FIRST CITIZENS BANCSHARES INC /TN/
Form 10-K
March 15, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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

Commission file number 0-11709

First Citizens Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Tennessee	62-1180360
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

P.O. Box 370, First Citizens Place
Dyersburg, Tennessee 38025-0370

(Address of principal executive offices including zip code)

(731) 285-4410

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange
Title of each class on which registered
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ]   No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

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 [x]   No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K (Section 229.40) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [x]   No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):
Large accelerated filer [ ]   Accelerated filer [x]   Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant at June 30, 2005 was $80,271,322.

Of the registrant's only class of common stock (no par value) there were 3,635,008 shares outstanding as of December 31, 2005.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement dated March 15, 2006 (Part III)

PART I

ITEM 1 - BUSINESS

GENERAL

First Citizens Bancshares, Inc. (Bancshares or the Company) is a Tennessee Corporation organized and incorporated in 1982 and commenced operations in September 1983. Bancshares is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended and elected, effective April 19, 2000 to become a financial holding company pursuant to the provisions of the Gramm-Leach Bliley Act. 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 company 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 The Company's insured depository institutions receive a rating of less than satisfactory under any examination conducted to determine compliance with the Community Reinvestment Act. Bancshares is a one-bank holding company. At December 31, 2005, the Corporation had total assets of $816 million compared to $773 million at December 31, 2004.

The Principal Executive Offices are at One First Citizens Place, Dyersburg, Tennessee 38024. Our telephone number is 731-285-4410. Our website is www.firstcitizens-bank.com. In accordance with the Securities Exchange Act of 1934 and other related laws, Bancshares files reports with the United States Securities Exchange Commission (SEC) including annual and quarterly reports (Forms 10-K and 10-Q) as well as current reports on Form 8-K and amendments to those reports, if any. As of the end of the second fiscal quarter of 2005, the market value of outstanding voting and non-voting common equity held by non-affiliates exceeded $75 million and thus, Bancshares will file required periodic reports with the SEC under accelerated status beginning with the filing of this report.

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at www.sec.gov, which contains reports, proxy and information statements, and other information. We post our website links to our annual, quarterly and current reports as soon as reasonably practicable after filing with the SEC. Such reports can be downloaded and/or viewed free of charge through access to the links on our website. Shareholders may request a copy of the quarterly or annual reports without charge by contacting Judy Long, Secretary, First Citizens Bancshares, Inc., P. O. Box 370 Dyersburg, Tennessee 38025-0370.

Shareholders desiring to communicate directly with the Board of Directors of the Corporation may do so through the Corporate Governance Committee by contacting the Chairman or any member of the committee. Committee membership is identified on First Citizens website at www.firstcitizens-bank.com or may be obtained by calling the Audit Department of First Citizens at 731-287-4275. Letters sent via the US Postal Service may be mailed to Chairman, Corporate Governance Committee, First Citizens National Bank, Audit Department, P.O. Box 890, Dyersburg, TN 38025-0890.

Bancshares, through its principal banking subsidiary, First Citizens National Bank, provides a broad range of financial services. The Company is engaged in both retail and commercial banking business. First Citizens National Bank was chartered as a national bank in 1900 and operates in West Tennessee. First Citizens operates under the supervision of the Comptroller of the Currency, and is insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC) and is a member of the Federal Reserve System. The subsidiary bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and interest that may be charged thereon and limitations on the types of investments that may be made, activities that may be engaged in, and types of services that may be offered. Various consumer laws and regulations also affect operations of the subsidiary bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy. The subsidiary bank operates under the day-to-day management of its officers and directors; and formulates its own policies with respect to lending practices, interest rates and service charges and other banking matters.

Bancshares' primary source of income is dividends received from First Citizens National Bank. Dividend payments are determined in relation to earnings, deposit growth and capital position of the subsidiaries in compliance with regulatory guidelines. Management anticipates that future increases in the capital of Bancshares will be accomplished through earnings retention or capital injection.

The following table sets forth a comparative analysis of Assets, Deposits, Net Loans, and Equity Capital of Bancshares as of December 31, for the years indicated:

	December 31 (In Thousands)		
	2005	**2004**	**2003**
Total Assets	$ 815,749	$ 773,204	$ 726,104
Total Deposits	635,509	592,382	560,610
Total Net Loans	540,387	528,443	479,589
Total Equity Capital	63,646	61,208	57,946

Individual bank performance is compared to industry standards through utilization of the Federal Reserve Board's Division of Banking Supervision and Regulation. First Citizens Bancshares is grouped with peers in the $500 million assets to $1 billion. The group consisted of 393 bank holding companies per the September 30, 2005 Bank Holding Company Performance Report.

The following presents comparisons of Bancshares with its peers as indicated on Bank Holding Company Performance Reports for the periods indicated:

	12/31/2005**		**12/31/ 2004**		**12/31/ 2003**	
	Bancshares	**Peer Group**	**Bancshares**	**Peer Group**	**Bancshares**	**Peer Group**
Net Interest Income/Average Assets	3.53%	3.79%	3.44%	3.73%	3.75%	3.75%
Net Operating Income/Average Assets	1.10%	1.11%	1.08%	1.06%	1.09%	1.09%
Net Loan Losses/Average Total Loans	0.09%	0.10%	0.00%	0.17%	0.09%	0.25%
Primary Capital/Average Assets	7.88%	9.18%	7.05%	9.10%	7.88%	8.80%
Cash Dividends/Net Income	47.03%	23.22%	50.83%	26.35%	52.26%	27.24%

** Peer information for December 31, 2005 is compared to the September 30, 2005 Bank Holding Company Performance Report.

EXPANSION

On November 12, 1999 the Gramm Leach-Bliley Act was signed into law. The act contains seven titles, each of which focuses on a different aspect of the financial services industry. This new law significantly changed the way we do business by opening up new business opportunities to the banking industry.

Based on authority granted under this act, Bancshares, formerly a bank holding company, converted to a financial holding company. As a financial holding company, Bancshares may engage in activities that are financial in nature or incidental to a financial activity.

Bancshares through its strategic planning process has stated its intention to seek profitable opportunities that would utilize excess capital and maximize income within the West Tennessee Area. Bancshares' objective in acquiring other banking institutions would be for asset growth and diversification into other market areas. Acquisitions and de-novo branches would afford Bancshares increased economies of scale within the operation functions and better utilization of human resources. Any acquisition or de-novo branching approved by Bancshares would be deemed to be in the best interest of Bancshares and its shareholders.

Bancshares acquired Munford Union Bank in May 2002. This acquisition originally added $115 million in assets housed in Tipton and Shelby Counties in Tennessee to Bancshares' balance sheet. Since this acquisition, the Bank has opened three additional branches in this area which are Arlington in Shelby County that opened in 2003, Oakland in Fayette County which opened in June 2004 and Collierville in Shelby County which opened in April 2005. The assets of the Southwest Region (branches in Shelby, Tipton, and Fayette Counties) were approximately $215 million as of December 31, 2005.

CAPITAL ADEQUACY

Bancshares is subject to capital adequacy requirements imposed by the Federal Reserve. The Federal Reserve has adopted risk-based capital guidelines for bank holding companies. The minimum guideline for the ratio of total capital to risk weighted assets (including certain off-balance-sheet items such as standby letters of credit) is 8%, and the minimum ratio of Tier 1 Capital to risk-weighted assets is 4%. At least half of the Total Capital must be composed of common stock, minority interests in the equity capital accounts of consolidated subsidiaries, non-cumulative perpetual preferred stock and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (Tier 1 Capital). The remainder may consist of qualifying subordinated debt, certain types of mandatory convertible securities and perpetual debt, other preferred stock and a limited amount of loan loss reserves. At December 31, 2005, Bancshares' total risked-based capital ratio was 12.11% significantly in excess of 8% mandated by regulation. The risk based capital ratio was 10.86% for 2004 and 11.14% for 2003. Our strategic plan directs the company to leverage capital by growing assets. Risk based capital focuses primarily on broad categories of credit risk and incorporates elements of transfer, interest rate and market risks. The calculation of risk-based capital ratio is accomplished by dividing qualifying capital by weighted risk assets. Tier 1 leverage ratio at year-end 2005 was 7.84%, with total capital as a percentage of total assets at 7.8%.

Failure to meet capital guidelines could subject a financial holding company to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business and in certain circumstances to the appointment of a conservator or receiver.

BANKING BUSINESS

The Company headquartered in Dyersburg, Tennessee, is the bank holding company for First Citizens National Bank ("Bank"), First Citizens Capital Assets and First Citizens (TN) Statutory Trusts II and III. First Citizens National Bank is a diversified financial service institution, which provides banking and other financial services to its customers. The bank operates two wholly owned subsidiaries: First Citizens Financial Plus, Inc. and First Citizens Investments, Inc. First Citizens Investments, Inc. was formerly named Nevada Investments II, Inc. but changed its name through a corporate charter amendment as of September 21, 2004. First Citizens Investments, Inc. formed a wholly owned subsidiary, First Citizens Holdings, Inc. as of September 17, 2004. First Citizens Properties, Inc., which is a wholly owned subsidiary of First Citizens Holdings, Inc., was also formed September 17, 2004. The formation of these entities had no material impact on the consolidated financial statements of First Citizens Bancshares, Inc. The bank also owns 50% of White and Associates/First Citizens Insurance, LLC which provides various insurance products to its customers and First Citizens/White and Associates Insurance Company, Inc., which is a provider of credit insurance. The activities of the Bank's subsidiaries consist of: brokerage, investments, insurance related products, credit insurance and real estate participation interests.

