to the Conversion Rate shall be calculated to the nearest 1/10,000th of a share (or, if there is not a nearest 1/10,000th of a share, to the next lower 1/10,000th of a share) of Common Stock. Prior to the Mandatory Conversion Date, no adjustment in the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; *provided* that any adjustments which by reason of this subparagraph are not required to be made shall be carried forward and taken into account in any subsequent adjustment; *provided, further*, that on the earlier of the Mandatory Conversion Date and the date the Corporation consummates an acquisition, adjustments to the Conversion Rate will be made with respect to any such adjustment carried forward and which has not been taken into account before such date.

(ii) No adjustment to the Conversion Rate need be made if Holders may participate, on an as-converted basis, in the transaction that would otherwise give rise to an adjustment, so long as the distributed assets or securities the Holders would receive upon conversion of the Preferred Stock, if convertible, exchangeable, or exercisable, are convertible, exchangeable or exercisable, as applicable, without any loss of rights or privileges for a period of at least 45 days following conversion of the Preferred Stock. The Preferred Stock will participate in all dividends and distributions declared on shares of Common Stock as described in Section 3(b) and as a result no adjustments will be made to the Conversion Rate as a result of such dividends and distributions.

(iii) The Conversion Rate shall not be adjusted:

(A) upon the issuance of any shares of Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Corporation’s securities and the investment of additional optional amounts in shares of Common Stock under any plan;

(B) upon the issuance of any shares of Common Stock or rights or warrants to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Corporation or any of its subsidiaries;

(C) upon the issuance of any shares of the Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date shares of the Preferred Stock were first issued;

(D) for a change in the par value or no par value of the Common Stock; or

(E) for accrued, cumulated and unpaid dividends.

(d) ***Notice of Adjustment.*** Whenever the Conversion Rate is to be adjusted in accordance with Section 12(a) or Section 12(b), the Corporation shall: (i) compute the Conversion Rate in accordance with Section 12(a) or Section 12(b), taking into account the one percent threshold set forth in Section 12(c) hereof; (ii) as soon as practicable following the occurrence of an event that requires an adjustment to the Conversion Rate pursuant to Section 12(a) or Section 12(b), taking into account the one percent threshold set forth in Section 12(c) hereof (or if the Corporation is not aware of such occurrence, as soon as practicable after becoming so aware), provide, or cause to be provided, a written notice to the Holders of the occurrence of such event; and (iii) as soon as practicable following the determination of the revised Conversion Rate in accordance with Section 12(a) or Section 12(b) hereof, provide, or cause to be provided, a written notice to the Holders setting forth in reasonable detail the method by which the adjustment to the Conversion Rate was determined and setting forth the revised Conversion Rate.

(e) The Corporation shall have the power to resolve any ambiguity or correct any error in this Section 12 and its action in so doing, as evidenced by a resolution of the Board, or a duly authorized committee thereof, shall be final and conclusive.

Section 13. Reorganization Events.

(a) In the event of:

(i) any consolidation or merger of the Corporation with or into another Person in each case pursuant to which Common Stock will be converted into cash, securities or other property of the Corporation or another Person;

(ii) any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Corporation in each case pursuant to which Common Stock will be converted into cash, securities or other property;

(iii) any reclassification of Common Stock into securities, including securities other than Common Stock; or

(iv) any statutory exchange of securities of the Corporation with another Person (other than in connection with a merger or acquisition);

(any such event specified in this Section 13(a), a "Reorganization Event"); each share of Preferred Stock outstanding immediately prior to such Reorganization Event will, without the consent of Holders, remain outstanding but will become convertible into the kind of securities, cash and other property receivable in such Reorganization Event by the holder (excluding the counterparty to the Reorganization Event or an affiliate of such counterparty) of that number of shares of Common Stock into which the share of Preferred Stock would then be convertible assuming the receipt of the Shareholder Approval (such securities, cash and other property, the "Exchange Property").

