AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012

FIRST CITIZENS BANCSHARES, INC.

One First Citizens Place
Dyersburg, Tennessee 38024

First Citizens Bancshares, Inc.

Management's Annual Report on Internal Control Over Financial Reporting

December 31, 2012

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance to management and the Company's Board of Directors regarding the preparation and fair presentation of the Company's annual financial statements in accordance with generally accepted accounting principles.

Inherent limitations exist in the effectiveness of any internal control structure, including the possibility of human error and circumvention of controls. Accordingly, even effective internal control can only provide reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, based on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

Alexander Thompson Arnold, PLLC, the Company's independent registered public accounting firm, has audited the Company's consolidated financial statements and issued an attestation report on the Company's internal control over financial reporting. This report appears beginning on the next page.

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Independent Auditor's Report

Board of Directors and Shareholders of
First Citizens Bancshares, Inc. and subsidiaries
Dyersburg, Tennessee 38024

We have audited the accompanying consolidated financial statements of First Citizens Bancshares, Inc., and subsidiaries, which comprise the balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited First Citizens Bancshares, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting

First Citizens Bancshares, Inc. and subsidiaries' management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation and maintenance of controls relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on First Citizens Bancshares, Inc. and subsidiaries' internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of First Citizens Bancshares, Inc., and subsidiaries as of December 31, 2012, and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, First Citizens Bancshares, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Alexander Thompson Arnold PLLC

Alexander Thompson Arnold PLLC
Dyersburg, Tennessee
February 28, 2013

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
ASSETS		
Cash and due from banks	$ 23,120	$ 19,460
Federal funds sold	5,079	14,673
Cash and cash equivalents	28,199	34,133
Interest-bearing deposits in other banks	41,849	40,138
Investment securities:		
Available-for-Sale, stated at market	466,419	365,465
Loans (excluding unearned income of $326 at December 31, 2012 and $334 at December 31, 2011)	549,452	527,699
Less: Allowance for loan losses	7,955	8,039
Net loans	541,497	519,660
Loans held-for-sale	4,678	2,616
Federal Home Loan Bank and Federal Reserve Bank stocks, at cost	5,684	5,684
Premises and equipment	34,316	29,553
Accrued interest receivable	5,021	5,306
Goodwill	13,651	11,825
Other intangible assets	426	35
Other real estate owned	8,580	11,073
Bank-owned life insurance policies	21,958	21,438
Other assets	6,047	6,623
TOTAL ASSETS	**$1,178,325**	**$1,053,549**
LIABILITIES AND EQUITY		
Non-interest bearing demand deposits	$ 139,646	$119,689
Interest bearing time deposits	360,701	341,141
Interest bearing savings deposits	464,492	394,842
Total deposits	964,839	855,672
Securities sold under agreements to repurchase	38,844	36,471
Federal funds purchased and other short-term borrowings	–	–
Other borrowings	48,719	47,328
Other liabilities	11,783	10,610
Total liabilities	1,064,185	950,081

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (cont'd)
DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
Equity		
Common stock, no par value - 10,000,000 authorized; 3,717,593 issued and outstanding at December 31, 2012 and 3,717,593 issued and outstanding at December 31, 2011	$ 3,718	$ 3,718
Surplus	15,331	15,331
Retained earnings	85,771	76,586
Accumulated other comprehensive income	10,291	8,801
Total common stock and retained earnings	115,111	104,436
Less-109,839 treasury shares, at cost as of December 31, 2012 and 109,739 treasury shares, at cost as of December 31, 2011	3,026	3,023
Total shareholders' equity	112,085	101,413
Non-controlling (minority) interest in consolidated subsidiary	2,055	2,055
Total equity	114,140	103,468
TOTAL LIABILITIES AND EQUITY	**$1,178,325**	**$1,053,549**

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands, except per share data)

	2012	2011	2010
Interest income			
Interest and fees on loans	$32,277	$34,159	$36,085
Interest and dividends on investment securities:			
Taxable	7,004	6,622	6,038
Tax-exempt	4,489	4,422	3,940
Dividends	218	210	224
Other interest income	123	93	60
Total interest income	**44,111**	**45,506**	**46,347**
Interest expense			
Interest on deposits	5,919	7,692	8,710
Interest on borrowings	1,126	1,241	2,815
Other interest expense	332	423	485
Total interest expense	**7,377**	**9,356**	**12,010**
Net interest income	**36,734**	**36,150**	**34,337**
Provision for loan losses	**650**	**2,425**	**7,000**
Net interest income after provision for loan losses	36,084	33,725	27,337
Non-interest income			
Mortgage banking income	1,497	830	1,116
Income from fiduciary activities	836	803	785
Service charges on deposit accounts	7,287	6,634	6,923
Brokerage fees	1,260	1,263	1,080
Earnings on bank owned life insurance	606	736	677
Loss on sale of other real estate owned	(1,162)	(1,374)	(1,156)
Gain on sale of available-for-sale securities	680	943	1,884
Gain on disposition of property	–	273	–
Income from insurance activities	752	899	913
Other non-interest income	698	666	637
Total non-interest income	**12,454**	**11,673**	**12,859**
Total other-than temporary impairment losses	–	347	1,567
Portion of loss recognized in other comprehensive income (before taxes)	–	(299)	(978)
Net impairment losses recognized in earnings	**–**	**48**	**589**

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (cont'd)
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands, except per share data)

	2012	2011	2010
Other non-interest expense:			
Salaries and employee benefits	$17,432	$16,700	$15,417
Net occupancy expense	1,672	1,676	1,759
Depreciation	1,822	1,780	1,792
Data processing expense	1,840	1,741	1,591
Legal and professional fees	706	653	441
Stationary and office supplies	220	217	221
Amortization of intangibles	35	85	85
Advertising and promotions	714	662	703
Premiums for FDIC insurance	570	823	1,200
Expenses related to other real estate owned	455	682	888
ATM related fees and expenses	891	915	784
Other non-interest expense	4,660	4,138	3,829
Total other non-interest expense	**31,017**	**30,072**	**28,710**
Net income before income taxes	**17,521**	**15,278**	**10,897**
Provision for income tax expense	**4,006**	**3,416**	**2,022**
Net income	**$13,515**	**$11,862**	**$ 8,875**
Earnings per common share:			
Net income per common share	**$3.75**	**$3.28**	**$2.45**
Weighted average shares outstanding	**3,607**	**3,614**	**3,626**

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands)

	2012	2011	2010
Net income	**$13,515**	**$11,862**	**$8,875**
Other comprehensive income, net of tax:			
Net change in unrealized gains on cash flow hedge	-	-	69
Net change in unrealized gains (losses) on available-for-sale securities	1,490	6,905	(2,429)
Total other comprehensive income (loss), net of tax	1,490	6,905	(2,360)
Total comprehensive income	**$15,005**	**$18,767**	**$6,515**

Related tax effects allocated to each component of other comprehensive income were as follows:

