FIRST CITIZENS BANCSHARES INC /TN/
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter ended March 31, 2001
Commission File Number 0-11709

FIRST CITIZENS BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

TENNESSEE
(State or other jurisdiction of incorporation or organization)

62-1180360
(I.R.S. Employer Identification No.)

P. O. Box 370 -Court Street
Dyersburg, Tennessee 38024

(Address of Principal Executive Offices, ZIP Code)

Registrant's telephone number, including area code: (901) 285-4410

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 3 months and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No

Of the registrant's only class of common stock (No par value) there were 3,713,905 shares outstanding as of March 31, 2001(net of treasury stock).

FIRST CITIZENS BANCSHARES, INC.
AND SUBSIDIARY
DYERSBURG, TENNESSEE
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PART I -FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

FIRST CITIZENS BANCSHARES, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2001 (Unaudited)	December 31, 2000 (Note)
ASSETS		
Cash and due from banks	$ 19,081	$ 19,123
Federal funds sold	14,594	4,804
Investment securities		

Trading Investments stated at market		0		0
Held to maturity amortized cost fair value of $9,241 at March 31, 2001				
and $16,626 at December 31, 2000		9,157		16,705
Available for sale stated at market		82,772		86,389
Loans (Excluding unearned income of $2,461 at March 31, 2001 and				
$2,828 at December 31, 2000)		349,153		340,959
Less: Allowance for loan losses		3,919		3,763
Net Loans		345,234		337,196
Premises and equipment		13,709		14,024
Intangible Assets		3,880		3,959
Other Real Estate		431		318
Other assets		17,405		18,436
TOTAL ASSETS	$	506,263	$	500,954
LIABILITIES AND STOCKHOLDERS EQUITY				
Deposits	$	385,482	$	371,854
Securities sold under Agreements to Repurchase		15,538		15,674
Federal Funds Purchased & Other Short Term Borrowing		1,025		18,500
Long term debt		51,542		43,429
Notes Payable of Employee Stock Ownership Plan		722		808
Other liabilities		4,104		3,800
TOTAL LIABILITIES	$	458,413	$	454,065
Stockholders' Equity				
Common stock, No par value:				
10,000,000 authorized; 3,717,593 issued and outstanding				
at March 31, 2001; 3,717,593 issued and outstanding				
at December 31, 2000	$	3,718	$	3,718
Surplus		15,302		15,302
Retained earnings		29,231		29,095
Obligation of Employee Stock Ownership Plan		(722)		(808)
Accumulated Other Comprehensive Income		439		(371)
Total Common Stock and Retained Earnings	$	47,968	$	46,936
Less: 3,688 Treasury shares, at cost at March 31, 2001				
and 2,382 shares at cost at December 31, 2000		(118)		(47)
TOTAL STOCKHOLDERS' EQUITY	$	47,850	$	46,889
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	506,263	$	500,954
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FIRST CITIZENS BANCSHARES, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(STATED IN THOUSANDS EXCEPT E.P.S. AND SHARES OUTSTANDING)

	Three Month Periods Ended March 31, 2001	March 31, 2000
INTEREST INCOME		
Interest and fees on loans	$ 8,169	$ 7,491
Interest on investment securities:		
Taxable	1,324	1,408
Tax-exempt	171	148
Other interest income - Fed Funds Sold	114	9
Other interest income - Checking	20	12
Lease financing income	0	0
TOTAL INTEREST INCOME	$ 9,798	$ 9,068
INTEREST EXPENSE		
Interest on deposits	$ 4,293	$ 3,638
Other interest expense	998	671
TOTAL INTEREST EXPENSE	5,291	4,309
NET INTEREST INCOME	4,507	4,759
Provision for loan losses	574	187
Net interest income after provision	3,933	4,572
Other Income		
Securities gains (losses)	19	0
Other income	1,494	1,515
Total Other Income	1,513	1,515
Other expenses	4,050	3,931
Net income before income taxes	1,396	2,156
Taxes	330	682
Net Income	$ 1,066	$ 1,474
Earnings Per Share	$ 0.29	$ 0.40
Weighted average number of shares outstanding	3713905	3698529

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FIRST CITIZENS BANCSHARES, INC.
AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED, STATED IN THOUSANDS)