(b) In the event that holders of the shares of Common Stock have the opportunity to elect the form of consideration to be received in such transaction, the consideration that the Holders are entitled to receive shall be deemed to be the types and amounts of consideration received by the majority of the holders of the shares of Common Stock that affirmatively make an election. The amount of Exchange

Property receivable upon conversion of any Preferred Stock in accordance with Section 6 hereof shall be determined based upon the Conversion Price in effect on the Mandatory Conversion Date.

(c) The above provisions of this Section 13 shall similarly apply to successive Reorganization Events and the provisions of Section 12 shall apply to any shares of capital stock of the Corporation (or any successor) received by the holders of the Common Stock in any such Reorganization Event.

(d) The Corporation (or any successor) shall, within 20 days of the occurrence of any Reorganization Event, provide written notice to the Holders of such occurrence of such event and of the kind and amount of the cash, securities or other property that constitutes the Exchange Property. Failure to deliver such notice shall not affect the operation of this Section 13.

(e) Notwithstanding anything to the contrary in this Section 13 or otherwise in this Certificate of Designations, the Corporation shall not enter into any agreement for a transaction constituting a Fundamental Change unless such agreement entitles Holders to receive, on an as-converted basis, the securities, cash and other property receivable in such transaction by a holder of shares of Common Stock that was not the counterparty to such transaction or an affiliate of such other party.

Section 14. Replacement Stock Certificates.

(a) The Corporation shall replace any mutilated certificate at the Holder's expense upon surrender of that certificate to the Corporation. The Corporation shall replace certificates that become destroyed, stolen or lost at the Holder's expense upon delivery to the Corporation of satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be required by the Transfer Agent and the Corporation.

(b) The Corporation shall not be required to issue any certificates representing the Preferred Stock on or after the Mandatory Conversion Date. In place of the delivery of a replacement certificate following the Mandatory Conversion Date, the Transfer Agent, upon delivery of the evidence and indemnity described in clause (a) above, shall deliver the shares of Common Stock pursuant to the terms of the Preferred Stock formerly evidenced by the certificate.

Section 15. Transfer Agent, Registrar, Paying Agent and Conversion Agent. The duly appointed Transfer Agent, Registrar, paying agent and conversion agent for the Preferred Stock shall be the American Stock Transfer & Trust Co. The Corporation may, in its sole discretion, remove the Transfer Agent in accordance with the agreement between the Corporation and the Transfer Agent; *provided* that the Corporation shall appoint a successor transfer agent who shall accept such appointment prior to the effectiveness of such removal. Upon any such removal or appointment, the Corporation shall send notice thereof by first-class mail, postage prepaid, to the Holders of the Preferred Stock.

Section 16. Form.

(a) Preferred Stock shall be issued in the form of one or more permanent global shares of Preferred Stock in definitive, fully registered form with the global legend (the "Global Shares Legend"), as set forth on the form of Preferred Stock certificate attached hereto as Exhibit A (each, a "Global Preferred Share"), which is hereby incorporated in and expressly made a part of this Certificate of Amendment. The Global Preferred Share may have notations, legends or endorsements required by law, stock exchange rules, agreements to which the Corporation is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Corporation). The Global Preferred Share shall be deposited on behalf of the holders of the Preferred Stock represented thereby with the Registrar, at its New York office, as custodian for DTC or a Depositary, and registered in the name of the