	Before-tax Amount	Tax Expense Or Benefit	Net-of-tax Amount
Year ended December 31, 2012:			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains arising during the period	$3,095	$(1,185)	$1,910
Reclassification adjustments for net gains included in net income	(680)	260	(420)
Net unrealized gains (losses)	$2,415	$ (925)	$1,490
Year ended December 31, 2011:			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains arising during the period	$12,084	$(4,627)	$7,457
Reclassification adjustments for net gains included in net income	(895)	343	(552)
Net unrealized gains (losses)	$11,189	$(4,284)	$6,905
Year ended December 31, 2010:			
Unrealized gain (loss) on cash flow hedge	$ 111	$ (42)	$ 69
Unrealized gains (losses) on available-for-sale securities:			
Unrealized (losses) gains arising during the period	(2,641)	1,011	(1,630)
Reclassification adjustments for net gains included in net income	(1,295)	496	(799)
Unrealized (losses) gains on available-for-sale securities, net	(3,936)	1,507	(2,429)
Net unrealized losses	$(3,825)	$ 1,465	$(2,360)

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands, except per share data)

	Common Stock				Accumulated Other Comprehensive		Non-Controlling	
	Shares	Amount	Surplus	Retained Earnings	Income	Treasury Stock	Interests	Total
	(#)	($)	($)	($)	($)	($)	($)	($)
Balance January 1, 2010	3,718	$3,718	$ 15,331	$ 63,448	$ 4,256	($ 2,441)	$ 55	$ 84,367
Net income, year ended December 31, 2010				8,875				8,875
Adjustment of unrealized loss on securities available-for-sale, net of tax					(2,429)			(2,429)
Adjustment of unrealized gain on cash flow hedge, net of tax					69			69
Cash dividends paid - $1.00 per share				(3,627)				(3,627)
Treasury stock transitions – net						24		24
Sale of subsidiary preferred shares to noncontrolling interest							2,000	2,000
Balance December 31, 2010	3,718	$3,718	$ 15,331	$ 68,696	$ 1,896	$ (2,417)	$ 2,055	$ 89,279
Net income, year ended December 31, 2011				11,862				11,862
Adjustment of unrealized gain on securities available-for-sale, net of tax					6,905			6,905
Cash dividends paid - $1.10 per share				(3,972)				(3,972)
Treasury stock transitions – net						(606)		(606)
Balance December 31, 2011	3,718	$3,718	$ 15,331	$76,586	$ 8,801	$ (3,023)	$ 2,055	$ 103,468
Net income, year ended December 31, 2012				13,515				13,515
Adjustment of unrealized gain on securities available-for-sale, net of tax					1,490			1,490
Cash dividends paid - $1.20 per share				(4,330)				(4,330)
Treasury stock transitions – net						(3)		(3)
Balance December 31, 2012	3,718	$3,718	$ 15,331	$85,771	$ 10,291	$ (3,026)	$ 2,055	$ 114,140

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands)

	2012	2011	2010
Operating activities			
Net income	$13,515	$11,862	$ 8,875
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	650	2,425	7,000
Provision for depreciation	1,822	1,780	1,792
Provision for amortization of intangibles	35	85	85
Deferred income taxes	(102)	(10)	65
Gains on sale or call of investment securities	(680)	(943)	(1,884)
Impairment losses on securities recorded in earnings	-	48	589
Net losses on sale or write down of other real estate owned	1,162	1,374	1,156
(Gain) on disposition of property	-	(273)	0
Net (increase) decrease in loans held-for-sale	(2,062)	161	(36)
(Increase) decrease in accrued interest receivable	285	(91)	190
Decrease in accrued interest payable	(35)	(60)	(244)
Increase (decrease) in cash surrender value of bank-owned life insurance policies	(520)	218	(540)
Net (increase) decrease in other assets	(2,502)	884	375
Net increase in other liabilities	1,747	1,364	71
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,315	18,824	17,494
Investing activities			
Increase in interest-bearing deposits in other banks	(1,711)	(33,867)	(2,496)
Proceeds of maturities of held-to-maturity investment securities	-	-	-
Proceeds of paydowns and maturities of available-for-sale investment securities	69,546	52,408	69,296
Proceeds of sales of available-for-sale investment securities	34,615	38,523	62,304
Purchases of available-for-sale investment securities	(203,237)	(150,045)	(178,964)
(Increase) decrease in loans – net	(22,306)	14,502	23,224
Proceeds from sale of other real estate owned	1,309	5,409	5,043
Proceeds from disposition of premises and equipment	-	328	-
Proceeds from sales of premises and equipment	(6,063)	(1,120)	(1,535)
NET CASH USED BY INVESTING ACTIVITIES	(127,847)	(73,862)	(23,128)

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands)

	2012	2011	2010
Financing activities			
Net increase (decrease) in demand deposits	19,957	19,559	(375)
Net increase in savings accounts	69,650	71,763	27,880
Net increase (decrease) in time deposits	19,560	(27,495)	12,194
Net increase (decrease) in short-term borrowings	2,373	1,162	(2,320)
Issuance of other borrowings	10,000	9,000	10,000
Payment of principal on other borrowings	(8,609)	(13,931)	(33,023)
Cash dividends paid	(4,330)	(3,972)	(3,627)
Treasury stock transactions – net	(3)	(606)	24
NET CASH PROVIDED BY FINANCING ACTIVITIES	108,598	55,480	10,753
Increase (decrease) in cash and cash equivalents	($5,934)	$ 442	$ 5,119
Cash and cash equivalents at beginning of year	34,133	33,691	28,572
Cash and cash equivalents at end of year	$28,199	$34,133	$33,691
Supplemental cash flow information:			
Interest paid	$7,412	$9,356	$12,234
Income taxes paid	4,250	2,900	2,816
Supplemental noncash disclosures:			
Transfers from loans to other real estate owned	1,261	3,565	11,691
Transfers from other real estate owned to loans	1,442	727	1,785

Note: See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The accounting and reporting policies of First Citizens Bancshares, Inc., and subsidiaries (the "Company") conform to generally accepted accounting principles ("GAAP"). The significant policies are described as follows:

Basis of Presentation

The Consolidated Financial Statements include all accounts of the Company and its subsidiary, First Citizens National Bank (the "Bank"). First Citizens (TN) Statutory Trusts III and IV are reported under the equity method in accordance with GAAP for Variable Interest Entities for all periods presented. These investments are included in Other Assets and the proportionate share of income (loss) is included in other non-interest income. The Bank also has two wholly-owned subsidiaries, First Citizens Financial Plus, Inc. and First Citizens Investments, Inc., which are consolidated into its financial statements. The Company's investment in these subsidiaries is reflected on the Company's condensed balance sheet. See Note 22 for more information.

The Bank has a 50% ownership in two insurance subsidiaries, both of which are accounted for using the equity method. White and Associates/First Citizens Insurance, LLC is a general insurance agency offering a full line of insurance products. First Citizens/White and Associates Insurance Company's principal activity is credit insurance. The investment in these subsidiaries is included in Other Assets on the Consolidated Balance Sheets presented in this report and earnings from these subsidiaries are recorded in Other Income on the Consolidated Statements of Income.