	Three Month Periods Ended		
	March 31, 2001	March 31, 2000	March 31, 1999
OPERATING ACTIVITIES			
Net cash provided by operating activities	$ 5,377	$ 2,269	$ 1,566
INVESTING ACTIVITIES			
Proceeds of maturities of held to maturity securities	7,548	1,177	5,284
Purchase of held to maturity securities	0	0	(2,000)
Proceeds from maturities of available for sale securities	27,352	212	6,942
Proceeds from sales of available for sale securities	500	0	839
Purchase of available for sale securities	(25,670)	(1,870)	(14,200)
Increase in loans - net	(8,612)	(116)	(3,186)
Payment for purchase of Bank of Troy - net of cash acquired	0	0	0
Purchase of premises and equipment	13	(553)	(820)
Net Cash provided by investing activities	1,105	(1,150)	(7,141)
FINANCING ACTIVITIES			
Net Increase (Decrease) in Demand and Savings Accounts	5,622	(1,292)	(1,541)
Increase (Decrease) in Time Accounts	8,006	967	(7,271)
Increase (Decrease) in Long term Debt	8,113	719	2,718
Treasury Stock Transactions	(71)	156	128
Proceeds from Sale of Common Stock	0	15	240
Cash Dividends Paid	(929)	(849)	(703)
Net Increase (Decrease) in Short Term Borrowings	(17,475)	(1,797)	4,128
Net Cash provided (used) by Financing Activities	3,266	(2,081)	(2,301)
Increase (Decrease) in Cash and Cash Equivalents	9,748	(962)	(7,876)

Cash and Cash Equivalents at beginning of year	23,927	17,410	28,318
Cash and Cash Equivalents at end of year	33,675	16,448	20,442

Cash Payments made for interest and income taxes during the years presented are as follows:

	2001	2000	1999
Interest	5,613	4,462	4,668
Income Taxes	158	1,020	140

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FIRST CITIZENS BANCSHARES, INC.
STATEMENT OF COMPREHENSIVE INCOME
(STATED IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended March 31	
	2001	2000
Net Income	$ 1,066	$ 1,474
Changes in Available for Sale Securities	1,435	8
Changes in Derivatives	(85)	-
Tax Impact (Available for Sale Securities)	(540)	(3)
Comprehensive Income	$ 1,961	$ 1,479
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FIRST CITIZENS BANCSHARES, INC.,
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, STATED IN THOUSANDS)
MARCH 31, 2001

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of March 31, 2001, the consolidated statements of income for the three month periods ended March 31, 2001, 2000 and 1999, and the consolidated statements of cash flows for the three month periods then ended have been prepared by the company without an audit. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at March 31, 2001 and for all periods presented have been made. Operating results for the reporting periods presented are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the company's annual report on Form 10-K for the year ended December 31, 2000.

NOTE 2 - ORGANIZATION

First Citizens Bancshares, Inc. is a Bank Holding Company chartered on December 14, 1982, under the laws of the State of Tennessee. On September 23, 1983 all of the outstanding shares of common stock of First Citizens National Bank were exchanged for an equal number of shares in First Citizens Bancshares, Inc.

NOTE 3 - SHORT TERM BORROWINGS

	03/31/01	03/31/00
Amount outstanding-end of period	$ 16,563	$ 44,293
Weighted average rate of outstanding	5.10%	4.40%
Maximum amount of borrowings at month ends	$ 31,425	$ 45,834
Average amounts outstanding for period	$ 22,165	$ 41,708
Weighted average rate of average amounts	5.26%	4.50%

NOTE 4 - LONG TERM DEBT

Long term debt is comprised of Federal Home Loan Bank Borrowings, ESOP debt and finance company debt. The finance company debt is classified as long-term debt due to the bank's intent to renew. The parent company ESOP debt is with SunTrust-Nashville. The average life is as presented and the FHLB funds are matched with loans and investments.

	Average Volume	Average Rate	Average Maturity	Repricing Frequency
FHLB Borrowings	$51,704	5.61%	3 years	Fixed
Finance Company Debt	$1,000	5.75%	5 years	Fixed
ESOP Obligation	$765	7.25%	4 years	Monthly

NOTE 5 - STATEMENT OF CASH FLOWS

	March 2001	March 2000	March 1999
Actual payments made during the periods:			
Interest	$ 5,613	$ 4,462	$ 4,668
Income taxes	158	1,020	140

NOTE 6 - CONTINGENT LIABILITIES

There are no material pending litigations as of the current reportable date that would result in a liability.

NOTE 7 - INVESTMENT SECURITIES

The difference between book values of investment securities and market values at March 31, 2001 and December 31, 2000, total $837 and ($551) respectively. FASB 115 requires banks to classify securities into Held to Maturity, Available for Sale, and Trading. First Citizens has $0 in the trading account. The available for sale securities values are adjusted to market every quarter and the adjustments flow to the capital section (net of tax). The Held to Maturity securities are stated at amortized cost. The available for sale securities reflect an increase of $1,350 for the quarter ending March 31, 2001 with $810 (net of tax) flowing to capital. These movements can fluctuate with the bond market.