Depositary or a nominee of the Depositary, duly executed by the Corporation and countersigned and registered by the Registrar as hereinafter provided. The aggregate number of shares represented by each Global Preferred Share may from time to time be increased or decreased by adjustments made on the records of the Registrar and the Depositary or its nominee as hereinafter provided. This Section 17(a) shall apply only to a Global Preferred Share deposited with or on behalf of the Depositary. The Corporation shall execute and the Registrar shall, in accordance with this Section, countersign and deliver initially one or more Global Preferred Shares that (i) shall be registered in the name of Cede & Co. or other nominee of the Depositary and (ii) shall be delivered by the Registrar to Cede & Co. or pursuant to instructions received from Cede & Co. or held by the Registrar as custodian for the Depositary pursuant to an agreement between the Depositary and the Registrar. Members of, or participants in, the Depositary ("Agent Members") shall have no rights under this Certificate with respect to any Global Preferred Share held on their behalf by the Depositary or by the Registrar as the custodian of the Depositary or under such Global Preferred Share, and the Depositary may be treated by the Corporation, the Registrar and any agent of the Corporation or the Registrar as the absolute owner of such Global Preferred Share for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Corporation, the Registrar or any agent of the Corporation or the Registrar from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices of the Depositary governing the exercise of the rights of a holder of a beneficial interest in any Global Preferred Share. The Holder of the Preferred Shares may grant proxies or otherwise authorize any Person to take any action that a Holder is entitled to take pursuant to the Preferred Shares, this Certificate of Designations or the Amended and Restated Certificate of Incorporation. Owners of beneficial interests in Global Preferred Shares shall not be entitled to receive physical delivery of certificated shares of Preferred Stock, unless (x) the Depositary is unwilling or unable to continue as Depositary for the Global Preferred Share and the Corporation does not appoint a qualified replacement for the Depositary within 90 days, (y) the Depositary ceases to be a "clearing agency" registered under the Exchange Act and the Corporation does not appoint a qualified replacement for the Depositary within 90 days or (z) the Corporation decides to discontinue the use of book-entry transfer through the Depositary. In any such case, the Global Preferred Share shall be exchanged in whole for definitive shares of Preferred Stock in registered form, with the same terms and of an equal aggregate liquidation preference. Definitive shares of Preferred Stock shall be registered in the name or names of the Person or Persons specified by the Depositary in a written instrument to the Registrar.

(b) (i) An Officer shall sign the Global Preferred Share for the Corporation, in accordance with the Corporation's bylaws and applicable law, by manual or facsimile signature. (ii) If an Officer whose signature is on a Global Preferred Share no longer holds that office at the time the Transfer Agent countersigned the Global Preferred Share, the Global Preferred Share shall be valid nevertheless. (iii) A Global Preferred Share shall not be valid until an authorized signatory of the Transfer Agent manually countersigns Global Preferred Share. Each Global Preferred Share shall be dated the date of its countersignature.

Section 17. Miscellaneous.

(a) All notices referred to herein shall be in writing, and, unless otherwise specified herein, all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three Business Days after the mailing thereof if sent by registered or certified mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Certificate of Designations) with postage prepaid, addressed: (i) if to the Corporation, to its office at 328 South Saginaw Street, Flint, Michigan 48502-2401, Michigan 48034, or to the Transfer Agent at its Corporate Trust Office, or other agent of the Corporation designated as permitted by this Certificate of Designations, or (ii) if to any Holder of the Preferred Stock or holder of shares of Common Stock, as the case may be, to such Holder at the address of such Holder as listed in the stock record books of the Corporation (which may include the records of any transfer agent for the Preferred Stock or Common Stock, as the case may be), or (iii) to such other address as the Corporation or any such Holder, as the case may be, shall have designated by notice similarly given.

(b) The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Preferred Stock or shares of Common Stock or other securities issued on account of Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

Section 18. Definitions. Unless otherwise defined herein, capitalized terms used in this Certificate of Designations shall have the following meanings:

"Agent Members" shall have the meaning set forth in Section 17(a) hereof.

"Articles of Incorporation" means the Amended and Restated Articles of Incorporation of the Corporation.

"Board" or "Board of Directors" means the Board of Directors of the Corporation.

"Business Day" means any day other than a Saturday or Sunday or any other day on which banks in The City of New York or Flint, Michigan are authorized or required by law or executive order to close.

"Certificate of Designations" means this Certificate of Designations dated June 10, 2008.