First Citizens provides customary banking services, such as checking and savings accounts, funds transfers, various types of time deposits and safe deposit facilities. Other services also include the financing of commercial transactions and making and servicing both secured and unsecured loans to individuals, firms and corporations. First Citizens is a leader in agricultural lending in Tennessee. Agricultural services include operating loans as well as financing for the purchase of equipment and farmland. The consumer-lending department makes direct loans to individuals for personal, automobile, real estate, home improvement, business and collateral needs.

Mortgage lending makes available long term fixed and variable rate loans to finance the purchase of residential real estate. These loans are sold in the secondary market without retaining servicing rights. Commercial lending operations include various types of credit services for customers.

The subsidiary bank has a total of 33 banking locations (16 full service branch banks, three drive-thru only branches and 14 free standing ATMs) in seven Tennessee counties. Subsidiaries of the Bank consist of the following:

- First Citizens Financial Plus, Inc., a bank service corporation wholly owned by First Citizens provides licensed brokerage services that allow the bank to compete on a limited basis with numerous non-bank entities that pose a continuing threat to our customer base. The brokerage firm operates three locations in West Tennessee.
- White and Associates/First Citizens Insurance, LLC was chartered by the State of Tennessee and is a general insurance agency offering a full line of insurance products including casualty, life and health, and crop insurance. First Citizens holds a 50% ownership in the company, which is accounted for using the equity method. The insurance agency operates nine offices in Northwest Tennessee.
- First Citizens/White and Associates Insurance Company, is organized and existing under the laws of the state of Arizona. Its principal activity is credit insurance. First Citizens holds a 50 percent ownership in the company and is accounted for using the equity method.
- First Citizens Investments, Inc. was organized and existing under laws of the state of Nevada. The principal activity of this entity is to acquire and sell investment securities as well as collect the income from the portfolio. First Citizens Investments owns the following:

    - ♦ First Citizens Holdings, a wholly owned subsidiary of First Citizens Investments, acquires and sells certain investment securities, collects income from its portfolio, and owns the following subsidiary:

        - ◊ First Citizens Properties, Inc., a real estate investment trust (REIT), whose principal activity is to invest in participation interests of real estate loans made by First Citizens National Bank and provides First Citizens with an alternative vehicle for raising capital. First Citizens Holdings owned 100% of the REIT as of December 31, 2004. As of December 31, 2005, First Citizens Holdings owned 98% due to preferred stock issued as a bonus to directors, executive officers and certain employees in January 2005. The 2% owned by directors, executive officers and certain employees is immaterial to the consolidated financial statements of the Company.

COMPETITIVE ENVIRONMENT

The business of providing financial services is highly competitive. The competition involves not only other banks but non-financial enterprises as well. In addition to competing with other commercial banks in the service area, the Bank competes with savings and loan associations, insurance companies, savings banks, small loan companies, finance companies, mortgage companies, real estate investment trusts, certain governmental agencies, credit card organizations, credit unions and other enterprises. In 1998 federal legislation allowed credit unions to expand their membership criterion. Expanded membership criterion coupled with an existing tax free status provided a competitive advantage when compared with that of banks.

First Citizens builds and implements strategic plans and commitments to address competitive factors in the various markets it serves. The primary strategic focus is on obtaining and maintaining profitable customer relationships in all markets. The markets demand competitive pricing but First Citizens competes on high quality customer service that will attract and enhance loyal, profitable customers to our bank. Industry surveys have consistently revealed that 65-70 percent of customers leave due to customer service issues. First Citizens is committed to excellent customer service in all markets served as a means of branding and distinguishing itself from other financial institutions. Advertising and promotional activities such as newspaper and radio ads are also utilized in accordance with defined strategic plans. For example, advertising and promotions were increased in 2004 and 2005 in the Southwest Region after the announcement of two mergers of large regional banks in efforts to attract new deposits and promote brand awareness.

In the markets it serves, First Citizens offers a typical mix of interest-bearing transaction, savings and time deposit products as well as traditional non-interest bearing deposit accounts. First Citizens is the leader in deposit market share compared to competitors in the Dyer, Fayette, Lauderdale, Obion, Tipton and Weakley County, Tennessee markets. Source of the following information is the Deposit Market Share Report as of June 30, 2005 prepared annually by the FDIC. The following tabular analysis presents the number of offices, deposits (in thousands), and market share percentage for deposits:

Dyer, Lauderdale, Obion, Tipton & Weakley Counties Market
(Banks only, Deposits Inside of Market)
As of June 30, 2005

Bank Name	# of Offices	Total Deposits	% of Market Share
		(In Thousands)	
First Citizens National Bank	15	$ 507,248	19.98%
First State Bank	14	467,728	18.42%
Regions Bank	15	237,793	9.37%
BancorpSouth Bank	6	167,872	6.61%
Somerville Bank & Trust Co.	5	156,017	6.15%
Bank of Ripley	5	123,362	4.86%
Commercial Bank & Trust	2	110,914	4.37%
Bank of Fayette County	4	94,584	3.73%
Reelfoot Bank	5	90,351	3.56%
INSOUTH Bank	2	84,713	3.34%
Security Bank	6	77,977	3.07%
First Tennessee Bank, National Association	2	69,273	2.73%
Oakland Deposit Bank	3	61,247	2.41%
Bank of Gleason	1	55,117	2.17%
All others	14	234,360	9.23%
Total	99	$ 2,538,556	100.00%

First Citizens has consistently been the leader in market share of deposits in its markets for several years. First Citizens' market share has been about 20% in these six counties combined and in excess of 62 percent in Dyer County for the last three years.

First Citizens National Bank also competes in the Shelby County Market. As the size and composition of the Shelby County Market is much larger and more diverse, Shelby County is excluded from the tabular presentation above. Market share in Shelby County has increased from 0.32% to 0.41% from 2004 to 2005.

EMPLOYEES

At December 31, 2005, Bancshares and its subsidiary employed a total of 266 full-time equivalent employees (FTE) compared to 264 at December 31, 2004. Increase in FTE is primarily due to expansion into Collierville. First Citizens is committed to hiring and retaining high quality employees to execute strategic plans of the Company. Relationship with employees is satisfactory and no collective bargaining issues exist.

SUPERVISION AND REGULATION

Bancshares is a one-bank financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to supervision and examination by the Board of Governors of the Federal Reserve. As a financial holding company, Bancshares is required to file with the Federal Reserve annual reports and other information regarding its business obligations and those of its subsidiaries. Federal Reserve approval must be obtained before Bancshares may:

1) Acquire ownership or control of any voting securities of a bank or bank holding company where the acquisition results in the bank holding company owning or controlling more than 5 percent of a class of voting securities of that bank or bank holding company;

2) Acquire substantially all assets of a bank or bank holding company or merge with another bank holding company.

Federal Reserve approval is not required for a bank subsidiary of a bank holding company to merge with or acquire substantially all assets of another bank if prior approval of a federal supervisory agency, such as the Comptroller of the Currency is required under the Bank Merger Act. Relocation of a subsidiary bank of a bank holding company from one state to another requires prior approval of the Federal Reserve and is subject to the prohibitions of the Douglas Amendment.

The Bank Holding Company Act provides that the Federal Reserve shall not approve any acquisition, merger or consolidation which would result in a monopoly or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States. Further, the Federal Reserve may not approve any other proposed acquisition, merger, or consolidation, the effect of which might be to substantially lessen competition or tend to create a monopoly in any section of the country, or which in any manner would be in restraint of trade, unless the anti-competitive effect of the proposed transaction is clearly outweighed in favor of public interest by the probable effect of the transaction in meeting convenience and needs of the community to be served. An amendment effective February 4, 1993 further provides that an application may be denied if the applicant has failed to provide the Federal Reserve with adequate assurances that it will make available such information on its operations and activities, and the operations and activities of any affiliate, deemed appropriate to determine and enforce compliance with the Bank Holding Company Act and any other applicable federal banking statutes and regulations. In addition, consideration is given to the competence, experience and integrity of the officers, directors and principal shareholders of the applicant and any subsidiaries as well as the banks and bank holding companies concerned. The Federal Reserve also considers the record of the applicant and its affiliates in fulfilling commitments to conditions imposed by the Federal Reserve in connection with prior applications.

A bank holding company is prohibited with limited exceptions from engaging directly or indirectly through its subsidiaries in activities unrelated to banking or managing or controlling banks. One exception to this limitation permits ownership of a company engaged solely in furnishing services to banks; another permits ownership of shares of the company, all of the activities of which the Federal Reserve has determined after due notice and opportunity for hearing, to be so closely related to banking or managing or controlling banks, as to be a proper incident thereto. Moreover, under the 1970 amendments to the Act and to the Federal Reserve regulations, a financial holding company and its subsidiaries are prohibited from engaging in certain "tie-in" arrangements in connection with any extension of credit or provision of any property or service. Subsidiary banks of a financial holding company are subject to certain restrictions imposed by the Federal Reserve Act on any extension of credit to the financial holding company or to any of its other subsidiaries, or investments in the stock or other securities thereof, and on the taking of such stock for securities as collateral for loans to any borrower.

Financial holding companies are required to file an annual report of their operations with the Federal Reserve, and they and their subsidiaries are subject to examination by the Federal Reserve.

USURY, RECENT LEGISLATION AND ECONOMIC ENVIRONMENT

Tennessee usury laws limit the rate of interest that may be charged by banks. Certain Federal laws provide for preemption of state usury laws.