NOTE 8 - REGULATORY CAPITAL REQUIREMENTS

Regulatory agencies impose certain minimum capital requirements on both First Citizens Bancshares, Inc., and First Citizens National Bank. On December 16, 1988, the Federal Reserve Board approved the Risk Based Capital Guidelines for Bank Holding Companies. Presently, the Holding Company and First Citizens National Bank exceed the required minimum standards set by the Regulators. The consolidated Tier 1 Ratio and Tier 2 Ratio are 12.52% and 13.65% respectively.

NOTE 9 - DEFERRED INCOME TAXES

First Citizens adopted FASB 109 as of January 1, 1993. The deferred tax liability account reflects an asset totaling $435. The timing differences mainly consist of Reserve for Loan Loss timing differences.

NOTE 10 - RESERVE FOR LOAN LOSSES

FASB 114 and 118 were implemented during the first quarter of 1995. This new FASB requires companies to set aside reserves for impaired loans.

The following data reflects impaired totals for the reportable periods:

Amount of Recorded Balance with no Related Allowance	$ 760
Amount of Recorded Balance with Related Allowance	69
Impaired Loan Balance or Recorded Balance	$ 829

Interest income is recognized on impaired loans on a cash basis. Cash receipts are applied as cost recovery or principal recovery first, consistent with OCC Regulations.

First Citizens will continue to make sure the overall reserve is adequate in addition to the impaired loans.

NOTE 11 - ASSET IMPAIRMENT

The financial standards board issued statement 121 addressing accounting for impairment of long-lived assets that will be held and used, including certain identifiable intangibles and the related good-will. The statement, effective for calendar year 1996 financial statements, also addresses accounting for long-lived assets and certain identifiable assets to be disposed.

Statement 121 requires that assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset in question may not be recoverable.

As of the reportable date, there are no FASB 121 adjustments.

NOTE 12 - FASB 128 AND 129-EARNINGS PER SHARE

First Citizens Bancshares has a simple capital structure, that is, those with only common stock outstanding. The method used for computing the weighted average shares is based off a daily weighted average amount. First Citizens has no preferred stock, redeemable stock, or any items that would dilute basic earnings per share.

NOTE 13 - FASB 130-COMPREHENSIVE INCOME

This statement establishes reporting and display requirements for comprehensive income and its components. A separate financial statement is presented that starts with net income from operations and then includes other comprehensive incomes. Bancshares has only two comprehensive income items (Changes in the Market Value of Available for Sale Investment Securities and One Derivative totaling $1,500,000). The net of tax impact of these two items are carried forward to the equity section of the balance sheet.

NOTE 14 - FASB 132-EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS.

First Citizens and its subs do not sponsor any defined benefit plans or postretirement benefits.

NOTE 15 - LEVERAGED ESOP

Origination Date: 6/25/98

First Citizens Bancshares has guaranteed a $2,000,000 loan payable to SunTrust Bank of Nashville, Tennessee at the rate of Libor plus 1.20%. Accrued interest is payable quarterly commencing July 1, 1998. Principal shall be paid in equal quarterly payments of $52 commencing October 1, 1998. There are no prepayment penalties associated with this loan. It is the bank's intent to pay this loan off within 7 years of the original maturity date. First Citizens Bancshares issued 85,106 shares on the date of the transaction with a market/appraised price of $23.50 to use for the ESOP purchase/leverage. The parent company also recorded a note payable and a contra equity account for this transaction. The contra equity account is called unallocated ESOP shares. The source of repayment of this loan will be the lead bank (First Citizens National Bank). First Citizens will record as an expense the contributions for the funding of the payments to the ESOP. First Citizens National Bank contributes 10% of covered payroll on an annual basis to the ESOP.

First Citizens National Bank of Dyersburg Employee Stock Ownership Plan and Trust is considered a money purchase/stock bonus plan. The plan trustee is the Investment Management and Trust Services Division of First

Citizens National Bank. The eligibility requirements to participate in the plan are: an employee must complete 1 year of service and attain the age of 21. Each year, First Citizens National Bank contributes 7% to the money purchase pension plan and 3% to a 401K. An employee must be employed on the last day of the year and have completed 1000 hours of service to receive a contribution. The current YTD ESOP Expense is $172 thousand.

SunTrust has agreed to advance the ESOP up to $3 million by a non-recourse line of credit promissory note. The note is dated April 2001. The current outstanding balance is $0.

NOTE 16 - FASB'S 133, 137 AND 138 DERIVATIVES

Origination Date 06-2000.