The principal activity of First Citizens Investments, Inc. is to acquire and sell investment securities and collect income from the securities portfolio. First Citizens Holdings, Inc., a wholly owned subsidiary of First Citizens Investments, Inc., acquires and sells certain investment securities, collects income from its portfolio, and owns First Citizens Properties, Inc., a real estate investment trust. First Citizens Properties, Inc. is a real estate investment trust organized and existing under the laws of the state of Maryland, the principal activity of which is to invest in participation interests in real estate loans made by the Bank and provide the Bank with an alternative vehicle for raising capital. First Citizens Holdings, Inc. owns 100% of the outstanding common stock and 60% of the outstanding preferred stock of First Citizens Properties, Inc. Directors, executive officers and certain employees and affiliates of the Bank own approximately 40% of the preferred stock which is reported as Noncontrolling Interest in Consolidated Subsidiary in the Consolidated Financial Statements of the Company. Net income attributable to the noncontrolling interest is included in Other Non-Interest Expense on the Consolidated Statements of Income and is not material for any of the periods presented.

The Company has two additional wholly owned subsidiaries, First Citizens (TN) Statutory Trust III and First Citizens (TN) Statutory Trust IV. The purpose and activities of these trusts are further discussed in Note 13.

All significant inter-company balances and transactions are eliminated in consolidation. Certain balances have been reclassified to conform to current year presentation.

Nature of Operations

The Company and its subsidiaries provide a wide variety of commercial banking services to individuals and corporate customers in the mid-southern United States with a concentration in West Tennessee. The Company's primary products are checking and savings deposits and residential, commercial and consumer lending.

Basis of Accounting

The Consolidated Financial Statements are presented using the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the fair value of investment securities, determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and determination of fair values associated with impairment testing of goodwill. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Estimates and assumptions used in goodwill impairment testing are made based on prevailing market factors, historical earnings and multiples and other factors.

Cash Equivalents

Cash equivalents include amounts due from banks which do not bear interest and federal funds sold. Generally, federal funds are purchased or sold for one-day periods.

Interest-Bearing Deposits in Other Banks

Interest-bearing deposits in other banks consist of excess balances above the minimum required balance at the Federal Reserve Bank and short-term certificates of deposits ("CDs") held at other banks. The CDs at other banks are held in increments of less than $250,000 and, therefore, are covered by FDIC insurance. Interest income on deposits in banks is reported as Other Interest Income on the Consolidated Statements of Income.

Securities

- Investment securities are classified as follows:
- Held-to-maturity, which includes those investment securities which the Company has the intent and the ability to hold until maturity;
- Trading securities, which include those investments that are held for short-term resale; and
- Available-for-sale, which includes all other investment securities.

Held-to-maturity securities are reflected at cost, adjusted for amortization of premiums and accretion of discounts using methods which approximate the interest method. Available-for-sale securities are carried at fair value, and unrealized gains and losses are recognized as direct increases or decreases to accumulated other comprehensive income except for other-than-temporary impairment losses that are required to be charged against earnings. The credit portion of other-than-temporary impairment losses is recorded against earnings and is separately stated on the Consolidated Statements of Income. Trading securities, where applicable, are carried at fair value, and unrealized gains and losses on these securities are included in net income.

Realized gains and losses on sale or call of investment securities transactions are determined based on the specific identification method and are included in net income.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Servicing rights are not retained when mortgage loans are sold. Income from loans held for sale is reported in Mortgage Banking Income, which is included in Non-Interest Income in the Consolidated Financial Statements.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reflected on the Consolidated Balance Sheets at the unpaid principal amount less the allowance for loan losses and unearned interest and fees. Interest on loans is recorded on an accrual basis unless it meets criteria to be placed on non-accrual status. The Bank's policy is to not accrue interest or discount on (i) any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, (ii) any asset for which payment in full of interest or principal is not expected or (iii) any asset upon which principal or interest has been in default for a period of 90 days or more unless it is both well-secured and in the process of collection. For purposes of applying the 90 days past due test for non-accrual of interest, the date on which an asset reaches non-accrual status is determined by its contractual term. A debt is deemed well-secured if it is secured by collateral in the form of liens or pledges of real or personal property, including securities that have a realizable value sufficient to discharge the debt (including accrued interest) in full, considered to be proceeding in due course either through legal action, including judgment enforcement procedures or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status. Unpaid interest on loans placed on non-accrual status is reversed from income and further accruals of income are not usually recognized. Subsequent collections related to impaired loans are usually credited first to principal and then to previously uncollected interest.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans evaluated on an individual basis for impairment. For each loan evaluated individually that is determined to be impaired, a specific allocation to the allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. The general component of the allowance is determined based on loans evaluated on a pooled basis which consist of non-impaired loans and pools of loans with similar characteristics that are not evaluated individually for impairment.

Loans that meet the criteria for individual impairment analysis are those loans or borrowing relationships with current outstanding principal balance greater than or equal to $250,000 at the measurement date and have an internal rating of "Grade 6" or higher (generally characterized as "Substandard" or worse). Once identified for individual analysis, then a loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length of delay, reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or fair value of the collateral if the loan is collateral dependent. The majority of the Company's impaired loans is secured by real estate and considered collateral-dependent. Therefore, impairment losses are primarily based on the fair value of the underlying collateral (usually real estate).

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors. Loans are pooled together based on the type of loans and internal risk ratings. Risk factors for each pool are developed using historical charge-offs for the past three years. The risk factors are then adjusted based on current conditions of the loan portfolio and lending environment that may result in future losses differing from historical patterns. Such factors include, but are not limited to:

- Changes in underlying collateral securing the loans;
- Changes in lending policies and procedures including changes in underwriting, collection, charge-off and recovery practices;
- Changes in economic and business conditions that affect the collectability of the portfolio;
- Changes in the nature and volume of the portfolio;
- Changes in the experience, ability and depth of lending management and other related staff;
- Changes in the volume and severity of past due loans, volume of non-accruals, and/or problem loans;
- Changes in the quality of the Company's loan review system;
- Existence and effects of any concentration of credit and changes in the level of concentrations; and
- The effects of other external factors such as competition, legal or regulatory requirements.

The risk factors for loans evaluated collectively are also adjusted based on the level of risk associated with the internal risk ratings of the loans. Loans rated Grade 1 are considered low risk and have the lowest risk factors applied. Loans rated Grades 2 and 3 have an average level of risk. Loans rated Grade 4 and 5 have a marginal level of risk slightly higher than Grades 2 and 3. Loans rated Grade 6 or higher have above average risk and therefore have higher risk factors applied to that portion of the portfolio.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using straight-line and accelerated methods for both financial reporting and income tax purposes. Expenditures for maintenance and repairs are charged against income as incurred. Cost of major additions and improvements are capitalized and depreciated over the estimated useful life of the addition or improvement.

Other Real Estate Owned

Real estate acquired through foreclosure is separately stated on the Consolidated Balance Sheets as Other Real Estate Owned and recorded at the lower of cost or fair value less cost to sell. Adjustments made at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred in connection with ownership, subsequent adjustments to book value, and gains and losses upon disposition are included in other non-interest expenses. Adjustments to net realizable value subsequent to acquisition are made at least annually if necessary based on appraisal.

Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as collateralized financing transactions, represent the purchase of interests in securities by banking customers and are recorded at the amount of cash received in connection with the transaction. Daily repurchase agreements are settled on the following business day and fixed repurchase agreements have various fixed terms. All securities sold under agreements to repurchase are collateralized by certain pledged securities, generally U.S. government and federal agency securities, and are held in safekeeping by the purchasing financial institution. These transactions are not deposits and, therefore, are not covered by FDIC insurance. Securities sold under agreements to repurchase are reported separately on the Company's Consolidated Balance Sheets and interest expense related to these transactions is reported on the Company's Consolidated Statements of Income as Other Interest Expense.

Income Taxes

The Company uses the accrual method of accounting for federal and state income tax reporting. Deferred tax assets or liabilities are computed for significant differences in financial statement and tax bases of assets and liabilities, which result from temporary differences in financial statement and tax accounting. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Provision for income taxes is made on a separate income tax return basis for each entity included in the Consolidated Financial Statements.

Interest Income and Fees on Loans

Interest income on commercial and real estate loans is computed on the basis of daily principal balance outstanding using the accrual method. Interest on installment loans is credited to operations by the level-yield method. Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Loans may be placed on non-accrual status at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on non-accrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying to return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Fees on loans are generally recognized in earnings at the time of origination as they are generally offset by related expenses also incurred at origination. Certain fees such as commitment fees are deferred and amortized over the life of the loan using the interest method.

Net Income per Share of Common Stock

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, after giving retroactive effect to stock dividends and stock splits.

Income from Fiduciary Activities

Income from fiduciary activities is recorded on an accrual basis.

Advertising and Promotions

The Company's policy is to charge advertising and promotions to expenses as incurred.

Fair Value

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company measures fair value under guidance provided by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. ASC 820 does not expand the use of fair value in any new circumstances but clarifies the principle that fair value should be based on assumptions that market participants would use when pricing the asset or liability. ASC 820 outlines the following three acceptable valuation techniques may be used to measure fair value:

a. Market approach—The market approach uses prices and other relevant information generated by market transactions involving identical or similar assets or liabilities. This technique includes matrix pricing that is a mathematical technique used principally to value debt securities without relying solely on quoted prices for specific securities but rather by relying on securities' relationship to other benchmark quoted securities.

b. Income approach—The income approach uses valuation techniques to convert future amounts such as earnings or cash flows to a single present discounted amount. The measurement is based on the value indicated by current market expectations about those future amounts. Such valuation techniques include present value techniques, option-pricing models (such as the Black-Scholes formula or a binomial model), and multi-period excess earnings method (used to measure fair value of certain intangible assets).

c. Cost approach—The cost approach is based on current replacement cost which is the amount that would currently be required to replace the service capacity of an asset.

Valuation techniques are selected as appropriate for the circumstances and for which sufficient data is available. Valuation techniques are to be consistently applied, but a change in a valuation technique or its application may be made if the change results in a measurement that is equally or more representative of fair value under the circumstances. Revisions resulting from a change in valuation technique or its application are accounted for as a change in accounting estimate which does not require the change in accounting estimate to be accounted for by restating or retrospectively adjusting amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.

ASC 820 also establishes a hierarchy that prioritizes information used to develop those assumptions. The level in the hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company considers an input to be significant if it drives more than 10% of the total fair value of a particular asset or liability. The hierarchy is as follows:

Level 1 Inputs (Highest ranking): Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs may include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted market prices that are observable for the assets and liabilities such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Inputs (Lowest ranking): Unobservable inputs for determining fair values of assets and liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets and liabilities.

Assets and liabilities may be measured for fair value on a recurring basis (daily, weekly, monthly or quarterly) or on a non-recurring basis in periods subsequent to initial recognition. Recurring valuations are measured regularly for investment securities and derivatives (if any). Loans held for sale, OREO and impaired loans are measured at fair value on a non-recurring basis and do not necessarily result in a change in the amount recorded on the Consolidated Balance Sheets. Generally, these assets have non-recurring valuations that are the result of application of other accounting pronouncements that require the assets be assessed for impairment or at the lower of cost or fair value. Fair values of loans held for sale are considered Level 2. Fair values for OREO and impaired loans are considered Level 3. See Note 20 for more information.

The Company obtains fair value measurements for securities and derivatives (if any) from a third party vendor. The Company's cash flow hedge and the majority of the available-for-sale securities are valued using Level 2 inputs. Collateralized debt obligation securities that are backed by trust preferred securities and account for less than 1% of the available-for-sale securities portfolio are valued using Level 3 inputs. The fair value measurements reported in Level 2 are primarily matrix pricing that considers observable data (such as dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and terms and conditions of bonds, and other factors). Fair value measurements for pooled trust-preferred securities are obtained through the use of valuation models that include unobservable inputs which are considered Level 3. See additional discussion of valuation techniques and inputs in Note 20.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

The Company utilizes ASC 820, which permits the Company to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions enabling the Company to record identical financial assets and liabilities at fair value or by another measurement basis permitted under GAAP, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments.

Subsequent Events

The Company has reviewed subsequent events through February 28, 2013.

NOTE 2 – CASH RESERVES AND INTEREST-BEARING DEPOSITS IN OTHER BANKS

The Bank maintains cash reserve balances as required by the Federal Reserve Bank. Average required balances during both 2012 and 2011 were approximately $500,000. Amounts above the required minimum balance are reported as Interest-Bearing Deposits in Other Banks on the Consolidated Balance Sheets. Balances in excess of required reserves held at the Federal Reserve Bank as of December 31, 2012 and 2011 were $39.7 million and $38.3 million, respectively. Interest-bearing deposits in other banks also include short-term CDs held in increments that are within FDIC insurance limits and totaled $2.1 million as of December 31, 2012 and $1.6 million as of December 31, 2011.

NOTE 3 – INVESTMENT SECURITIES

The following tables reflect amortized cost, unrealized gains, unrealized losses and fair value of available-for-sale investment securities for the dates presented (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2012:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$339,407	$ 7,265	$ (220)	$346,452
Obligations of states and political subdivisions	108,252	10,935	(44)	119,143
All other	2,085	46	(1,307)	824
Total investment securities	$449,744	$18,246	$(1,571)	$466,419
As of December 31, 2011:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$242,459	$ 6,793	$ (12)	$249,240
Obligations of states and political subdivisions	106,554	9,083	(3)	115,634
All other	2,194	15	(1,618)	591
Total investment securities	$351,207	$15,891	$(1,633)	$365,465

There were no securities categorized as trading or held-to-maturity as of December 31, 2012 or 2011. At December 31, 2012 and 2011, investment securities were pledged to secure government, public and trust deposits as follows (in thousands):

	Amortized Cost	Fair Value
2012	$197,326	$204,467
2011	$189,728	$196,675

The following table summarizes contractual maturities of available-for-sale securities as of December 31, 2012 (in thousands):

	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 2,653	$ 2,726
After one year through five years	10,435	11,242
After five years through ten years	50,151	54,072
After ten years*	386,482	398,310
Total debt securities	449,721	466,350
Equity securities	23	69
Total securities	$449,744	$466,419

* Of the $398 million in this category, $335 million consisted of mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO"), which are presented based on contractual maturities. However, the remaining lives of such securities are expected to be much shorter due to anticipated payments.