Legislation enacted in 1983 amends Tennessee usury laws to permit interest at an annual rate of four (4) percentage points above the average prime loan rate for the most recent week for which such an average rate has been published by the Board of Governors of the Federal Reserve, or twenty-four percent (24%), whichever is less (TCA 47-14-102(3)). The "Most Favored Lender Doctrine" permits national banks to charge the highest rate permitted by any state lender.

Specific usury laws may apply to certain categories of loans, such as the limitation placed on interest rates on single pay loans of $1,000.00 or less for one year or less. Rates charged on installment loans, including credit cards, as well as other types of loans may be governed by the Industrial Loan and Thrift Companies Act.

IMPACT OF GRAMM LEACH-BLILEY ACT

The Gramm Leach-Bliley Financial Modernization Act of 1999 permits bank holding companies meeting certain management, capital, and community reinvestment act standards to engage in a substantially broader range of non-banking activities than permitted previously, including insurance underwriting and merchant banking activities. The Act repeals sections 20 and 32 of the Glass Steagall Act, permitting affiliations of banks with securities firms and registered investment companies. The Act authorizes financial holding companies, permitting banks to be owned by security firms, insurance companies and merchant banking companies and visa-versa. Some of these affiliations are also permissible for bank subsidiaries. The Act gives the Federal Reserve Board authority to regulate financial holding companies, but provides for functional regulation of subsidiary activities.

The Gramm Leach-Bliley Financial Modernization Act also modifies financial privacy and community reinvestment laws. The new financial privacy provisions generally prohibit financial institutions such as the Bank from disclosing non-public personal financial information to third parties unless customers have the opportunity to opt out of the disclosure. The Act also magnifies the consequences of a bank receiving less than a satisfactory community reinvestment act rating, by freezing new activities until the institution achieves a better community reinvestment act rating.

BANK SECRECY ACT

Over the past thirty plus years, Congress has passed several laws impacting a financial institution's responsibilities relating to Bank Secrecy Act. The most recent change was in 2001 with the enactment of the USA Patriot Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ACT). This act significantly amended and expanded the application of the Bank Secrecy Act, including enhanced measures regarding customer identity, new suspicious activity reporting rules and enhanced anti-money laundering programs. In 2005, there was no new legislation enacted relating to Bank Secrecy Act. However, on June 30, 2005, the Federal Financial Institutions Examination Council (FFIEC) and the Federal bank examination agencies released the new interagency "Bank Secrecy Act Anti-Money Laundering Examination Manual". The manual emphasizes a banking organization's responsibility to establish and implement risk-based policies, procedures, and processes to comply with the Bank Secrecy Act and safeguard its operations from money laundering and terrorist financing. It is a compilation of existing regulatory requirements, supervisory expectations, and sound practices for Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance. An effective BSA/AML compliance program requires sound risk management; therefore, the manual also provides guidance on identifying and controlling risk associated with money laundering and terrorist financing. The development of this manual was a collaborative effort of the federal banking agencies and the Financial Crimes Enforcement Network (FinCEN), a bureau of the U. S. Department of the Treasury, to ensure consistency in the application of the BSA/AML requirements and consistent examinations of banking organizations.

The specific examination procedures performed will depend on the BSA/AML risk profile of the banking organization, the quality and quantity of independent testing, the financial institutions history of BSA/AML compliance and other relevant factors. First Citizens has implemented effective risk-based policies and procedures that reinforce existing practices and encourages a vigilant determination to prevent the institution from becoming associated with criminals or being used as a channel for money laundering or terrorist financing activities.

USA PATRIOT ACT OF 2001

On October 26, 2001, President Bush signed into law the USA Patriot Act of 2001. The law enhances the powers of the federal government and law enforcement organizations to combat terrorism, organized crime and money laundering. The Patriot Act significantly amends and expands the application of the Bank Secrecy Act, including enhanced measures regarding customer identity, new suspicious activity reporting rules and enhanced anti-money laundering programs. Under the Act, each financial institution is required to establish and maintain anti-money laundering programs, which include, at a minimum, the development of internal policies, procedures, and controls; the designation of a compliance officer; an ongoing employee training program; and an independent audit function to test programs. In addition, the Act requires the bank regulatory agencies to consider the record of a bank or banking holding company in combating money laundering activities in their evaluation of bank and bank holding company merger or acquisition transactions. Regulations proposed by the U.S. Department of Treasury to effectuate certain provisions of the Patriot Act provide that all transaction or other correspondent accounts held by a U.S. financial institution on behalf of any foreign bank must be closed within ninety days after the final regulations are issued, unless the foreign bank has provided the U.S. financial institution with a means of verification that the institution is not a shell bank. First Citizens National Bank implemented policies and procedures in compliance with stated regulations of the Patriot Act.

FEDERAL DEPOSIT INSURANCE REFORM ACT OF 2005

After six years, the Federal Deposit Insurance Reform Act of 2005 (FDIRA) was passed on February 8, 2006, as part of the Deficit Reduction Act of 2005. The primary components of FDIRA are as follows: merges the two major funds into a new Deposit Insurance Fund, raises coverage on retirement accounts to $250,000, establishes indexing insurance levels for inflation, caps the fund, sets up a system of dividends, gives banks credit for past payments to the fund and provides for flexibility if the fund should ever face financial difficulty. The FDIC is required to implement most of the provisions of FDIRA by November 5, 2006.

CUSTOMER INFORMATION SECURITY AND CUSTOMER FINANCIAL PRIVACY

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.

The three principal requirements relating to the Privacy of Consumer Financial Information in the Gramm Leach-Bliley Act (GLBA) are as follows:

- Financial institutions must provide customers with notices describing their privacy policies and practices, including policies with respect to disclosure of nonpublic personal information to affiliates and to nonaffiliated third parties. 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 GLBA. 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, complexity, nature and scope of its operations. First Citizens National Bank has structured and implemented a financial security program that complies with all principal requirements of the act.

Monetary policies of regulatory authorities, including the Federal Reserve have a significant effect on operating results of bank holding companies and their subsidiary banks. The Federal Reserve regulates the national supply of bank credit by open market operations in United States Government securities, changes in the discount rate on bank borrowings, and changes in reserve requirements against bank deposits. A tool once extensively used by the Federal Reserve to control growth and distribution of bank loans, investments and deposits has been eliminated through deregulation. Competition, not regulation, dictates rates, which must be paid and/or charged in order to attract and retain customers.

Federal Reserve monetary policies have materially affected the operating results of commercial banks in the past and are expected to do so in the future. The nature of future monetary policies and the effect of such policies on the business and earnings of the company and its subsidiaries cannot be accurately predicted.

INSURANCE ACTIVITIES

Subsidiaries of Bancshares sell various types of insurance as agents in the State of Tennessee. Insurance activities are subject to regulation by the states in which such business is transacted. Although most of such regulation focuses on insurance companies and their insurance products, insurance agents and their activities are also subject to regulation by the states, including, among other things, licensing and marketing and sales practices.

ITEM 1A. RISK FACTORS

The asset value and earnings of First Citizens Bancshares, Inc. (Company) and its subsidiaries as well as the value of its common stock is subject to various types of risks. The ability of the Company to continue its history of strong financial performance and return on investment is dependent on the ability to continue to effectively manage its risks. Three of such risks include but are not limited to interest rate risk, competition, and supervision and regulation.

Interest income on loans and investments is the largest source of income and interest expense on deposits and borrowings is the largest expense of the Company. The level and volatility of interest rates directly impact the Company's earnings. Interest rates are largely driven by the monetary policies set by the Federal Open Market Committee (FOMC) and the shape of the yield curve. The FOMC sets interest rates to influence the cost and availability of money and credit to help promote national economic goals. The shape of the yield curve is the relationship of shorter-term rates to longer-term rates. The FOMC began a series of rate increases that resulted in the Federal Reserve's discount rate being raised from 1.00% to 4.50% from June 2004 to January 2006. Short term rates have increased steadily with the increases in the Federal funds rates but longer term rates have lagged behind resulting in a flattened and then inverted yield curve by the end of 2005. The behavior of short-term rates compared to long-term rates over the last two years has compressed the net interest margin of Bancshares and many other financial institutions. The unrealized gains and losses on securities available-for-sale are also heavily influenced by the fluctuations in interest rates and the yield curve. The changes in such unrealized gains and losses have an effect on the accumulated other comprehensive income component of equity.

Competition is another significant factor that directly affects the net interest margin and therefore overall earnings of the Company. The Company must be able to compete in its markets in order to remain profitable. Competition is often intense in the pricing of both loans and deposits and can lead to reduced earnings if the Company has to earn less on loans or pay more on deposits in order to compete against not only other financial institutions but also credit unions, brokers, mortgage bankers, investment advisors, insurance companies and finance companies. Changes in technology and regulation, the trend of consolidations in the financial services industry, and competition for experienced, qualified employees also affect the Company's ability to compete.