"Closing Price" means, as of any date of determination, the closing sale price or, if no closing sale price is reported, the last reported sale price, of the Common Stock or any securities distributed in a spin-off, as the case may be, on the Nasdaq Global Select Market on that date. If the Common Stock or any such securities distributed in a spin-off, as the case may be, is not then traded on the Nasdaq Global Select Market on any date of determination, the Closing Price of the Common Stock or such securities on any date of determination means the closing sale price as reported in the composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such securities is so listed or quoted, or if the Common Stock or such securities is not so listed or quoted on a U.S. national or regional securities exchange, the last quoted bid price for the Common Stock or such securities in the over-the-counter market as reported by the Pink Sheets LLC or similar organization, or, if that bid price is not available, the market price of the Common Stock or such securities on that date as determined by a nationally recognized independent investment banking firm retained for this purpose by the Corporation. For the purposes of this Certificate of Designations, all references herein to the closing sale price of the Common Stock on the Nasdaq Global Select Market shall be such closing sale price as reflected on the website of the Nasdaq Global Select Market (www.nasdaq.com) and as reported by Bloomberg Professional Service; *provided* that, in the event that there is a discrepancy between the closing sale price as reflected on the website of the Nasdaq Global Select Market and as reported by Bloomberg Professional Service, the closing sale price on the website of the Nasdaq Global Select Market shall govern.

"Common Stock" as used in this Certificate of Designations means the Corporation's Common Shares, no par value per share.

"Conversion Rate" shall mean, for each share of Preferred Stock, 12.50 shares of Common Stock. The Conversion Rate shall be subject to adjustment as set forth herein.

"Corporate Trust Office" means the principal corporate trust office of the Transfer Agent at which, at any particular time, its corporate trust business shall be administered.

"Corporation" shall have the meaning set forth in Section 1 hereof.

"Current Market Price" on any date is the average of the daily Closing Price per share of Common Stock or other securities on each of the 10 consecutive Trading Days preceding the earlier of the day before the date in question and the day before the "ex-date" with respect to the issuance or distribution requiring such computation. The term "ex-date," when used with respect to any such issuance or distribution, means the first date on which the shares of Common Stock or other securities trade without the right to receive such issuance or distribution. For the purposes of determining the adjustment to the Conversion Rate for the purposes of adjustment provision in Section 12(a)(iv) in the event of a spin-off, the "Current Market Price" per share of Common Stock or other securities means the average of the Closing Prices over the first ten Trading Days commencing on and including the fifth Trading Day following the "ex-date" for such distribution.

"DTC" means The Depository Trust Company.

"Effective Date" means the date on which shares of the Preferred Stock are first issued.

"Exchange Property" shall have the meaning set forth in Section 13(a) hereof.

"Fundamental Change" means the occurrence, prior to the Mandatory Conversion Date, of the consummation of any consolidation or merger of the Corporation or similar transaction or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Corporation and its subsidiaries, taken as a whole, to any Person other than one of the subsidiaries of the Corporation, in each case pursuant to which Common Stock will be converted into cash, securities or other property, other than pursuant to a transaction in which the Persons that "beneficially owned" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, voting shares of the Corporation immediately prior to such transaction beneficially own, directly or indirectly, voting shares representing a majority of the continuing or surviving Person immediately after the transaction.

"Global Preferred Share" shall have the meaning set forth in Section 17(a) hereof.

"Global Shares Legend" shall have the meaning set forth in Section 17(a) hereof.

"Holder" means the person in whose name the shares of the Preferred Stock are registered, which may be treated by the Corporation and the Transfer Agent as the absolute owner of the shares of Preferred Stock for the purpose of making payment and settling conversions and for all other purposes.

"Junior Securities" shall have the meaning set forth in Section 2 hereof.

"Liquidation Preference" means, as to the Preferred Stock, $50 per share.

8CSCO-515 (Rev. 03/07)

MICHIGAN DEPARTMENT OF LABOR & ECONOMIC GROWTH
BUREAU OF COMMERCIAL SERVICES
(FOR BUREAU USE ONLY)

Date Received

This document is effective on the date filed, unless a subsequent effective date within 90 days after received date is stated in the document.