Sales and realized gains on sales of available-for-sale securities for the years ended December 31, 2012, 2011 and 2010 are presented as follows (in thousands):

	Gross Sales	Gross Gains	Gross Losses	Net Gains
2012	$34,615	$ 680	$ -	$ 680
2011	$38,523	$ 943	$ -	$ 943
2010	$62,304	$1,884	$ -	$ 1,884

The following table presents information on available-for-sale securities with gross unrealized losses at December 31, 2012, aggregated by investment category and the length of time that the individual securities have been in a continuous loss position (in thousands):

	Less Than 12 Months		Over 12 Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government agencies and corporations	$(220)	$70,962	$ -	$ -	$ (220)	$70,962
Obligations of states and political subdivisions	(44)	2,837	-	-	(44)	2,837
Other debt securities	-	-	(1,307)	755	(1,307)	755
Total securities with unrealized losses	$(264)	$73,799	$(1,307)	$755	$(1,571)	$74,554

In reviewing the investment portfolio for other-than-temporary impairment of individual securities, consideration is given but not limited to (1) the length of time in which fair value has been less than cost and the extent of the unrealized loss, (2) the financial condition of the issuer, and (3) the positive intent and ability of the Company to maintain its investment in the issuer for a time that would provide for any anticipated recovery in the fair value.

As of December 31, 2012, the Company had 21 debt securities with unrealized losses. The Company did not intend to sell any such securities in an unrealized loss position and it was more likely than not that the Company would not be required to sell the debt securities prior to recovery of costs. Of the 21 debt securities, three securities were other debt securities that had been in an unrealized loss position for greater than 12 months and accounted for 83% of the unrealized gross losses as of December 31, 2012. The remaining 18 bonds had been in an unrealized loss position for less than 12 months and consisted of nine obligations of state and political subdivisions and nine U.S. government agency collateralized mortgage obligations (CMOs). The securities in an unrealized loss position as of December 31, 2012, were evaluated for other-than-temporary impairment. In analyzing reasons for the unrealized losses, management reviews any applicable industry analysts' reports and considers various factors including, but not limited to, whether the securities are issued by the federal government or its agencies, and whether downgrades of bond ratings have occurred. With respect to unrealized losses on municipal and agency securities and the analysis performed relating to the securities, management believes that declines in market value were not other-than-temporary at December 31, 2012. The unrealized losses on the agency and municipal securities have not been recognized for other-than-temporary impairment.

The Company's three corporate bonds with gross unrealized loss totaling $1.3 million as of December 31, 2012 are pooled collateralized debt obligation securities that are backed by trust-preferred securities ("TRUP CDOs") issued by banks, thrifts and insurance companies. These three bonds were rated below investment grade (BBB) by Moody's Investors Services and/or Standard and Poor's Ratings Services at December 31, 2012.

At December 31, 2012, the three TRUP CDOs had fair market value of approximately $755,000 and an aggregate book value of $2.1 million. Each of the three are the mezzanine or "B" class tranches. One of the three bonds referred to as I-Pretsl IV had a fair value of approximately $349,000 and a book value of $1 million with the unrealized loss reflected in accumulated other comprehensive income as of December 31, 2012. This bond had deferrals totaling 9.87% of performing collateral and no defaults as of December 31, 2012 compared to 8.4% as of December 31, 2011. This bond has not experienced an adverse change in projected cash flows as quarterly testing to date for this bond yielded present value of projected cash flows above book value. Therefore, no other-than-temporary impairment has been recognized to date on this bond.

The second of the three TRUP CDOs is referred to as Pretsl I and had a market value of approximately $372,000 and book value of approximately $839,000 as of December 31, 2012. Prestl I was recognized for other-than-temporary impairment during 2010 but did not have additional impairment recognized against earnings during 2011 or 2012. In 2010, the credit component of other-than-temporary impairment on this security recognized against earnings totaled approximately $425,000. The portion of unrealized loss related to factors other than credit that were included in accumulated other comprehensive income net of applicable income taxes totaled approximately $467,000 and $514,000 as of December 31, 2012 and 2011, respectively. As of December 31, 2012, Pretsl I had deferrals and defaults totaling 38.98% of performing collateral compared to 34.6% as of December 31, 2011. Pretsl I was on non-accrual status as of December 31, 2012, 2011 and 2010.

The third of the TRUP CDOs is referred to as Pretsl X and had a market value of approximately $34,000 and book value of approximately $282,000 as of December 31, 2012. Pretsl X was recognized for other-than-temporary impairment because of adverse changes in present value of projected cash flows during 2010 and 2011 but no additional other than temporary impairment charges were recognized in 2012. The credit component of other-than-temporary impairment on this bond reflected in earnings totaled approximately $48,000 and $158,000 for the years ended December 31, 2011 and 2010, respectively. The gross unrealized loss related to factors other than credit that was reflected in accumulated other comprehensive income net of applicable taxes totaled approximately $248,000 and $299,000 as of December 31, 2012 and 2011, respectively. Pretsl X had deferrals and defaults totaling 40.5% of performing collateral as of December 31, 2012 compared to 50.0% as of December 31, 2011. Pretsl X was on non-accrual status as of December 31, 2012, 2011 and 2010.

The credit component of unrealized losses (if any) for a given period was determined based on the difference between the book value of the security and the present value of projected cash flows at current period end compared to the prior period end.

The following table provides additional information regarding the Company's three investments in TRUP CDOs as of December 31, 2012:

Description	Class	Actual Over Collateral Ratio(1)	Required Over Collateral Ratio(2)	Actual Over
Pretsl I	Mezzanine	83.4%	N/A(3)	N/A
Pretsl X	B-2	74.3%	N/A(3)	N/A
I-Pretsl IV	B-1	111.6%	106.0%	5.7%

(1) The Over Collateral ("OC") Ratio reflects the ratio of performing collateral to a given class of bonds and is calculated by dividing the performing collateral by the sum of the current balance of a given class of bonds plus all senior classes.

(2) The Required OC Ratio for a particular class of bonds reflects the required overcollateralization ratio such that cash distributions may be made to lower classes of bonds. If the OC Ratio is less than the Required OC ratio, cash is diverted from the lower classes of bonds to the senior bond classes. For example, if the OC Ratio for Class B is lower than the Class B Required OC Ratio in the transaction, all cash payments will be diverted to the Class B and Class A bonds until such time that he OC Ratio exceeds the Required OC Ratio. The lower class bonds will capitalize interest or pay-in-kind ("PIK").

(3) The Required OC Ratio is not applicable in this case, as interest on these bonds for the applicable tranche is capitalized to the bond or PIK. The Company does not recognize PIK interest for book purposes and has these bonds on non-accrual status.

Security-specific collateral is used in the assumptions to project cash flows each quarter. Issuers in default are assumed at zero recovery. Issuers in deferral are assumed at a 15% recovery beginning two years from deferral date. Forward interest rates are used to project future principal and interest payments allowing the model to indicate impact of over- or under-collateralization for each transaction. Higher interest rates generally increase credit stress on undercollateralized transactions by reducing excess interest (calculated as the difference between interest received from underlying collateral and interest paid on the bonds). The discount rate is based on the original discount margin calculated at the time of purchase based on the purchase price. The original discount margin is then added to the three-month LIBOR to determine the discount rate. The discount rate is then used to calculate the present value for the then-current quarter's projected cash flows. If the present value of the then-current quarter's projected cash flows is less than the prior quarter or less than the then-current book value of the security, that difference is recorded against earnings as the credit component of other-than-temporary impairment.