The Company is subject to extensive regulation including banking and financial services laws, tax legislation, accounting standards and interpretations thereof. Legislation introduced at the state and national levels can impact the banking industry and its operating environment substantially. The Company cannot determine whether such legislation will be enacted or the ultimate impact on the Company's financial position or earnings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

First Citizens owns and occupies the followings properties:

- Main branch and executive offices are in six-story building at One First Citizens Place (formerly 200 West Court), Dyersburg, Tennessee. This property also includes the Banking Annex, which has a municipal address of the bank occupied portion of 215-219 Masonic Street. The Annex is currently under major renovations to become a new operations center. The Annex previously provided operating space for banking departments i.e. agricultural services, training and public relations, as well as the bank's brokerage subsidiaries. These departments have been relocated to the Main Bank and the brokerage subsidiary has been relocated to a leased facility. Once the renovations are completed, the bank operations, information technology, call center, bank security, and mail room departments will be housed there.
- The Downtown Drive-Thru Branch is located at 113 South Church Street, Dyersburg, Tennessee, and is a remote motor bank with six drive-thru lanes and a drive-up ATM lane.
- The Green Village Office located at 620 U.S. 51 Bypass adjacent to the Green Village Shopping Center in Dyersburg, Tennessee, is a full service banking facility. This facility is equipped with seven drive-up lanes, one of which is an ATM.
- The Newbern Branch, a full service facility is located on North Monroe Street, Newbern, Tennessee.
- The Industrial Park Branch located at 2211 St. John Avenue, Dyersburg, Tennessee, is a full service banking facility that offers drive-thru Teller and ATM services.
- The Ripley, Lauderdale County facility is located at 316 Cleveland Street in Ripley, Tennessee. This full service facility has four drive-up lanes and a twenty-four hour access drive-up ATM.
- The Troy Branch is full service banking facility located on Harper Street just west of Highway 51 in Troy, Tennessee. This facility has three drive-up lanes and a twenty-four hour access drive-up ATM.
- The Union City branch operates two full service facilities, a motor branch and three ATM's in Obion County. The main office is located at 100 Washington Avenue in Union City, Tennessee. A motor branch is located at First and Harrison Streets across from the main office. The East branch facility and ATM are located at 1509 East Reelfoot Avenue in Union City.
- The Martin office is located at 200 University Avenue, Martin, Tennessee, and is a full service banking facility with four drive-thru service lanes with the fourth lane serving as an ATM. Two other ATMs offer banking services, one a drive-up on University Avenue and a second occupies space in the Student Center of The University of Tennessee at Martin.
- The Munford, Tennessee branch is located at 1426 Munford Avenue. A remote building located at 1483 Munford Avenue serves as a drive-thru facility.
- Atoka full service branch is located on the Atoka-Idaville Road at 123 Atoka-Munford Avenue, Atoka, Tennessee. The Atoka Branch also has an ATM.
- Millington Branch is a full service branch facility located at 8170 Highway 51 N. Millington, Shelby County, Tennessee. The Millington Branch has a drive-thru ATM.
- Full service Bartlett branch is located at 7580 Highway 70, Bartlett, Shelby County, Tennessee. A drive-thru ATM is attached to the facility.
- Arlington branch located at 5845 Airline Road, Arlington, Tennessee serves as a full service branch facility and houses a drive thru ATM.
- The permanent facility for a full-service Oakland branch was opened in February 2005 at 7285 Highway 64, Oakland, Fayette County, Tennessee. A drive-thru ATM is attached to the facility.
- The Collierville, Tennessee branch opened in first quarter 2005 and operated in a leased temporary facility. The permanent facility was completed in January 2006. The permanent facility is located at 3668 South Houston Levee in Collierville and includes a drive-thru ATM.

All properties are owned by First Citizens and there are no liens or encumbrances against any properties owned by First Citizens. All of the properties described above are adequate and appropriate facilities to provide banking services as noted and are adequate to handle growth expected in the foreseeable future. As growth continues or needs change, individual property enhancements or additional properties will be evaluated if considered necessary.

ITEM 3. LEGAL PROCEEDINGS

Various legal claims arise from time to time through the normal course of business of the Company and its subsidiaries. There is no pending or threatened litigation as of December 31, 2005.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the year ending December 31, 2005, there were no meetings, annual or special, of the shareholders of Bancshares. No matters were submitted to a vote of the shareholders nor were proxies solicited by management or any other person.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of December 31, 2005, there were 1,062 shareholders of Bancshares' stock. Bancshares common stock is not actively traded on any market. Per share prices reflected in the following table are based on records of actual sales during stated time periods of which management of Bancshares is aware. These records may not include all sales during these time periods if sale prices were not reported to First Citizens in connection with a transfer of shares. Range of stock prices for 2005 and 2004 by quarter is as follows:

Quarter Ended

Low

High

March 31, 2004$ 27.50$ 30.00June 30, 2004$ 28.00$ 30.00September 30, 2004$ 28.00$ 30.00December 31, 2004$ 28.50$ 31.00March 31, 2005$ 31.00$ 32.75June 30, 2005$ 31.00$ 32.00September 30, 2005$ 32.00$ 32.00December 31, 2005$ 32.00$ 33.00

Dividends paid per share were $1.12 in 2005, $1.12 in 2004, and $1.08 in 2003. Dividends by quarter for 2005 were declared as follows:

Quarter Declared	**2005 Dividends Per Share**	**2004 Dividends Per Share**

First Quarter$ .28$ .28

Second Quarter$ .28$ .28Third Quarter$ .28$ .28Fourth Quarter $ .28 $ .28 Total $1.12 $1.12========

Future dividends will depend on Bancshares' earnings, financial condition, regulatory capital levels and other factors, which the Board of Directors of Bancshares considers relevant.

-11-

The Company had no publicly announced plans or programs for purchase of stock during the periods presented. The number of shares of treasury stock repurchased in open-market transactions not pursuant to publicly announced plans or programs and the average price paid by month is as follows:

No. of Shares
Purchased

Weighted
Average Price
Paid Per Share

2005

January2,075$ 31.00February6,194 31.00March- -April- -May531 32.00June3,125 32.00July3,260 32.00August73 32.00September132.00October--November--December - - Total 200515,259$ 31.46==========

2004

January2,535$ 28.00February--March--April47428.00May128.50June128.50July1,07529.22August--September--October--November2,23031.00December 249 31.00 Total 20046,565$ 29.33==========

The Company sold 435 shares of treasury stock in 2005 at a weighted average price of $31.22 per share. Proceeds from such sales were used to reacquire additional treasury shares.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for Bancshares for the twelve months ended December 31, for the years indicated:

2005	**2004**	**2003**	**2002**	**2001**	
			(Dollars in thousands, except per share data)		
Net Interest & Fee Income	$ 26,922	$ 25,668	$ 25,354	$ 24,262	$ 19,917
Gross Interest Income	$ 44,614	$ 39,017	$ 39,506	$ 38,970	$ 39,189
Income From Continuing Operations	$ 8,665	$ 8,049	$ 7,820	$ 7,838	$ 5,761
Net Income Per Common Share	$ 2.38	$ 2.20	$ 2.14	$ 2.14	$ 1.56
Cash Dividends Declared Per Common Share	$ 1.12	$ 1.12	$ 1.08	$ 1.04	$ 1.00
Total Assets at Year End	$ 815,749	$ 773,204	$ 726,104	$ 694,198	$ 537,991
Long Term Obligations (1)	$ 78,128	$ 84,481	$ 83,314	$ 83,881	$ 63,075
Allowance For Loan Losses as a % Loans	1.25%	1.16%	1.25%	1.24%	1.08%
Allowance For Loan Losses as a % of Non-Performing Loans	349.36%	262.25%	438.36%	144.31%	141.97%
Loans 90 Days Past Due as a % of Loans	0.36%	0.44%	0.04%	0.37%	0.33%

(1) Long-Term Obligations consist of FHLB advances and acquisition debts funded by a line of credit with First Tennessee Bank and trust-preferred securities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See Banking Business under Item 1 of this report regarding details of subsidiaries of the bank and holding company and what types of activities each engage in.

FORWARD LOOKING STATEMENTS

Management's discussion may contain forward-looking statements with respect to Bancshares' beliefs, plans, goals and estimates. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant banking, economic, and competitive uncertainties, many of which are beyond management's control. When used in this discussion, the words "anticipate," "project," "expect," "believe," "should," "intend," "is likely," "going forward" and other expressions are intended to identify forward-looking statements. These forward-looking statements are within the meaning of section 27A of the Securities Exchange Act of 1934. Such statements may include, but are not limited to, projections of income or loss, expenses, acquisitions, plans for the future and others.

Forward-looking statements are based upon information currently available and represent management's expectations or predictions of the future. Due to risks and uncertainties involved, actual results could differ materially from such forward-looking statements. Examples of such risks and uncertainties include but are not limited to:

- Changes in general economic and business conditions that are not anticipated and result in changes in loan and deposit demands and/or increases in loan delinquencies and defaults;
- Changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments;
- Effect of changes in legislative or regulatory developments including changes in tax, banking, insurance, securities, or other financial service related laws.

EXECUTIVE SUMMARY

The 2005 financial performance of Bancshares and its subsidiaries remains strong and consistent with the prior two years as evidenced by a return on equity of 13.71% compared to 13.56% and 13.88% in 2004 and 2003, respectively. Return on assets is 1.10%, 1.08% and 1.09% for 2005, 2004, and 2003, respectively. Earnings per share increased to $2.38 for the year ended December 31, 2005 from $2.20 per share in 2004. The increase in earning assets coupled with the rising rate environment contributed to the overall increase in earnings per share.

Loans are the single largest category of interest-earning assets at First Citizens and produce the highest level of revenues. At December 31, 2005, loans, net of unearned income totaled $547 million. Growth in the portfolio in 2005 slowed to 2.34% compared to growth of 8%-10% each of the two prior years. Factors contributing to slower growth are increasing economic pressures in our markets, rising rate environment, market competition and strict asset quality standards. First Citizens' commitment to asset quality is demonstrated by non-performing assets totaling well below one percent of total loans the last three years. Other Real Estate Owned has been very low the last two years at $129 thousand in 2005 and $337 thousand in 2004. Net charge-offs in 2005 also continued at a very manageable level of $468 thousand as compared to $822 thousand in 2004.