FASB's 133, 137 and 138-FASB 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and derivatives used for hedging activities. Derivatives are required to be reported as either assets or liabilities in the statement of financial position and those instruments measured at fair value. Accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. FASB 137 and 138 amended FASB 133. The Company utilized the derivative as a cash flow hedge, hedging the "benchmark interest rate." A Federal Home Loan Bank Variable Libor Borrowing has been designated as hedged and in doing so, the Company has effectively fixed the cost of this liability.

First Citizens swapped a fixed investment cash flow for a variable cash flow tied to the 90 day Libor Rate. The new variable investment cash flow is matched with a variable borrowing cash flow generating a positive spread of 250 basis points with no interest rate risk. This transaction was implemented to increase the earnings of First Citizens. The volume used in this transaction was $1,500. The volume and risk associated with this transaction is well within the Funds Management Policy of the bank. The maturity of the hedge is 10 years.

The cash flow hedge has produced a positive income. Because First Citizens swapped a fixed cash flow for a variable cash flow and rates later declined, the value of the derivative increased $51,000, net of tax, for the current period. Other comprehensive income reflects the fair market value of the derivative at ($232) gross and ($139) net of tax.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

First quarter earnings of $1,066,000 reflect a decrease of 27.7% when compared to first quarter, 2000. First quarter earnings came under stress from declining interest margins and an increase in allocations to the loan loss reserve. Four rate cuts since year-end by the Federal Reserve forced the immediate repricing of loans tied to prime as well as callable investments contained within the bank's portfolio. Fixed term liabilities, such as CD's, reprice at maturity, delaying any positive impact to net interest margins that may be gained by a lower rate environment. Net income per common share decreased from .40 cents per share in first quarter, 2000 to .29 cents in the quarter just ended. Return on average assets was decreased to .86% down 31% when compared to 1.25% at 3/31/00. Return on average equity ended the quarter at 9.13%, down 32% from 13.37% reported first quarter of 2000. Net interest margins decreased 9.7% to 3.64% in the twelve months ending 3/31/01. Growth in this area will be difficult to maintain if market rates continue to increase.

Total assets as of quarter end were $505,125,000, up 1.85% from year-end and 6.36% from 3/31/00. Deposit growth during first quarter was 3.66%, stronger than at any time in recent years and reflective of customer reaction to volatile market conditions which existed during the quarter. This trend appears to be continuing into second quarter and has served to improve our liquidity position. First Citizens' marketing efforts are implementation of a business development program designed to improve service to existing customers, identify the potential for new relationships and cross sell a wide array of products and services to customers, based on a needs assessment. As evidence of the success of these efforts market share in Dyer County increased to 57.67% at year end 2000 from 53.75% in 1999. The prospects of significantly growing total assets of Bancshares is not as great as they were two years ago. Until circumstances change, management's focus will be on building what we have and concentrate on improving efficiencies throughout the organization.

First quarter dividends of .250 cents per share are up 11% when compared to the same quarter in 2000. The number of shares remained flat at 3,712 as of 3/31/01 when compared to 3,705 shares as of 3/31/00. The value of bank stocks in general remain suppressed and Bancshares is no exception. Since management cannot change what they do not control, focus will be on improving earnings, broadening the earnings base and maintaining a quality loan portfolio. When market sentiment again favors financial stocks Bancshares will be positioned to maximize the value of the company. The equity position of Bancshares remains strong, increasing to 9.45% from 9.43% for the twelve month period ending March 31, 2001. Management will continue efforts to invest excess capital in a manner that compliments earnings and enhances the potential to increase shareholder dividends.

Net Yield on Average Earning Assets was down to 4.03% for the quarter ended 3/31/01 compared to 4.56% and 4.48% for 3/31/00 and 3/31/99 respectively. The decrease is a result of the rising rate environment we have experienced over the past year. Quality in the loan portfolio continues to be a primary focus of Bank management. Non-performing loans represent $3,860,000 or 1.15% of total loans, above the peer ratio of .62%. Non performing loans at 3/31/00 was .69% of total loans. Problem loans total $7,566,266 at 3/31/01, representing 2.51% of total loans. While a slowing economy always impacts loan quality, problems within the portfolio appear to be concentrated within a limited number of credits. The total allocation to loan loss reserve for first quarter was $560,000, an increase of 220% over first quarter 2000, and $337,000 above budget projections. While we will continue efforts to limit actual losses, accounting principals dictate that we assume a worse case scenario.

The internal loan review report indicates that the loan portfolio is in good condition based on the percentage of problem loans to gross capital funds as of 3/31/01. Competition for loans continues to place pressure on the yield and terms customers are willing to accept. Loan Administration has taken a conservative position in dealing with situations which deviate from established underwriting standards, while recognizing the need to maintain quality loan growth. For further information on the loan portfolio refer to the section labeled Composition of Loans.