Name

MARK A. METZ, DYKEMA GOSSETT LLC

Address

400 RENAISSANCE CENTER

City	State	ZIP code
DETROIT	MI	48243

Document will be returned to the name and address you enter above.
If left blank document will be mailed to the registered office.

EFFECTIVE DATE:

CERTIFICATE OF AMENDMENT TO THE ARTICLES OF INCORPORATION

For use by Domestic Profit and Nonprofit Corporations
(Please read information and instructions on the last page}

Pursuant to the provisions of Act 284, Public Acts of 1972, (profit corporations), or Act 162, Public Acts of 1982 (nonprofit corporations), the undersigned corporation executes the following Certificate:

1. The present name of the corporation is: CITIZENS REPUBLIC BANCORP, INC.

2. The identification number assigned by the Bureau is: 031-208

3. Article ______III______ of the Articles of Incorporation is hereby amended to read as follows:

   The total authorized capital stock is:

   Common Shares 150,000,000 No Par Value

   Preferred Shares 5,000,000 No Par Value

COMPLETE ONLY ONE OF THE FOLLOWING:

4. Profit or Nonprofit Corporation: For amendments adapted by unanimous consent of incorporators before the first meeting of the board of directors or trustees.

The foregoing Amendment to the Articles of Incorporation was duly adopted on the ______________________ day of ____. in accordance with the provisions of the Act by the unanimous consent of the incorporator(s) before the first meeting of the Board of Directors or Trustees.

Signed this ___________ day of _____________________, &nb sp;

(Signature)	(Signature)
(Type or Print Name)	(Type or Print Name)
(Signature)	(Signature)
(Type or Print Name)	(Type or Print Name)

5. Profit Corporation Only: Shareholder or Board Approval

The foregoing amendment to the Articles of Incorporation proposed by the board was duly adopted on the 22nd day of SEPTEMBER, 2008, by the: (check one of the following)

☑ shareholders at a meeting in accordance with Section 611(3) of the Act.

☐ written consent of the shareholders having not less than the minimum number of votes required by statute in accordance with section 407(1) of the Act. Written notice to shareholders who have not consented in writing has been given. (Note: Written consent by less than all of the shareholders is permitted only if such provision appears in the Articles of incorporation.)

☐ written consent of all the shareholders entitled to vote in accordance with Section 407(2) of the Act.

☐ board of a profit corporation pursuant to section 611(2) of the Act.

Profit Corporations and Professional Service Corporations

Signed this 22 day of September, 2008

By /s/ Thomas W. Gallagher
(Signuature of an authorized officer or agent)

Thomas W. Gallagher
(Type or Print Name)

Section 3: EX-10.44 (EX-10.44)

EXHIBIT 10.44

AGREEMENT

THIS AGREEMENT is made this 4th day of November, 2008 between Clinton A. Sampson, an Executive of Citizens Republic Bancorp, Inc (hereinafter "Executive") and Citizens Republic Bancorp, Inc. on behalf of itself and its direct and indirect subsidiaries (hereinafter "Citizens").

RECITALS

A. Executive is currently employed as a full time employee of Citizens and in the capacity of Executive Vice President and Vice Chairman-Commercial Banking;

B. Effective January 1, 2009, Executive will become employed by Citizens on a reduced hours basis in the capacity of Commercial Banking Consulting Advisor;

C. Executive and Citizens agree that Executive should be compensated for agreeing to transition to a lesser paying reduced hours position;

D. Executive has been given the opportunity to review this Agreement, and to consult legal counsel if desired; and

E. Executive and Citizens, without any admission of liability, desire to settle with finality, compromise, dispose of, and release all claims and demands asserted or which could be asserted by Executive arising out of the employment of Executive and his transition from full time employment to part time employment.

F. Executive and Citizens also desire to set forth in this Agreement the terms and conditions that will apply to Executive's employment with Citizens commencing January 1, 2009.