The dividend payout ratio in 2005 was 47.06% and the dividend yield of 3.61% continues to exceed peer group banks in the Southeast region by a significant margin. Our goal continues to be providing shareholder returns that exceed peer group banks and is achieved by focusing efforts on deploying capital resources in a manner that supports long-term shareholder value. The investments in the metropolitan Southwest Tennessee markets afforded the company opportunities to expand the customer base and extend the First Citizens brand outside of Northwest Tennessee. This prudent utilization of capital will support future growth and development of both assets and earnings.

The most significant factor critical to the success of our Company is not quantitative, but rather the quality of the over 260 members of our staff. First Citizens focuses on attracting and retaining quality bankers and the success of such efforts is measured by their tenure. The average tenure of the overall staff is more than ten years and the average tenure of officers with the position of vice-president and higher is over 17 years.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting of First Citizens Bancshares and its subsidiaries conform to accounting principles generally accepted in the United States and follow general practices within its industry. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The company's estimates are based on historical experience, information supplied from professionals, regulators and others believed to be reasonable under the facts and circumstances. Accounting estimates are considered critical if (1) management is required to make assumptions or judgments about items that are highly uncertain at the time the estimate is made, and (2) different estimates reasonably could have been used during the current period or changes in such estimates are reasonably likely to occur from period to period, that could have a material impact of the presentation of the Consolidated Financial Statements.

The development, selection and disclosure of critical accounting policies are discussed with the Audit Committee of the Board of Directors. Due to the potential impact on the financial condition or results of operations and the required subjective or complex judgments involved, management believes its critical accounting policies to consist of the allowance for loan losses, fair value of financial instruments, and goodwill and assessment of impairment.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents management's best estimate of inherent losses in the existing loan portfolio. Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb reasonably estimated and probable losses within the portfolio. The company believes the loan loss reserve estimate is a critical accounting estimate because: changes can materially affect bad debt expense on the income statement, changes in the borrower's cash flows can impact the reserve, and management has to make estimates at the balance sheet date and also into the future in reference to the reserve. While management uses the best information available to establish the allowance for loan losses, future adjustments may be necessary if economic or other conditions change materially. The Loan Portfolio Analysis included in this Management's Discussion and Analysis provides further detail regarding how loans are monitored and evaluated in relation to the determination of the allowance for loan losses. Also, refer to Note 1 of the Consolidated Financial Statements included in Item 8 of this report.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting principles generally accepted in the United States require that certain assets and liabilities be carried on the balance sheet at fair value. Furthermore, the fair value of financial instruments is required to be disclosed as a part of the notes to the consolidated financial statements for other assets and liabilities. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, the shape of yield curves and the credit worthiness of counter parties.

Fair values for the majority of First Citizens' available-for-sale investment securities are based on quoted market prices from actively traded markets. In instances where quoted market prices are not available, fair values are based on the quoted prices of similar instruments with adjustment for relevant distinctions (e.g., size of issue, interest rate, etc.).

Fair value of the only derivative held by the company is determined using a combination of quoted market rates for similar instruments and quantitative models that are based on market inputs including rate, price and index scenarios to generate continuous yield or pricing curves and volatility factors. Third party vendors are used to obtain fair value of available-for-sale securities and the cash flow hedge.

See also the Fair Value of Financial Instruments footnote in the Consolidated Financial Statements included in Item 8 of this report.

GOODWILL

The Company's policy is to review goodwill for impairment at the reporting unit level on an annual basis unless an event occurs that would likely impair the goodwill amount. Goodwill represents the excess of the cost of an acquired entity over fair value assigned to assets and liabilities. Management believes accounting estimates associated with determining fair value, as part of the goodwill test is a critical accounting estimate because estimates and assumptions are made based on prevailing market factors, historical earnings and multiples and other contingencies. See also the Goodwill footnote in the Company's Consolidated Financial Statements included in Item 8 of this report for additional policy information.

RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS (Statement of Financial Accounting Standard) No. 154 Accounting Changes and Error Corrections -This new standard issued in May 2005 replaces SFAS No. 3 and APB Opinion No. 20 and changes requirements for the accounting for and reporting of a voluntary change in accounting principle and in the unusual instance that an accounting pronouncement does not include specific transition provisions. This standard does not apply to accounting pronouncements with specific transition provisions. The effective date of SFAS No. 154 is for fiscal years beginning after December 15, 2005. Early adoption is permitted for fiscal years beginning after the issuance date of the Statement (May 2005). Adoption of this statement is not expected to materially impact the Company's consolidated financial statements in 2006 or beyond.

SFAS No. 153: Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29- APB Opinion No. 29, Accounting for Nonmonetary Transactions is based on the principle that exchange of nonmonetary assets should be measured on fair value of assets exchanged. SFAS No. 153 revises this statement to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges that do not have commercial substance that is defined as significant change in future cash flows as a result of the change. This statement focuses on the exception to exchanges that lack commercial substance and was implemented to help improve consistency between U. S. standards and standards issued by International Accounting Standards Board (IASB). The provisions of SFAS No.

153 are effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this statement did not materially impact the Company's consolidated financial statements presented in this report and is not expected to materially impact financials statements going forward.

SFAS No. 123 (Revised 2004): SFAS No. 123 (Revised 2004) Share-Based Payment was revised to address concerns of users and others, improve comparability of reporting financial information by eliminating alternative accounting methods, simplify U. S. generally accepted accounting principles, and converge with international accounting standards. The Statement required public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The cost is to be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in cost recognition if certain conditions are met as outlined in No. 123. The effective date for the Company to adopt this statement is the first interim or annual reporting period beginning after June 15, 2005. The Company currently does not issue equity instruments in exchange for employee service, so adoption of this statement had no material impact on the Company's financial statements.

RESULTS OF OPERATIONS

Return on average assets was 1.10%, 1.08%, and 1.09% for the years ending December 31, 2005, 2004 and 2003, respectively. The increase in the return on average assets is directly attributable to overall increase in earnings coupled with moderate growth of approximately 5.5% in total assets. Return on average equity is 13.71%, 13.56%, and 13.88% for 2005, 2004 and 2003, respectively.

Asset quality remains strong with decreases in non-performing loans, other real estate and net charge-offs in 2005 compared to 2004. Non-performing loans and other real estate as a percent of total loans plus other real estate at December 31, 2005 were 0.13 % less than at year-end 2004 and 0.22% less than peer as reported in the December 31, 2005 Uniform Bank Performance Report for Bancshares' subsidiary bank. The Bank is strategically committed to maintaining excellent asset quality but recognizes that the current economic factors of its markets could lead to an increase in non-performing asset trends in 2006 as the levels in 2005 were extremely low. Such economic factors include but are not limited to increased fuel and energy costs, changes in unemployment rates, consumer confidence and spending levels, and number of customer bankruptcies. Although potential exists for a negative trend in non-performing assets in 2006 compared to 2005, management does not expect this trend to be material. The allowance for loan loss reserve as a percent of non-performing assets was 327.74%, 229.54%, 316.97%, 99.21%, and 88.08% for the years 2005, 2004, 2003, 2002, and 2001, respectively. Additions made to the reserve account as a percent of net charge offs for 2005 was 167.56%. Other Real Estate Owned declined 62% ending 2005 at $129 thousand. The increase in the provision for loan losses of $122 thousand in 2005 is primarily due to providing a reserve against overall loan growth and consideration of a potential slightly negative trend in non-performing loans in 2006. Net charge-offs in 2005 were $468 thousand compared to $822 thousand in 2004. The reserve for potential loan losses as a percent of total portfolio ended the year at 1.25% and is within the range of 1.15% to 1.25% that has been maintained the last five years and is comparable to peer range of 1.20% to 1.30% also over the last five years.

Bancshares reports consolidated net income of $8.67 million for the year ended December 31, 2005 compared to $8.0 million in 2004 and $7.8 million in 2003. Earnings per share increased to $2.38 per share for 2005 compared to $2.20 per share for 2004 and $2.14 per share in 2003. Pressures exerted on the net interest margins continue to be a factor. As evidenced in the cash flow statement, Bancshares continues to deploy capital for purchases of premises and equipment totaling $5.9 million, $3.5 million and $5.3 million in 2005, 2004 and 2003, respectively. The opportunity cost on these investments in fixed assets is approximately $378 thousand based on the average yield on earning assets of 6.42 percent, as the funds likely would have been invested in loans or investments if fixed assets were not purchased. Expansion costs of construction of new branches are present in 2005, 2004 and 2003 with the construction of four new branches over the last three years. As of January 2006, Martin and Arlington are operating at a profit and Oakland is expected to be profitable by the end of 2006. Collierville is expected to become profitable during 2007. Also in fourth quarter 2005, the Company began major renovations of its annex building to the main headquarters in order to convert this building into a new Operations Center. The overall cost of the Operations Center is expected to be approximately $2 million for the completion of this project. This project is expected to be completed by the end of the first quarter 2006 and will provide a means for an expedited workflow, improved operational organization as well as improved protection and uninterrupted power in case of a natural disaster.

The accompanying Summary Average Balance Sheet and Net Interest Income Schedule indicate the net yield on average earning assets is flat at 3.92% for year 2005 compared to 3.91% for 2004. This is primarily due to the fairly neutral position of the balance sheet in terms of interest rate risk. Thus, the increases in yields on interest-earning assets were offset by increases in the costs of interest-bearing liabilities during 2005. See Item 7A of this report for additional information regarding interest rate risk and market sensitivity.