The 2.3% increase in loan volume is reflective of a slowing economy and is expected to improve as the economy strengthens as is projected during third and fourth quarter of this year. The bright spot in first quarter is our mortgage loan operations. Overall mortgage lending volume at First Citizens is up 56% over first quarter of 2000. The decline in mortgage loan rates has driven the volume of refinancings up 119% when comparing to activity during the same period in 2000. Many homeowners are using the refinancing as an opportunity to draw against existing equity, while others are taking advantage of the opportunity to lower monthly mortgage costs.

The performance during first quarter was disappointing and certainly not up to the standards of First Citizens. The issues that impacted earnings are being addressed head-on and will be resolved over time. Our company is fortunate to have a quality staff that is committed to our success. There are exciting opportunities available to First Citizens in each of the markets we serve. Our focus will continue to be on improving efficiencies, increasing income and growing the balance sheet. We appreciate the support of our Shareholders and look forward to a future filled with both opportunity and challenge.

The Gramm-Leach-Bliley Act, referred to as " Financial Modernization" was signed into law November 12, 1999. The Act is the most significant piece of legislation to be enacted in the last 50 years and is expected to dramatically change the landscape of the financial services industry. In essence, the Act is a conglomeration of numerous provisions that impact a broad range of issues within the banking industry. Financial Modernization will pave the way for a new era in banking.

The Act contains seven titles, each of which focuses on a different aspect of the financial services industry. An overview of the Act can be summarized using the following points:

- Removes barriers between insurance, banks, and securities by allowing these entities to merge and sell each other's products under a holding company structure with some exceptions.
- Reasserts the supremacy of state regulation of the business of insurance with specific exceptions.
- Prohibits companies outside the financial services industry to purchase (merge/affiliate) with insurers, banks, and/or securities firms.
- Allows banks to sell insurance and securities products as long as it discloses to the purchasers that these products are not guaranteed by the Federal Deposit Insurance System.
- Prohibits banks from tying the purchase of insurance and securities products as conditions for loan approvals.
- Permits affiliated companies to share customers' personal data with each other but gives the customer the right to prohibit the sharing of this data with companies outside the holding company structure.
- Allows states to preempt federal laws that offer greater privacy protections than those included in the Financial Services Modernization Act.
- Requires states to enact uniform laws and regulations governing the licensure of individuals and entities authorized to sell and solicit the purchases of insurance within and outside a state.

What does this mean for First Citizens? The primary impact will be increased competition as large-scale independent investment bankers (brokerage firms, insurance companies, mutual funds) are likely to begin offering banking services in offices nationwide. The good news is, our focus on diversification has placed the Company in a position to compete by offering the same products and services at convenient locations by a staff our customers know and trust. Through utilization of technology, we offer the same sophisticated services as larger banks with offices nationwide. One example is our Internet Banking Account that has drawn rave reviews from existing and new customers. Customers of First Citizens Financial Plus have access to on-line trading and White and Associates/First Citizens Insurance has established a web presence that is progressing toward on-line insurance sales.

Overall, opportunities available as a result of the new legislation are a plus for community banks. Increased competition that is sure to develop from giant financial services organizations simply means we will work harder to earn the business of our customers. As community bankers, we recognize that bigger does not always mean better, and knowing our customers affords us a tremendous advantage as we strive to identify and serve their financial needs.

First Citizens intends to pursue challenges and opportunities presented by "Financial Modernization". At a meeting of the Board of Directors of First Citizens Bancshares, Inc., on April 19, 2000, a resolution was approved which authorized the filing of a declaration with the Federal Reserve Bank which would result in a change in status from Bank Holding Company to Financial Holding Company. In accordance with provisions of this resolution, an application for Financial Holding Company status was submitted to the Federal Reserve Bank of St. Louis and subsequently approved on June 8, 2000.

As a financial holding company, Bancshares may engage in activities that are financial in nature or incidental to a financial activity. Permissible activities for a financial holding company are contained in Regulation Y of Federal Reserve Regulations. Bancshares may continue to claim the benefits of financial holding status so long as each depository institution owned by the company remains well capitalized and well managed. In addition, Bancshares may not commence new activities under sections 4(k) or 4(n) of the Bank Holding Company Act or acquire control of a company engaged in activities under those sections if any of Bancshares insured depository institutions receive a rating of less than "satisfactory" under any examination conducted to determine compliance with the Community Reinvestment Act.