In consideration of the foregoing and of the promises and the mutual covenants contained herein, it is hereby agreed between Executive and Citizens as follows:

1. Effective January 1, 2009 Executive's employment with Citizens shall be reduced from five (5) business days per week to three (3) business days per week with the exact days of the week to be worked to be mutually agreed upon between the Executive and Citizens.

2. Commencing January 1, 2009, Executive's base salary shall be reduced from Two Hundred Seventy Thousand and 00/100 ($270,000.00) Dollars to One Hundred Sixty Two Thousand and 00/100 ($162,000.00) Dollars and shall be paid to Executive in equal bi-weekly installments less appropriate withholdings. Executive shall continue to be eligible to participate in the welfare and other benefit plans of Citizens on the same basis as are offered to other senior executives of Citizens.

3. Executive shall be eligible to participate in the 2009 Management Incentive Plan of Citizens. Pursuant to such Plan, Executive shall be eligible to earn annual incentive compensation equal to 30% of Executive's 2009 base pay. The amount of incentive actually earned will depend upon the financial performance of Citizens as well as Executive's achievement of the individual goals that will be established for Executive by Citizens.

4. Executive shall be entitled to receive an allowance in the amount of Three Hundred Eighty Four and 62/100 ($384.62) Dollars bi-weekly to reimburse Executive for the "all in" costs of leasing a vehicle to be used on company business including insurance, gasoline, maintenance and other related expenses.

5. Executive shall continue to have the protections afforded to Executive pursuant to the provisions of the Amended and Restated Change in Control Agreement between Executive and Citizens dated February 26, 2008.

6. Executive shall continue to be eligible to receive a Retention Bonus in the amount of One Hundred Fifty Thousand and 00/100 ($150,000.00) Dollars as is provided for in the letter agreement between Executive and Citizens dated August 2, 2006.

7. No later than January 15, 2009, Citizens shall pay to Executive a one time lump sum payment in the amount of Two Hundred Seventy Thousand and 00/100 ($270,000.00) Dollars, less appropriate withholdings. Payment shall be made in a lump sum.

8. Executive recognizes that the amount to be paid to Executive pursuant to Paragraph 7. above is in excess of any earned wages, benefits or other compensation due and owing to Executive.

9. In exchange for the good and valuable consideration set forth herein, Executive agrees for himself, his heirs, administrators, representatives, executors, successors and assigns ("Releasors"), to irrevocably and unconditionally release, waive and forever discharge any and all manner of action, causes of action, claims, rights, promises, charges, suits, damages, debts, lawsuits, liabilities, rights, dues controversies, charges,

complaints, remedies, losses, demands, obligations, costs, expenses, fees (including, without limitation attorneys' fees), or any and all other liabilities or claims of whatsoever nature, whether arising in contract, tort, or any other theory of action, whether arising in law or in equity, whether known or unknown, choate or inchoate, matured or unmatured, contingent or fixed, liquidated or unliquidated, accrued or unaccrued, asserted or unasserted, including, but not limited to, any claim and/or claim of damages or other relief for tort, breach of contract, personal injury, negligence, age discrimination under The Age Discrimination In Employment Act of 1967 (as amended), employment discrimination prohibited by other federal, state or local laws including sex, race, national origin, marital status, age, handicap, height, weight, or religious discrimination, and any other claims for unlawful employment practices or any other unlawful criterion or circumstance which Executive and Releasors had or now have against each or any of Citizens, its parents, direct or indirect subsidiaries, divisions, affiliates and related companies or entities, regardless of its or their form of business organization (the "Citizens Entities"), any predecessors, successors, joint ventures, and parents of any Citizens Entity, and any and all of their respective past or present directors, officers, shareholders, partners, employees, consultants, independent contractors, trustees, administrators, insurers, agents, attorneys, representatives and fiduciaries, successors and assigns including without limitation all persons acting by, through, under or in concert with any of them (all collectively, the "Released Parties") arising out of or relating to his employment relationship with Citizens including but not limited to the transition from full time employment to part time employment.

10. Executive agrees that he shall continue as an employee "at will" serving at the pleasure of the board of directors of Citizens and shall have no contractual right to employment with Citizens.