The Company's equity securities consist primarily of Fannie Mae and Freddie Mac perpetual preferred stock. No impairment charges were recognized on these securities in 2012 or 2011 and approximately $6,000 in other-than-temporary impairment losses were recognized in 2010.

The following is a tabular rollforward of the amount related to the pre-tax credit loss component recognized in earnings on debt securities (in thousands) for the years ended December 31, 2012 and 2011:

	2012	2011
Balance of credit losses on available-for-sale securities	$ -	$ -
Additions for credit losses for which an OTTI loss was not previously recognized	-	-
Additions for credit losses for which an OTTI loss was previously recognized	-	48
Balance of credit losses on available-for-sale securities	$ -	$48

See also discussion of valuation techniques and hierarchy for determining fair value of these securities at Note 20.

GAAP includes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts and for hedging activities. These standards require that derivatives be reported either as assets or liabilities on the Consolidated Balance Sheets and be reflected at fair value. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation.

NOTE 4 – LOANS

Performing and non-performing loans by category were as follows as of December 31, 2012 and 2011 (in thousands):

	Performing	Non-Performing*	Total
December 31, 2012:			
Commercial, financial and agricultural	$ 72,846	$1,168	$ 74,014
Real estate – construction	39,772	726	40,498
Real estate – mortgage	390,709	6,929	397,638
Installment loans to individuals	25,336	92	25,428
All other loans	11,874	-	11,874
Total	$540,537	$8,915	$549,452
December 31, 2011:			
Commercial, financial and agricultural	$ 71,465	$ 709	$ 72,174
Real estate – construction	38,946	1,018	39,964
Real estate – mortgage	378,006	5,928	383,934
Installment loans to individuals	27,766	261	28,027
All other loans	3,600	-	3,600
Total	$519,783	$7,916	$527,699

*Non-Performing loans consist of loans that are on non-accrual status and loans 90 days past due and still accruing interest.

An aging analysis of loans outstanding by category as of December 31, 2012 and 2011 was as follows (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
As of December 31, 2012:							
Commercial, financial and agricultural	$ 868	$283	$ 825	$1,976	$ 72,038	$ 74,014	$ 55
Real estate – construction	-	-	104	104	40,394	40,498	53
Real estate – mortgage	1,941	641	2,027	4,609	393,029	397,638	261
Installment loans to individuals	137	51	23	211	25,217	25,428	10
All other loans	-	-	-	-	11,874	11,874	-
Total	$2,946	$975	$2,979	$6,900	$542,552	$549,452	$379
As of December 31, 2011:							
Commercial, financial and agricultural	$ 72	$ 72	$ 538	$ 682	$ 71,492	$ 72,174	$ 34
Real estate – construction	539	47	345	931	39,033	39,964	-
Real estate – mortgage	1,481	2,727	2,353	6,561	377,373	383,934	570
Installment loans to individuals	81	30	41	152	27,875	28,027	2
All other loans	-	-	-	-	3,600	3,600	-
Total	$2,173	$2,876	$3,277	$8,326	$519,373	$527,699	$606

Non-accrual loans as of December 31, 2012 and 2011 by category were as follows (in thousands):

	2012	2011
Commercial, financial and agricultural	$1,113	$ 675
Real estate – construction	673	1,018
Real estate – mortgage	6,668	5,358
Installment loans to individuals	82	259
All other loans	-	-
Total	$8,536	$7,310

Credit risk management procedures include assessment of loan quality through use of an internal loan rating system. Each loan is assigned a rating upon origination and the rating may be revised over the life of the loan as circumstances warrant. The rating system utilizes eight major classification types based on risk of loss with Grade 1 being the lowest level of risk and Grade 8 being the highest level of risk. Loans internally rated Grade 1 to Grade 4 are considered "Pass" grade loans with low to average level of risk of credit losses. Loans rated Grade 5 are considered "Special Mention" and generally have one or more circumstances that require additional monitoring but do not necessarily indicate a higher level of probable credit losses. Loans rated Grade 6 or higher are loans with circumstances that generally indicate an above average level of risk for credit losses. Loans by internal risk rating by category as of December 31, 2012 and 2011 were as follows (in thousands):

	Grades 1-4	Grade 5	Grades 6-8	Total
December 31, 2012:				
Commercial, financial and agricultural	$ 72,099	$ 265	$ 1,650	$ 74,014
Real estate – construction	37,743	1,354	1,401	40,498
Real estate – mortgage	377,192	2,903	17,543	397,638
Installment loans to individuals	25,271	8	149	25,428
All other loans	11,874	-	-	11,874
Total	$524,179	$4,530	$20,743	$549,452
December 31, 2011:				
Commercial, financial and agricultural	$ 70,399	$ 423	$ 1,352	$ 72,174
Real estate – construction	36,972	1,113	1,879	39,964
Real estate – mortgage	362,686	4,715	16,533	383,934
Installment loans to individuals	27,701	9	317	28,027
All other loans	3,600	-	-	3,600
Total	$501,358	$6,260	$20,081	$527,699

Information regarding the Company's impaired loans for the years ended December 31, 2012 and 2011 is as follows (in thousands):

	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012:					
With no specific allocation recorded:					
Commercial, financial and agricultural	$ 35	$ 35	N/A	$ 35	$ -
Real estate – construction	458	458	N/A	281	14
Real estate – mortgage	951	951	N/A	778	24
Installment loans to individuals	7	7	N/A	3	-
All other loans	-	-	N/A	-	-
With allocation recorded:					
Commercial, financial and agricultural(1)	$ 985	$ 985	$283	$ 571	$ 6
Real estate – construction(2)	368	368	295	865	-
Real estate – mortgage(3)	5,905	5,905	874	6,038	13
Installment loans to individuals	-	-	-	159	-
All other loans	-	-	-	-	-
Total:					
Commercial, financial and agricultural	$1,020	$1,020	$283	$ 606	$ 6
Real estate – construction	826	826	295	1,146	14
Real estate – mortgage	6,856	6,856	874	6,816	37
Installment loans to individuals	7	7	-	162	-
All other loans	-	-	-	-	-
December 31, 2011:					
With no specific allocation recorded:					
Commercial, financial and agricultural	$ -	$ -	N/A	$ 4	$ -
Real estate – construction	-	-	N/A	168	-
Real estate – mortgage	-	-	N/A	1,677	-
Installment loans to individuals	-	-	N/A	-	-
All other loans	-	-	N/A	-	-
With allocation recorded:					
Commercial, financial and agricultural	$ 500	$ 500	$ 50	$ 538	$ -
Real estate – construction	1,007	1,227	350	1,150	-
Real estate – mortgage	5,132	5,132	427	5,333	31
Installment loans to individuals	158	158	33	182	-
All other loans	-	-	-	-	-
Total:					
Commercial, financial and agricultural	$ 500	$ 500	$ 50	$ 542	$ -
Real estate – construction	1,007	1,227	350	1,318	-
Real estate – mortgage	5,132	5,132	427	7,010	31
Installment loans to individuals	158	158	33	182	-
All other loans	-	-	-	-	-

(1) Impaired total for this category includes troubled debt restructurings with recorded investment totaling approximately $12,000 and a specific allowance of approximately $15,000.
(2) Impaired total for this category includes troubled debt restructurings with recorded investment totaling approximately $368,000 and a specific allowance of approximately $295,000.
(3) Impaired total for this category includes troubled debt restructurings with recorded investment totaling $3.0 million and specific allowance of approximately $530,000.