We have made the choice to compete and will do so in an aggressive manner. We intend to maximize our potential for success as we focus on the following:

- Market Awareness - Business decisions will be driven by a clear understanding of the financial needs of existing and potential customers, a focus on enhancing our ability to serve those needs and an awareness of changes which might impact either or both.
- Strategic Planning - Establishing a clear direction for the future of First Citizens, understanding what must be done to accomplish established goals and recognizing signs that might indicate a need to rethink the strategy are key components of the Plan. The management team, acting under guidance of a diverse and committed Board of Directors is positioned to execute a well thought out Strategic Plan.
- Technology Utilization - Automated customer information systems, electronic banking and remote distribution of services are as available to First Citizens as to the largest bank in America. We are committed to investing resources in a manner that will allow us to remain competitive as the information age continues to grow and mature.
- Staff Development - There is no one element within an organization more important to success than is the quality of staff. In spite of automation and the efficiencies of outsourcing, community banks still need people. In response, a formalized Staff Development program was introduced in 1999, which will support and enhance the quality of current and future management of First Citizens at all levels. Recognizing leadership skills, enhancing abilities through training and supporting realistic career goals are primary objectives of this ongoing process.

The likely focus of the immediate future in this industry is the convergence of financial services. Our emphasis on diversification in recent years has placed First Citizens in the enviable position of being able to effectively compete in this new environment.

The Board of Governors of the Federal Reserve System published guidelines for Customer Information Security and Customer Financial Privacy with a mandatory effective date of July 1, 2001. First Citizens has established policies in adherence to the published guidelines. These policies were approved by the Board in March and will become effective July 1, 2001.

The three principal requirements relating to the Privacy of Consumer Financial Information in the GLBA:

- Financial institutions must provide their customers with notices describing their privacy policies and practices, including their policies with respect to the disclosure of nonpublic personal information to their affiliates and to nonaffiliated third parties. The notices must be provided at the time the customer relationship is established and annually thereafter.
- Subject to specified exceptions, financial institutions may not disclose nonpublic personal information about consumers to any nonaffiliated third party unless consumers are given a reasonable opportunity to direct that such information not be shared (to "opt out").
- Financial institutions generally may not disclose customer account numbers to any nonaffiliated third party for marketing purposes.

The Customer Information Security guidelines implement section 501(b) of the Gramm-Leach-Bliley Act. The act requires the agencies to establish standards for financial institutions relating to administrative, technical and physical safeguards for customer records and information.

The guidelines require financial institutions to establish an information security program to:

- Identify and assess the risks that may threaten customer information;
- Develop a written plan containing policies and procedures to manage and control these risks;
- Implement and test the plan; and
- Adjust the plan on a continuing basis to account for changes in technology, the sensitivity of customer information, and internal or external threats to information security

Each institution may implement a security program appropriate to its size and complexity and the nature and scope of its operations.

There are no known trends, events or uncertainties that are likely to have a material effect on First Citizens' liquidity, capital resources or results of operations. There currently exists no recommendation by regulatory authorities which if implemented, would have such an effect. Interstate Banking/Branching became a reality through legislation passed September 13, 1994. The act permits full nationwide interstate branching after June 1, 1997.

First Citizens Bancshares, Inc. and First Citizens National Bank are located in a highly competitive market place, competing for deposit dollars and earning assets with four other banks, two of which are branches of large regional competitors. First Tennessee Bank and Union Planters National Bank are the two largest financial institutions in the state. First Citizens has historically maintained in excess of 50% of local market share and reflected 58% as of June 2000. Interstate banking could possibly bring about the location of large out of state banks to the area. If so, First Citizens would continue to operate as it has in the past, focusing on the wants and needs of existing and potential customers. The quality of service and individual attention afforded by an independent community bank cannot be matched by large regional competitors, managed by a corporate team unfamiliar to the area. First Citizens is a forward moving bank offering products and services required for maintaining a satisfactory customer relationship moving into the next decade and beyond. The most recent market analysis indicates a remarkably strong performance by First Citizens in satisfying customer expectations in the areas of personnel, service and convenience.

The following table compares year-to-date non-interest income, and expense of First Citizens as of March 31, 2001, 2000, and 1999:

Non-Interest Income
(in thousands)
March 31

	2001	% of Change	2000	% of Change
Service Charges on Deposit Accounts	$ 712	19.26%	$ 597	11.79%
Other Income	649	(2.84%)	668	6.03%
Trust Income	152	(39.20%)	250	13.63%
TOTAL NON-INTEREST INCOME	$1,513	.13%	$1,515	9.46%

Total non-interest income reflected a slight increase of .13% when compared to 2000. Trust income decreased 39.20% when comparing first quarter 2001 to the same period in 2000. A large portion of Trust Department fee income is calculated as a percent of portfolio market value. Volatility in financial markets has resulted in a decrease in market value of many investment portfolios, thus negatively impacting derived income in this area. In addition, total volume of assets managed has decreased resulting in lower fee income. Service charges on Deposit Accounts increased 19.26% when comparing 2001 to 2000. First Citizens introduced an Overdraft Privilege Product in January 2001 in an effort to increase fee income in this area. The Bank continues to focus on diversifying the income stream through increased sales in broker services and insurance.