11. Executive agrees that the benefits of this Agreement are in lieu of any benefits that he would otherwise be entitled to under any severance pay program sponsored by Citizens including without limitation, the "Citizens Republic Bancorp Severance Pay Plan" and as such, Executive will not be eligible for additional severance benefits should Executive's position as described herein be subsequently eliminated.

12. Executive shall not be eligible to receive future grants of equity based long-term incentive compensation provided however, current grants of restricted stock to Executive shall continue to vest in the normal course so long as Executive continues to be employed by Citizens.

13. Executive understands that he does not waive rights or claims that may arise after the date this Agreement is executed.

14. Executive further agrees that he has read this Agreement carefully and understands all of its terms.

15. Executive understands and agrees that he is advised to consult with an attorney prior to executing this Agreement.

16. Executive understands that he is entitled to consider this Agreement for at least twenty-one (21) days before signing it. However, after due deliberation, Executive may elect to sign this Agreement without availing himself of the opportunity to consider its provisions for at least twenty-one (21) days. Executive hereby acknowledges that any decision to shorten the time for considering this Agreement prior to signing it is voluntary, and such decision is not induced by or through fraud, misrepresentation, or a threat to withdraw or alter the provisions set forth in this Agreement in the event Executive elected to consider this Agreement for at least twenty-one (21) days prior to signing it.

17. Executive understands that he may revoke this Agreement as it relates to any potential claim that could be brought or filed under the Age Discrimination in Employment Act, 29 U.S.C. §§621-634, within seven (7) days after the date on which he signs this Agreement, and that this Agreement as it relates to such a claim does not become effective until the expiration of the seven (7) day period. In the event that Executive wishes to revoke this Agreement within the seven (7) day period, he understands that he must provide such revocation in writing to Citizens Republic Bancorp, Inc., Attn: William R. Hartman, 328 S. Saginaw Street, Flint, Michigan 48502.

18. In agreeing to sign this Release and Settlement Agreement, Executive is doing so voluntarily and agrees that he has not relied on any oral statements or explanations made by Citizens or its representatives.

19. This Agreement shall not be construed as an admission of wrongdoing by either Executive or Citizens.

20. This Agreement contains the entire Agreement between Executive and Citizens and, except as expressly provided herein, shall supersede any other agreement between the parties with respect to the subject matter hereof. Any modification of this Agreement must be made in writing and signed by both Executive and Citizens.

/s/ Anthony E. Moore
Anthony E. Moore
Witness

/s/ Clinton A. Sampson
Clinton A. Sampson

Date: November 4, 2008

CITIZENS REPUBLIC BANCORP, INC.

/s/ Anthony E. Moore
Anthony E. Moore
Witness

/s/ William R. Hartman
William R. Hartman
Its: Chairman, President and
Chief Executive Officer

Date: November 4, 2008

Section 4: EX-31.1 (EX-31.1)

EXHIBIT 31.1

CERTIFICATION

I, William R. Hartman, Chief Executive Officer, President and Chairman of Citizens Republic Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citizens Republic Bancorp, Inc. ("the registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ William R. Hartman
William R. Hartman
Chief Executive Officer

Section 5: EX-31.2 (EX-31.2)

EXHIBIT 31.2

CERTIFICATION

I, Charles D. Christy, Executive Vice President and Chief Financial Officer of Citizens Republic Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citizens Republic Bancorp, Inc. ("the registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ Charles D. Christy
Charles D. Christy

Chief Financial Officer

Section 6: EX-32.1 (EX-32.1)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AND RULE 13A-14(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report of Citizens Republic Bancorp, Inc. ("Citizens") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, William R. Hartman, Chief Executive Officer of Citizens, and Charles D. Christy, Chief Financial Officer of Citizens, certify, pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Citizens.

Date: November 10, 2008

/s/ William R. Hartman
William R. Hartman
Chief Executive Officer

/s/ Charles D. Christy
Charles D. Christy
Chief Financial Officer