The Company adopted amendments in Accounting Standards Codification Update ("ASU") No. 2011-01 "Receivables (Topic 310)" ("ASU 2011-01") as of September 30, 2011. As a result, the Company reviewed loans classified as troubled debt restructurings ("TDRs") that had been restructured during the year ended December 31, 2011 and confirmed that TDRs with a balance greater than or equal to $250,000 deemed to be impaired were properly identified as such and reviewed individually for impairment as reported in the impaired loan table above. Loans meeting the criteria to be classified as TDRs with a balance less than $250,000 have historically been reviewed on a collective basis by risk code and loan category. Reassessment of these loans on an individual basis upon adoption of the ASU 2011-01 for impairment did not result in a significant difference in the required allowance, as the aggregate balance of loans reviewed was less than $20,000.

Generally, loans are appropriately risk rated and identified for individual impairment review prior to when the restructure occurs. Thus, in the normal life cycle of a loan, any specific allocations are usually made prior to a formal restructuring or at least at the time of restructuring rather than subsequent to modification. Therefore, adoption of these amendments did not have a material impact on the volume of loans classified as TDRs or the related allowance for loan losses associated with TDRs as of December 31, 2011. Also, TDRs are included in non-accrual loans as reported in the above tables unless the loan has performed according to the modified terms for a length of time sufficient to support placing the loan on accrual status (generally six months). Loans that were restructured during the year ended December 31, 2012 consisted of the following (dollars in thousands):

		2012	
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial, financial and agricultural	7	$ 384	$ 204
Real estate – construction	8	1,370	1,294
Real estate – mortgage	13	3,784	3,453
Installment loans to individuals	13	120	76
All other loans	-	-	-
Total	41	$5,658	$5,027

Modification of the terms of the TDRs reported in the above table did not have a material impact on the consolidated financial statements or to the overall risk profile of the loan portfolio. TDRs modified that re-defaulted in the year ended December 31, 2012 consisted of the following (dollars in thousands):

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:		
Commercial, financial and agricultural	0	$ -
Real estate – construction	1	234
Real estate – mortgage	2	105
Installment loans to individuals	0	-
All other loans	0	-
Total	3	$339

The allowance for loan losses associated with the TDRs totaled approximately $840,000 and $770,000 as of December 31, 2012 and 2011, respectively.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

The following table presents the breakdown of the allowance for loan losses by category and the percentage of each category in the loan portfolio to total loans at December 31 for the years indicated (dollars in thousands):

	2012		2011		2010		2009		2008	
	Amount	% to Total Loans	Amount	% to Total Loans	Amount	% to Total Loans	Amount	% to Total Loans	Amount	% to Total Loans
Commercial, financial and agricultural	$1,588	13.47%	$1,469	13.68%	$ 944	12.10%	$ 959	12.14%	$ 864	13.46%
Real estate – construction	1,563	7.37%	1,614	7.57%	1,295	8.97%	1,148	11.31%	1,399	16.31%
Real estate – mortgage	4,486	72.37%	4,534	72.76%	5,299	72.17%	5,811	69.30%	4,537	62.96%
Installment loans to individuals	285	4.63%	381	5.31%	462	5.77%	694	5.80%	431	6.07%
All other loans	33	2.16%	41	0.68%	28	0.99%	172	1.45%	69	1.20%
Total	$7,955	100.0%	$8,039	100.0%	$8,028	100.0%	$8,784	100.0%	$7,300	100.0%

An analysis of the allowance for loan losses during the years ended December 31 is as follows (in thousands):

	2012	2011	2010
Balance - beginning of year	$8,039	$8,028	$8,784
Provision for loan losses	650	2,425	7,000
Loans charged to allowance	(1,560)	(2,675)	(8,187)
Recovery of loans previously charged off	826	261	431
Net charge-offs	(734)	(2,414)	(7,756)
Balance - end of year	$7,955	$8,039	$8,028

An analysis of the activity in the allowance for loan losses by category for the years ended December 31, 2012 and 2011 is as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Year ended December 31, 2012					
Allowance for loan losses:					
Commercial, financial and agricultural	$1,469	$ (161)	$171	$109	$1,588
Real estate – construction	1,614	(174)	568	(445)	1,563
Real estate – mortgage	4,534	(1,092)	46	998	4,486
Installment loans to individuals	381	(133)	41	(4)	285
All other loans	41	-	-	(8)	33
Total	$8,039	$(1,560)	$826	$650	$7,955

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Year ended December 31, 2011					
Allowance for loan losses:					
Commercial, financial and agricultural	$ 944	$ (837)	$ 81	$1,281	$1,469
Real estate – construction	1,295	(646)	50	915	1,614
Real estate – mortgage	5,299	(944)	68	161	4,534
Installment loans to individuals	462	(185)	62	42	381
All other loans	28	13	-	26	41
Total	$8,028	$(2,675)	$261	$2,425	$8,039

The allowance for loan losses is comprised of allocations for loans evaluated individually and loans evaluated collectively for impairment. The allocations of the allowance for loan losses for outstanding loans by category evaluated individually and collectively were as follows as of December 31, 2012 and 2011 (in thousands):

	Evaluated Individually	Evaluated Collectively	Total
As of December 31, 2012:			
Allowance for loan losses			
Commercial, financial and agricultural	$ 283	$1,305	$1,588
Real estate – construction	295	1,268	1,563
Real estate – mortgage	874	3,612	4,486
Installment loans to individuals	-	285	285
All other loans	-	33	33
Total	$1,452	$6,503	$7,955
Loans			
Commercial, financial and agricultural	$1,020	$ 72,994	$ 74,014
Real estate – construction	826	39,672	40,498
Real estate – mortgage	6,856	390,782	397,638
Installment loans to individuals	7	25,421	25,428
All other loans	-	11,874	11,874
Total	$8,709	$540,743	$549,452
As of December 31, 2011:			
Allowance for loan losses			
Commercial, financial and agricultural	$ 50	$1,419	$1,469
Real estate – construction	350	1,264	1,614
Real estate – mortgage	427	4,107	4,534
Installment loans to individuals	33	348	381
All other loans	-	41	41
Total	$860	$7,179	$8,039
Loans			
Commercial, financial and agricultural	$ 500	$ 71,674	$ 72,174

	Evaluated Individually	Evaluated Collectively	Total
Real estate – construction	1,007	38,957	39,964
Real estate – mortgage	5,132	378,802	383,934
Installment loans to individuals	158	27,869	28,027
All other loans	-	3,600	3,600
Total	$6,797	$520,902	$527,699

NOTE 6 – SECONDARY MORTGAGE MARKET ACTIVITIES

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. There were no such losses for any of the years ended December 31, 2012, 2011 or 2010. There have been no material differences between cost and fair market values of loans held for sale for any of the periods presented.