Net interest margins are a constant concern of financial institutions. Peer banks ($500 million to $1 billion assets) including First Citizens National Bank have struggled with margins which headed downward from summer of 2002 until 2004. Liabilities were not able to keep pace with the decline in earning assets, which was experienced until the third quarter of 2004. From late June 2004 through January 2006, the Federal

Open Market Committee (FOMC) has consistently raised federal funds rates from 1.00% to 4.50% with 25 basis point increases at each meeting. As shorter-term rates have followed suit to the federal funds rates, the longer-term rates have not and thus, the yield curve flattened and then has recently inverted near the end of 2005 and into 2006. The 10-year Treasury note, a common benchmark for long-term rates, has dropped from the 4.6% to 4.7% range in June 2004 to the 4.3% to 4.4% range as of year-end. The 2-year Treasury note is also in the 4.3% to 4.4% range as of year-end. As a result of the behavior of the yield curve and competitive factors, pricing of deposits and short-term liabilities outpaced the increase in loan and investment rates in 2004 and into 2005. By third quarter 2005, loan yields finally began to catch up to the increased costs of deposits and borrowings. Net interest income on tax equivalent basis has increased $1.4 million over the prior twelve months resulting from asset growth. The impact of the rising rate environment resulted in flat net interest margin from 2004 to 2005 as loan yields lagged behind the increased funding costs. The Company's funds management committee has strategically moved interest sensitivity position of the balance sheet from a liability sensitive position to a slightly asset sensitive position over the last two years. Bancshares' balance sheet is structured in a manner deemed to be fairly neutral but is slightly "asset sensitive." This neutral position is also a major factor in the flat net interest margin 3.92% in 2005 compared to 3.91% in 2004. Rising rate environment of 100 basis points over a 12-month period would result in an increase in net interest income of $634,000 or 2.39%. A declining rate of 100 basis points for the same 12-month period would decrease net interest income approximately $1 million or negative 3.79%.

Secondary mortgage activity has been a significant factor in loan fee income over the last several years. This trend is consistent with the overall market as consumers opted to take advantage of the low rate environment by purchasing or refinancing existing home mortgages at record levels. Gross income and fees recorded from this activity totaled $1.2 million in 2005, $1.0 million in 2004 and $1.7 million in 2003. Refinance activity is expected to slow during 2006 depending on activity in newer markets served.

The effective tax rate is 26.3% in 2005 compared to 28% in both 2004 and 2003. The effective tax rate and changes therein are impacted by fluctuations in certain factors, including but not limited to the level of tax-free investments within our investment portfolio, tax-exempt earnings on bank owned life insurance policies, certain tax benefits which result from ESOP dividends and payouts, and other factors incidental to the financial services business.

NON-INTEREST INCOME

The following table compares non-interest income for the years ended December 31, 2005, 2004 and 2003:

Non-Interest Income

							Total 2003
Service Charges on Deposit Accounts	$ 5,952	$ 393	7.07%	$ 5,559	$ 646	13.15 %	$ 4,913
Trust Fees	963	17	1.80%	946	160	20.36 %	786
Brokerage	1,307	147	12.67%	1,160	282	32.12 %	878
Earnings on Bank Owned Life Insurance Policies	914	471	106.32%	443	(253)	(36.35)%	696
Other	1,708	422	32.81%	1,286	(257)	(16.66)%	1,543
Total Non-interest Income	$ 10,844	$ 1,450	15.44 %	$ 9,394	$ 578	6.56 %	$ 8,816

Non-interest income increased $1.45 million or 15.44% when comparing 2005 results to 2004. In the year 2005, non-interest income (fee income) contributed 19.5% of total revenue compared to 19.4% and 16.47% for the same periods in 2004 and 2003, respectively. Over the last several years, non-interest income has been a significant source of income especially when interest rates are low. All of the major categories of non-interest income contributed to the overall increase of $1.45 million including service charges on deposits, brokerage income, earnings on bank owned life insurance and Bancshares' proportionate share of income from the full service insurance subsidiary. Overdraft fees are the largest component of service charges on deposit accounts. The increase in service charges is proportionate to the increase in overall deposits during 2005. Brokerage fees have increased as a result of further development of brokerage services in our newer markets, which began in 2004 and improved condition of financial markets.

The largest increase in non-interest income was derived from an increase in earnings from bank owned life insurance due to a $260 thousand death benefit received on a policy inherited through a prior bank acquisition coupled with in increase in 2005 of the cash surrender value of certain policies that had a decrease in value during 2004.

Income from First Citizens/White and Associates Insurance Company, LLC is included in other non-interest income. In 2004, this subsidiary brought suit to protect certain rights and earnings in 2004 were down due to related legal fees incurred. Settlement of the subsidiary's litigation occurred early in 2005 in favor of the subsidiary and First Citizens' portion of the gain of approximately $150,000 was recorded in first quarter of 2005. The settlement of the suit along with an overall increase in revenue from the company contributed approximately $400 thousand of the overall positive variance in non-interest income. Bancshares' portion of other non-interest income generated by First Citizens/White and Associates Insurance Company, LLC for the years ending 2005, 2004, and 2003 totaled $709,000, $315,000, and $434,000, respectively.

NON-INTEREST EXPENSE

The following table compares non-interest expense for the years ended December 31, 2005, 2004 and 2003:

Non-Interest Expense
Year Ended December 31,
Changes in Non-Interest Expense
(In Thousands)

		Increase (Decrease)			Increase (Decrease)		
	Total 2005	**Increase (Decrease) Amount**	**Percentage**	**Total 2004**	**Increase (Decrease) Amount**	**Percentage**	**Total 2003**
Salaries & Employees Benefits	$ 14,506	$ 1,776	8.82%	$ 13,330	$ 777	6.19%	$ 12,553
Occupancy Expense	4,287	384	9.84%	3,903	88	2.31%	3,815
Other Operating Expense	6,162	560	10.00%	5,602	(156)	(2.71)%	5,758
Total Non-Interest Expense	$ 24,955	$ 2,120	9.28%	$ 22,835	$ 709	3.20%	$ 22,126
	======	======	=======	======	======	=======	=====

The non-interest expense category is dominated by salaries and benefits expense and comprises 58 percent of the total in years 2005 and 2004, and 56 percent in year 2003. Employees receive performance based incentives based on factors including accomplishing a certain Return on Equity level (calculated excluding incentives at the bank level), accomplishing annual budget goals and attaining or exceeding business development goals. Incentive pay totaled 11.89% of salaries and benefits compared to 11.24% in 2004 and 10.93% in 2002. The increase in employee salaries and benefits is primarily due to hiring additional staff necessary to support growth and expansion into new markets as well as overall increases in salaries of existing employees. The significant expense associated with salaries and benefits is consistent with Bancshares' strategic plan to hire and retain high quality employees to provide outstanding customer service and strive for exceptional shareholder returns. The efficiency ratio is a measurement of non-interest expense as a percentage of total revenue. A comparison of the efficiency ratio for the years 2005, 2004 and 2003 reflects ratios of 64.62%, 65.46% and 63.19%, respectively. The improvement in efficiency ratio is attributable to the digestion of the three branches opened during 2003 and 2004.

The following table compares assets per employee (in thousands) for Bancshares compared to peer. Peer information is obtained from Uniform Bank Performance Reports (UBPR) for the periods noted.

December 31,	**Assets Per Employee**	**Assets Per Employee Peer Group**
2005**	$ 2,967	$ 3,860
2004**	$ 2,903	$ 3,700
2003**	$ 2,916	$ 3,540
2002**	$ 2,712	$ 3,400
2001*	$ 2,637	$ 3,350

** Peer Group $500 million to $1 billion. Peer group changed upon acquisition in 2002.
* Peer Group $100 million to $500 million.

Comparison of assets per employee for the Company compared to its peers reveals that the Company is more heavily staffed than its counterparts. This is primarily a result of the growth through acquisitions and new branches that has occurred over the last five years. New branches have an inefficient assets-per-employee ratio and thus, dilute the total assets per employee ratio as compared to peer. As expected, this comparison improved during 2005, as the expansion has somewhat slowed with the addition of only one new branch in 2005 compared to three new branches over the prior two years. Although improvements are expected as the new branches grow, our commitment to the highest level of customer service may continue to cause the Company to be less than peer in this area due to the staff required to provide such a high level of customer service.

The 10% increase in net occupancy expense including depreciation and data processing/computer expenses are a result of four new branches over the past three years as well as technology expenses necessary to upgrade and maintain the subsidiary bank's technology at a level necessary to achieve a superior level of customer service. While every effort will be made to ensure efficiencies in these areas, the expansion and customer service strategies adopted by the board will continue to exert pressure on occupancy and depreciation expense as markets are expanded by future acquisitions and the establishment of new branches. The cost of the Operations Center will also impact occupancy and depreciation expense going forward.

Other operating expenses for 2005 increased approximately 10% from December 31, 2004 primarily due to the digestion of newer branches and as a result of increasing regulatory burdens associated with Sarbanes-Oxley and Bancshares becoming an accelerated filer with the SEC during 2005. Implementation costs for this act were approximately $200,000 for the year ended December 31, 2005 and include increased audit fees, fees paid to directors serving on Corporate Governance Committee, additional personnel costs, consulting and technology costs. Advertising costs increased $197 thousand in 2005 due to strategic plans to improve the brand recognition of First Citizens in its newer markets. Advertising costs are also expected to increase again in 2006 as First Citizens continues its efforts to increase brand awareness with a focus on promoting and providing exceptional customer experiences.