Non-Interest Expense
(in thousands)
March 31

	2001	% of Change	2000	% of Change
Salaries & Employee Benefits	$ 2,193	(1.65%)	$ 2,230	5.13%
Net Occupancy Expense	709	2.01%	695	11.20%
Other Operating Expense	1,148	14.11%	1,006	1.61%
TOTAL NON-INTEREST EXPENSE	$ 4,050	3.02%	$ 3,931	5.21%

Non-interest expense reflects ongoing efforts to monitor and control non-interest expense categories such as salaries and benefits, net occupancy expense and other operating expense. A comparison of staffing levels reveals that First Citizens maintains one fulltime equivalent employee for every 2.5 million in assets. Peer banks ratio as of 3/31/01 was 2.88 million dollars in assets per employee. Unlike most peer banks, First Citizens maintains an Investment and Trust Services Division, Brokerage Firm, Agricultural and Mortgage Lending Department, and a Finance Company. Each of these entities adds additional staff, as does the extended banking hours on Thursday, Friday, and Saturday. First Citizens is committed to attracting and retaining well qualified personnel by offering salaries and employee benefits which equal or exceed peer companies, paying bonuses when productivity standards are met, and enhancing career opportunities by promoting from within when possible. Fulltime equivalent employees were 205 at 3/31/01 including employees of bank subsidiaries. Fulltime equivalent employees were 187 at bank level as of March 31, 2001 compared to 195 for the same period ending 2000. The decrease is a result of recommendations made by John M. Floyd and Associates after completion of an efficiency study in early January 2001. Reductions in staff were primarily handled through attrition. Additional reductions are being reviewed for implementation in 2001. The decrease of 1.65% in Salaries and Employee Benefits Expense when compared to prior year is a result of staff reductions in selected areas and salary increases being held to an average of 3% annually.

Technology investments resulted in an increase in computer expense and the related depreciation to those investments. Net occupancy and other operating expense increased 2.01% and 14.11% respectively when compared to 3/31/00. Installation of a Wide Area Network was completed the last half of 1999. Other investments in technology related equipment were the purchase and installation of computer related wiring and equipment associated with bringing Bank of Troy and First Volunteer computer systems online with those of First Citizens National Bank. Net occupancy expense is projected to continue to increase as technology is installed to meet the needs of our customer base. These costs will be offset in part by the reallocation of employees to fee income producing positions. Other operating expense is up 14.11% when compared to first quarter 2000.

This increase is primarily due to fee projections for John M. Floyd and Associates and attorney fees associated with two large credits on the problem list.

DEPOSITS

The average daily amount of deposits and average rates paid on such deposits are summarized for the quarters ending March 31 for the years indicated:

COMPOSITION OF DEPOSITS
(in thousands)

2001	2000	1999
Average Rate		

	Average Balance		Average Balance	Average Rate	Average Balance	Average Rate
Non-interest Bearing						
Demand Deposits	$ 36,775	0%	$ 40,081	0%	$ 36,923	0%
Savings Deposits	124,688	3.31%	114,319	2.94%	121,371	2.84%
Time Deposits	217,148	6.00%	210,250	5.34%	192,720	5.21%
TOTAL DEPOSITS	$ 378,611	4.53%	$ 364,650	4.00%	$ 351,014	3.84%

Deposit growth continues to be a challenge for First Citizens National Bank. The Company's marketplace is described as highly competitive, with a fairly sophisticated customer base. Competition is aggressive for both loans and deposits. A recent market survey indicates that First Citizens holds approximately 58% of total deposits domiciled in Dyer County. The bank competes with First Tennessee Bank, N.A. (16%), Security Bank (17%), Union Planters, another large regional bank holds approximately 12 percent of total deposits. City State Bank holds the remaining 2% of total deposits. First Citizens also competes with a Credit Union, Finance Companies, Brokerage Firms, and other types of financial service providers. Total deposits increased 3.82% when comparing 3/31/01 to 3/31/00. Total deposits purchased in the Bank of Troy and First Volunteer acquisitions were approximately $82 million. Economic indicators for the West Tennessee area are extremely optimistic. We expect the population to grow at a marginal rate, in the three counties in which we have banking locations. Dyer County is projected to grow from the 1998 population of 36,489 to 37,400 by the year 2003. Previous expectations of Lauderdale County were for the population to decline. However, current projections call for an increase from 31,960 to 32,055, a gain of less than 1 percent. The population of Obion County is projected to increase slightly in the next five years. First Citizens holds in excess of 15% of total deposits in Obion County and 5% in Lauderdale. The new "Wall Street Checking" account introduced during the third quarter of 2000 continues to be a contributing factor in the attraction and retention of deposits in all markets. This account, designed to grow the deposit base, combines benefits of unlimited checking and earning rates competitive with those paid by brokers.