No impairment of goodwill has been recognized since the adoption of SFAS 142 in 2002. Goodwill is 1.45% of total assets and 18.58% of total capital as of December 31, 2005.

COMPOSITION OF DEPOSITS

The average daily amounts of deposits and rates paid on such deposits are summarized for the three years ended December 31,2005, 2004 and 2003:

Year Ended December 31,
(In Thousands)

	2005		2004		2003	
	Average Balance	**Average Rate**	**Average Balance**	**Average Rate**	**Average Balance**	**Average Rate**
Non-Interest Bearing Demand Deposits	$ 78,586	0.00%	$ 72,272	0.00%	$ 62,836	0.00%
Savings Deposits	190,106	1.18	181,164	0.71	168,149	0.76

Time Deposits	331,973	3.09	311,671	2.36	313,562	2.65
Total Deposits	$ 600,665	2.08%	$ 565,107	1.53%	$ 544,547	1.76%
========	=======	========	=======	========	=======	

Market share data for the Tennessee Counties served by First Citizens is included in Item 1 Banking Business of this report. As noted in Item 1, First Citizens is the market share leader in six of the seven counties it serves with approximately 20% of the market share. Shelby County is the one market that First Citizens participates in but is not the leader due to the diversity and large number of institutions in that market as well as the length of time that First Citizens has been competing there. First State Bank, a competitor in markets of First Citizens was second in market share accounting for approximately 18.5% of total deposits. Bancshares' average deposits for 2005 were $601 million at an average rate of 2.08% compared to $565 million at an average rate of 1.53% in 2004 and $545 million at an average rate of 1.76% in 2003. The increase in the average cost of deposits is due to the impact of the rising rate environment and competitive factors on time deposits. The current market and competitive environment has resulted in fierce competition in pricing of time deposits. First Citizens does not compete solely on price as strategies are focused more on customer service to attract and retain core deposit customers rather than time deposits.

The success of our overall deposit strategies over the past two years resulted in net growth from $560 million at year-end 2003 to $592 million at year-end 2004 to $635 million at year-end 2005. Consistent with its strategies to increase core deposits, the average deposits balances in the previous table illustrate growth of core deposits in both the demand and savings deposits. In the current rate environment, all markets have demanded a competitively priced interest-bearing transaction account. As a result evidenced in our Statements of Cash Flows, transaction deposit accounts increased approximately $19 million in 2005 and $20 million in 2004. One of our deposit products is the Wall Street checking account introduced first quarter 2001, which draws deposits that in the past had flowed to a similar deposit account offered by brokerage firms. Wall Street accounts have been a significant portion of savings deposits the last three years at $73 million for year-end 2005, $77 million for year-end 2004, and $64 million for year-end 2003. In 2005, First Citizens shifted its emphasis from the Wall Street account to a money market account called the First Rate account. Balances in First Rate accounts increased from $13.5 million to $29.1 million. This increase offsets the $4 million decrease in Wall Street accounts in 2005. First Citizens also continues to offer free checking to attract and retain deposit relationships.

The fluctuation in time deposits is evident by the variation between the 2005 year-to-date average balance of $332 million and balance at year-end 2005 of $348 million. In fourth quarter 2005, time deposits increased approximately $19 million as a result of an increase in municipal time deposits and brokered time deposits. Due to the fierce pricing in the time deposit market, First Citizens has chosen to more heavily pursue core demand and savings deposits as opposed to time deposits. Maturity distribution of time deposits reflects that approximately 80% of total time deposits in the amount of $100,000 or more will reprice in the next twelve months. Customers are hesitant to lock in rates on time deposit accounts for longer than twelve months given a lack of stability in the economy and competitive interest rate environment.

Core deposits serve as a source of liquidity for Bancshares. The short-term borrowings table below reflects the maximum amount of borrowings at any month end during the respective years. Short-term borrowings are used to manage fluctuations in liquidity based on seasonality of agricultural production loans and other factors. The maximum amount of borrowings in any given month during 2005 was comparable to 2004 driven by the seasonality of certain deposits and the agricultural loan portfolio. See also the Short Term Borrowings footnote included in the Consolidated Financial Statements in Item 8 of this report.

Long-term debt at the subsidiary bank is primarily Federal Home Loan Bank Borrowings and reflects average volume for 2005 of $73 million at an average rate of 4.87% compared to 2004 of $69 million at an average rate of 5.12% and to 2003 of $83.5 million at an average rate of 5.18%. The average maturity for long-term borrowing is 5 years. FHLB borrowings have various call features ranging from 1 to 5 years and the maturities range from 2008 to 2011. Under the current and forecasted rate environments, none of these borrowings are likely to be called and therefore are not included in current liabilities on the Consolidated Balance Sheet included in Item 8 of this report. Federal Home Loan Bank borrowings are comprised of fixed rate positions ranging from 3.97% to 6.55%. Debt at Bancshares consists of Correspondent debt and Trust Preferred debt that are affiliated with a prior acquisition in 2002 and have variable rates. Bancshares has strategically reduced this debt subsequent to the 2002 acquisition by approximately $1.9 million. Liquidity management and long term borrowings are discussed within the Liquidity section of this report.

SHORT TERM BORROWINGS

The following presents short-term borrowing balances at year end, maximum borrowings at month end during the year and average cost for the periods presented:

12/31/2005

12/31/2004

12/31/2003

Amount Outstanding - End of Period $ 1,000 $ 1,000 $ 967 Maximum Amount of Borrowings at Any Month End During the Year 26,217 25,732 15,544 Year-to-Date Daily Average 6,527 9,656 2,364 Weighted Average Cost 3.54% 1.43% 1.14%

LONG TERM BORROWINGS

The following presents average volumes, rates, maturities, and re-pricing frequencies for long-term debt:

Average Volume

Average Rate

Average Maturity

Repricing Frequency

FHLB Borrowings$ 72,9564.87%5 years

Fixed

Correspondent Debt4,6114.62%1 year

Variable

Trust Preferred Debt9,0216.42%27 years Variable

MATURITY DISTRIBUTION OF TIME DEPOSITS IN AMOUNTS OF $100,000 AND OVER

Deposits over $100,000 increased $17.8 million or 11% from 2004 to 2005. The following table sets forth the maturity distribution of Certificates of Deposit and other time deposits of $100,000 or more outstanding on the books of the bank on December 31, 2005 and 2004.

	December 31 (In Thousands)			
	2005		2004	
	Amount	Percent	Amount	Percent
Maturing in:				
3 Months or Less	$ 56,725	31.64%	$ 59,566	36.89%
Over 3 Through 12 Months	86,509	48.25	76,450	47.34
Over 12 Months	36,062	20.11	25,474	15.77
Total	$ 179,296	100.00%	$ 161,490	100.00%
	=======	=======	========	

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SUMMARY - AVERAGE BALANCE SHEET AND NET INTEREST INCOME ANALYSIS

The following presents the year-to-date daily average balance sheet and net interest income analysis:

2005			2004			2003		
Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**

ASSETSINTEREST EARNING ASSETS: Loans (1) (2) (3)$ 538,789$ 37,9917.05%$ 513,678$ 33,3026.48%$ 474,956$ 34,0557.17%Investment Securities: Taxable117,4874,7044.00%117,8354,1693.54%109,1703,6563.35% Tax Exempt (4)40,5672,5126.19%38,0642,2265.85%37,2232,4776.65% Interest Earning Deposits711202.81%73230.41%54761.10% Federal Funds Sold 11,134 241 2.16% 5,041 74 1.47% 13,479 154 1.14% Total Interest Earning Assets$ 708,688 $ 45,4686.42%$ 675,350 $ 39,7745.89%$ 635,375 $ 40,3486.35%NON-INTEREST EARNING ASSETS: Cash and Due From Banks$ 18,619$ 15,835$ 16,807 Property and Equipment25,81722,29319,950 Other Assets 36,281 33,332 39,157 Total Assets$ 789,405$ 746,810$ 711,289 ======== ======== ======== LIABILITIES AND SHAREHOLDERS' EQUITYINTEREST-BEARING LIABILITIES: Savings Deposits$ 190,106$ 2,2421.18%$ 181,164$ 1,2880.71%$ 168,149$ 1,2870.77% Time Deposits331,97310,2463.09%311,6717,3482.36%313,5628,3332.66% Federal Funds Purchased and Other
Interest Bearing Liabilities
122,754
5,204
4.24%
117,316
4,713
4.02%
105,634
4,532
4.29% Total Interest Bearing Liabilities$ 644,833 $17,6922.74%$ 610,151 $13,3492.19%$ 587,345$ 14,1522.41%NON-INTEREST BEARING LIABILITIES: Demand Deposits$ 78,586 $ 72,272 $ 62,836 Other Liabilities 2,788 5,036 4,780 Total Liabilities$ 726,207 $ 687,459 $ 654,961 Shareholders' Equity$ 63,198 $ 59,351 $ 56,328 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 789,405 $ 746,810 $ 711,289 ======== ======== ======== NET INTEREST INCOME $ 27,776 $ 26,425 $ 26,196 ====== ====== ====== NET YIELD ON AVERAGE EARNING ASSETS 3.92% 3.91% 4.12% ===== ===== =====____________________

(1) Loan totals are shown net of unearned income and loan loss reserves.

(2) Fee Income is included in interest income and the computations of the yield on loans.

(3) Includes loans on non-accrual status.

(4) Interest and rates on securities which are non-taxable for Federal Income Tax purposes are presented on a taxable equivalent basis.