Average rates paid on deposits continue to reflect sound asset/liability management strategy to maintain interest margins that are consistent with company goals. A deposit strategy adopted in 1996 was a shifting from paying higher rates to obtain retail deposits to the purchase of wholesale deposits. Interest cost of wholesale deposits in comparison to market rates paid on retail deposits often provides for net interest margins that compliment the bank's capital plan. The first quarter of 1999 the Asset/Liability Management Team made a decision to become more aggressive in paying rates to acquire or retain a total customer relationship. It is presently more cost effective and efficient to borrow wholesale funds which can be earmarked for a specific dollar amount and allow for a more precise management of maturities. Therefore, aggressive pricing of deposits is based on total customer relationship, and in some cases, high volume deposits.

Sweep Account Funds totaling $6,545,000 are not included in the average balances for demand deposits. The Sweep total is included in the balance sheet category of securities sold under an agreement to repurchase totaling $15,538,000 with an average rate of 3.3 percent at 3/31/01. Repurchase Agreement Sweep is a product offered to large balance customers which provides for funds to automatically sweep daily from a demand deposit account into an overnight repurchase agreement. This affords commercial customers the opportunity to earn interest on excess collected funds while providing availability of adequate funds to clear large denomination checks as presented for payment.

Management is continuously monitoring and enhancing the bank's product line in order to retain existing customers and to attract new customer relationships. First Citizens introduced Internet based banking to the market place September 1, 1999. The service allows customers to access account information, statement activity, apply for a deposit or loan and pay bills by signing on to www.firstcitizens-bank.com. The cost of Internet banking is free to customers, while bill pay is offered at a competitive price. The bank's Call Center now provides more efficient customer support from account inquiry to electronic banking products and services. A focus on developing the Small

Business segment of our customer base has been significantly enhanced by the introduction of a trio of Internet products that promote a "Surf Locally, Shop Locally" theme. A web page development service, the ability to be a part of a virtual Internet Mall and the introduction of First Citizens as an Internet Service Provider (ISP) will place our organization well above the competition in this business segment.

The following table sets forth the maturity distribution of Certificates of Deposit and other time deposits of $100,000.00 or more outstanding on the books of First Citizens on March 31, 2001:

Maturity Distribution of Time Certificates of Deposit
In Amounts of $100,000 or More as of March 31, 2001
(in thousands)

Maturity		Total Amount
3 months or less		$ 44,897
3 through 12 months		16,113
1 year through 3 years		18,315
Over 3 years		240
	Total	$ 79,565

Interest earning assets as of 3/31/01 were $455,704,000 at an average rate of 8.67% compared to $423,576,000, average rate of 8.63% at 3/31/00. The average rate on total interest bearing liabilities was 5.08%, 4.49% and 4.38% as of March 31, 2001, 2000 and 1999. Net yield on average earning assets was 4.03%, 4.56% and 4.48%, reflecting an increased competitive environment. Maintaining interest rate margins achieved in prior years continues to be a challenge. Customers are shopping banks to lock in the lowest rate possible on loans, while deposit customers are shopping to lock in the highest rate on deposits. First Citizens has historically out performed peer banks with the average rate earned on the loan portfolio. Asset/Liability policies are in place to protect the company from the negative effects of volatile swings in interest rates. Interest margins are well managed to achieve acceptable profits and a return on equity within policy guidelines.

A summary of average interest earning assets and interest bearing liabilities is set forth in the following table together with average yields on earning assets and average costs on interest bearing liabilities.

First Citizens Bancshares, Inc.
Quarter Ending March 31
Monthly Average Balances and Interest Rates
(in thousands)

	2001			2000		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
INTEREST EARNING ASSETS:						
Loans (1) (2) (3)	$ 346,991	$ 8,169	9.41%	321,816	7,491	9.31%
Investment Securities:						
Taxable	83,838	1,324	6.31%	86,293	1,408	6.52%
Tax Exempt (4)	13,970	259	7.41%	13,165	224	6.80%
Interest Earning Deposits	1,424	20	5.61%	1,169	12	4.10%
Federal Funds Sold						