Interest-earning assets at year-end averaged $709 million at an average rate of 6.42% compared to $675 million at an average rate of 5.89% in 2004, and $635 million at an average rate of 6.35% in 2003. Interest bearing liabilities at year end averaged $645 million at a cost of 2.74% compared to $610 million at a cost of 2.19% in 2004, and $587 million at a rate of 2.41% in 2003. The trends of balance sheet growth and increasing rate environment continued in 2005 and are expected to continue into 2006.

-20-

VOLUME/RATE ANALYSIS

The following table is an analysis of the impact of the changes in balances and rates on interest income and interest expense changes from 2005 to 2004 as well as from 2004 to 2003:

2005 Compared to 2004		**2004 Compared to 2003**
	Due to Changes in:	**Due to Changes in:**

	Average Volume	Average Rate	Total Increase/ (Decrease)	Average Volume	Average Rate	Total Increase/ (Decrease)
	(In Thousands)					
Interest Earned On:						
Loans	$ 1,771	$ 2,918	$ 4,689	$ 2,510	$ (3,263)	$ (753)
Taxable Investments	(14)	549	535	307	206	513
Tax Exempt Investment Securities	155	131	286	49	(300)	(251)
Interest Bearing Deposits with Other Banks	(1)	18	17	1	(4)	(3)
Federal Funds Sold and Securities Purchased Under Agreements to Resell	132	35	167	(124)	44	(80)
TOTAL INTEREST EARNING ASSETS	$ 2,043	$ 3,651	$ 5,694	$ 2,743	$ (3,317)	$ (574)
Interest Expense On:						
Savings Deposits	105	849	954	93	(92)	1
Time Deposits	627	2,271	2,898	(45)	(940)	(985)
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	231	260	491	469	(288)	181
TOTAL INTEREST EARNING LIABILITIES	963	3,380	4,343	517	(1,320)	(803)
NET INTEREST EARNINGS	$ 1,080	$ 271	$ 1,351	$ 2,226	$ (1,997)	$ 229
======	======	======	======	======	======	

The above table indicates the balance sheet growth is the reason for the overall increase in net interest earnings while the impact of the rising rate environment kept net interest margins flat in 2005.

LOAN PORTFOLIO ANALYSIS

The following compares the loan portfolio mix as of year-end for the last five years:

	December 31 *(In Thousands)*				
	2005	2004	2003	2002	2001
Real Estate Loans:					
Construction	$ 74,817	$ 99,028	$ 71,599	$ 57,758	$ 36,862
Mortgage*	355,792	321,957	305,077	285,759	225,743
Commercial, Financial and Agricultural Loans	78,086	72,330	70,658	67,732	64,496
Installment Loans to Individuals	37,761	38,550	37,401	39,089	39,200
Other Loans	3,804	4,147	3,372	3,142	2,725
TOTAL LOANS	$ 550,260	$ 536,012	$ 488,107	$ 453,480	$ 369,026
	======	=======	=======	=======	=======

*Includes mortgage loans to be sold in secondary market. Secondary market mortgages total $3.0 million, $1.3 million, $2.4 million, $5.9 million, and $4.0 million for 2005, 2004, 2003, 2002, and 2001, respectively.

-21-

CHANGES IN LOAN CATEGORIES

Loan growth was modest at 2.34% for the year ended December 31, 2005. The following details the breakdown of that growth by category for 2005 (in thousands):

Increase (Decrease)

Percent Change

Real Estate Loans: Construction$ (24,211) -24.45 % Mortgage33,835 10.51 %Commercial, Financial and Agricultural 5,756
7.96 %Installment Loans to Individuals(789) -2.05 %Other Loans (343) -8.27 % TOTAL LOANS$
14,248 2.66 %===============

Total loans at December 31, 2005 were $550 million compared to $536 million at December 31, 2004 and $488 million at December 31, 2003. Loans for this discussion include loans that are sold in the secondary mortgage market. Loans to be sold in the secondary mortgage market are separately classified in the Consolidated Financial Statements included in Item 8 of this report. Secondary market mortgages total $3.0 million, $1.3 million, $2.4 million, $5.9 million, and $4.0 million for 2005, 2004, 2003, 2002, and 2001, respectively. See also Notes 4, 5 and 6 of the Consolidated Financial Statements included in Item 8 of this report. Interest and fees earned on secondary mortgage loans are included in interest and fees on loans as discussed in this report.

Overall, loan growth was slower in 2005 than 2004 and consisted primarily of growth centered in real estate loans of $9.6 million or 2.29% and an increase in commercial loans (including agricultural loans) of $5.8 million or 7.96%. The slowdown in growth is primarily due to flat overall growth in the mature markets served by First Citizens. Construction and permanent financing of one to four family residential loans has been the focus of the bank's marketing program over the past two years with residential loan rates at the lowest point in many years. Loan growth in 2004 and 2003 was 9.81% and 7.64%, respectively. Loan growth in 2004 and 2003 is a result primarily of growth in the newer markets served. Loan growth in 2002 from 2001 (excluding acquisitions) increased only $14 million or 3.91 percent when comparing the current period to December 2001. Weaker loan growth in 2005 can be attributed to the slowing economy and a tightening in consumer credit underwriting standards. In spite of economic conditions, overall loan portfolio quality remains high with approximately $431 million or 78 percent of total portfolio volume recorded in real estate loans; $78 million or 14 percent in Commercial and Agricultural loans and $38 million or 7 percent of total portfolio in installment loans to consumers. Portfolio quality remains strong with the ratio of net charge offs to average net loans outstanding for the years of 2005, 2004, and 2003 at 0.09%, 0.16%, and 0.08%, respectively. Non performing assets as a percent of total loans plus foreclosed property at current year end represent 0.38% compared to 0.51% and 0.39% at year end 2004 and 2003, respectively. The loan loss reserve as a percent of loans is 1.25% and is consistent with the 1.15-1.25 percent range maintained over the past five years. Overall, loan demand over the next twelve months is expected to grow approximately 5 percent based on the expected economic conditions of markets served and strategic objectives to grow and maintain existing customer bases in markets served.

Unemployment rates for year-end 2005, 2004 and 2003 in counties in which Bancshares does business are as follows:

	2005	2004	2003
Dyer	5.6%	5.8%	6.4%
Fayette	8.6%	12.0%	N/A
Lauderdale	7.8%	10.0%	13.7%
Obion	5.3%	5.9%	7.4%
Shelby	5.6%	6.2%	5.4%
Tipton	5.3%	6.5%	7.0%
Weakley	5.5%	5.5%	7.5%

Unemployment rates for the state of Tennessee as of the end of each quarter of 2005 were 5.9%, 6.0%, 5.1%, and 5.4%, consecutively.

The following data details the internally classified loans by category as of December 31, 2005 (in thousands):

Category	Total Outstanding

		Internally Classified	Problem Loans % of Category
Residential Real Estate	$ 187,329	$ 4,242	2.26%
Home Equity Lines	22,750	260	1.14%
Ag. Real Estate	29,184	198	0.68%
Commercial Real Estate	178,236	7,498	4.21%
Commercial Other	47,997	613	1.28%
Installment Loans	36,515	157	0.43%

Internally classified loans are those loans that have certain characteristics or circumstances that warrant additional monitoring of credit quality and may require specific reserve allocations as determined in accordance with SFAS No. 114.

Concentrations of credit are defined in accordance with regulatory guidelines as 25 percent of gross capital of the bank or $18,959,000 as of year-end 2005. As of year-end 2005 and subsequently, there are no concentrations of credit within the portfolio that represent one certain industry or a specific type of loans within these categories. Real estate loans account for approximately 78% of the total loan portfolio. Within real estate loans, residential mortgage loans (including residential construction) are the largest category comprising 39% of total loans, which historically have low loan loss experience. The following table lists categories of real estate loans, volume and category type as a percentage of total loans and loan policy limits established for each category:

Category	Volume	Actual Percentage	Policy Percentage
Agricultural	$ 29,422	5.43%	20.00%
Land Acquisition Development & Commercial Construction	12,987	2.40%	10.00%
Commercial Permanent	151,183	27.92%	30.00%
Residential Construction	49,637	9.17%	

			10.00%
Residential Mortgage	160,774	29.69%	40.00%

-22-

REPOSSESSED REAL PROPERTY:

The book value of repossessed real property held by Bancshares was $129 thousand at December 31, 2005 compared to $337 thousand in 2004 and $535 thousand in 2003. Foreclosed properties have been listed with local realtors and a plan to market those properties is in place.

POLICY GUIDELINES

Loan Administration sets policy guidelines approved by the Board of Directors regarding portfolio diversification and underwriting standards. Loan policy also includes board-approved guidelines for collateralization, loans in excess of loan to value (LTV) limits, maximum loan amount, and maximum maturity and amortization period for each loan type. Policy guidelines for loan to value ratios and maturities related to various collateral are as follows:

Collateral	**Maximum Amortization**	**Maximum LTV**
Real Estate	Various (see discussion)	Various (see discussion)
Equipment**	5 Years	75%
Inventory	5 Years	50%
Accounts Receivable	5 Years	75%
Livestock	5 Years	80%
Crops	1 Year	50%

Securities*10 Years

75% (Listed)

50% (Unlisted)

* Maximum LTV on margin stocks (stocks not listed on a national exchange) when proceeds are used to purchase or carry same, shall be 50%.** New farm equipment can be amortized over seven years.

Diversification of the real estate portfolio is a necessary and desirable goal of the real estate loan policy. In order to achieve and maintain a prudent degree of diversity, given the composition of the market area and the general economic state of the market area, Bancshares will strive to maintain