Servicing rights are not retained on any mortgage loans held for sale. Mortgage banking income included in non-interest income was approximately $1.5 million, $830,000 and $1.1 million for the years ended December 31, 2012, 2011 and 2009, respectively.

NOTE 7 – PREMISES AND EQUIPMENT

Premises and equipment used in the ordinary course of business at December 31 are summarized as follows (dollars in thousands):

	Useful Lives in Years	2012	2011
Land		$ 9,748	$ 8,479
Buildings	5 to 50	32,446	28,748
Furniture and equipment	3 to 20	16,384	14,903
Total premises and equipment		58,578	52,130
Less: accumulated depreciation		24,262	22,577
Net premises and equipment		$34,316	$29,553

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is not amortized but tested at least annually for impairment. No impairment charges were recorded for any periods presented in the Consolidated Financial Statements. There was no activity in goodwill during the years ended December 31, 2011 and 2010. Goodwill totaling $1.8 million was recorded in 2012 in relation to a branch acquisition. Refer to Note 22 for additional information. Total goodwill as of December 31, 2012 was $13.7 million or 1.16% of total assets and 11.96% of total capital.

Other identifiable intangibles consisted of core deposit intangibles being amortized over a ten-year period as of December 31 as follows (in thousands):

	2012	2011
Core deposit intangible	$1,271	$845
Accumulated amortization	(845)	(810)
Net core deposit intangible	$ 426	$ 35

Amortization expense was approximately $35,000 in 2012 and $84,500 per year for 2011 and 2010. Amortization expense is expected to be approximately $42,000 per year for each of the next five years. See also Note 22.

NOTE 9 – OTHER REAL ESTATE OWNED

The carrying value of other real estate owned on the Consolidated Balance Sheets was $8.6 million as of December 31, 2012 compared to $11.1 million as of December 31, 2011. The value of OREO is based on the lower of cost or fair value less cost to sell. Fair value is based on independent appraisals for significant properties and may be adjusted by management as discussed in Note 20.

NOTE 10 – BANK-OWNED LIFE INSURANCE AND IMPUTED INCOME TAX REIMBURSEMENT AGREEMENTS

The Bank has a significant investment in bank-owned life insurance policies ("BOLI") and provides endorsement split dollar life insurance to certain employees in the position of Vice President and higher after one year of service. The cash surrender values of BOLI were $22.0 million and $21.4 million as of December 31, 2012 and 2011, respectively. BOLI are initially recorded at the amount of premiums paid and are adjusted to current cash surrender values. Changes in cash surrender values are recorded in other non-interest income and are based on premiums paid less expenses plus accreted interest income. Earnings on BOLI resulted in non-interest income of approximately $606,000, $736,000, and $677,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Post-retirement death benefits for endorsement split dollar life insurance plans are accounted for in accordance with FASB ASC Subtopic 715-60, "Compensation – Retirement Benefits – Defined Benefit Plans – Postretirement." Expense for accrual of such benefits is reflected in Salaries and Employee Benefits on the Consolidated Statements of Income and was approximately $169,000, $61,000, and $175,000, for the years ended December 31, 2012, 2011 and 2010, respectively. The accrued liability for post-retirement death benefits is included in Other Liabilities on the Consolidated Balance Sheet and totaled $2.5 million and $2.4 million as of December 31, 2012 and 2011, respectively.

Because endorsement split dollar life insurance plans create imputed income to each applicable participant without generating cash to pay the tax expense associated with imputed income, the Bank entered into Imputed Income Tax Reimbursement Agreements with certain officers. The Imputed Income Tax Reimbursement Agreements provide for annual cash payments to the participants until death for the previous tax year in amounts equal to a portion of federal income taxes attributable to (i) the income imputed to the applicable participant on the benefit under the Amended and Restated Split Dollar Agreement and (ii) the additional cash payments under the Imputed Income Tax Reimbursement Agreement. Each participant was 100% vested in benefits provided under Imputed Income Tax Reimbursement Agreements as of January 1, 2008. Service costs are based on the net present value of the sum of payments in accordance with each participant's agreement. Interest accrues monthly at a rate of 7.0%.

Net other post-retirement benefits expense for Imputed Income Tax Reimbursement Agreements was as follows for the years ended December 31 (in thousands):

	2012	2011
Service cost	$ -	$ -
Interest cost	26	26
Net other post-retirement benefits expense	$26	$26

The accumulated post-retirement defined benefit obligation for Imputed Income Tax Reimbursement Agreements was as follows for the years ended December 31 (in thousands):

Accumulated other post-retirement benefit obligation:	2012	2011
Beginning balance	$403	$392
Service cost	-	-
Interest cost	26	26
Benefit payments	(19)	(15)
Ending balance	$410	$403

The accumulated post-retirement benefit obligation was included in Other Liabilities as of December 31, 2012 and 2011 and was equal to the funded status of the plan as of each applicable year-end, as there were no related assets recognized on the Consolidated Balance Sheet for the Imputed Income Tax Reimbursement Agreements.

NOTE 11 – DEPOSITS

Included in deposits shown at December 31 was the following time and savings deposits in denominations of $100,000 to $250,000 and greater than $250,000 (in thousands):

	2012	2011
Time deposits		
Greater than $100,000 but less than $250,000	$105,191	$105,503
Greater than $250,000	100,843	86,234
Savings deposits		
Greater than $100,000 but less than $250,000	$ 97,611	$ 81,087
Greater than $250,000	240,803	197,442

NOW accounts, included in savings deposits on the Consolidated Balance Sheets, totaled $85.5 million as of December 31, 2012 and $76.7 million as of December 31, 2011. Demand deposit balances reclassified as loans consisted of overdrafts totaling approximately $434,000 and $607,000 as of December 31, 2012 and 2011, respectively.

Time deposits were maturing as follows at December 31, 2012 (in thousands):

On or before December 31, 2013	$291,487
On or during year ended December 31, 2014	34,333
On or during year ended December 31, 2015	9,480
On or during year ended December 31, 2016	10,543
During or after year ended December 31, 2017	14,858
	$360,701

NOTE 12 – FEDERAL FUNDS PURCHASED AND OTHER SHORT-TERM BORROWINGS

The Bank has various sources of short-term borrowings, which consist primarily of cash management advances from the FHLB and federal funds purchased from correspondent banks. Short-term borrowings are used to manage seasonal fluctuations in liquidity.

The Bank was an "Option B" bank in regards to the Federal Reserve's Treasury, Tax and Loan Service ("TT&L") and up to $1 million in TT&L payments collected are retainable as a short-term option note. The TT&L program ended as of December 31, 2011 and there was a zero balance on the demand note as of year-end 2011 and 2012.

Cash management advances from FHLB are secured by one-to-four family first mortgages under the blanket collateral pledge agreement that also collateralizes long-term advances from FHLB and have maturities of 90 days or less. See Note 13 for more information about maximum borrowing capacity with FHLB. There were no short-term borrowings outstanding against this line as of December 31, 2012 or 2011.

The Bank has federal fund lines of credit available with four correspondent banks totaling $54.5 million as of December 31, 2012. There were no federal funds purchased as of December 31, 2012 or 2011.

The following tabular analysis presents short-term borrowing year-end balance, maximum month-end balance, annual average and weighted average interest rates for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	2012	2011	2010
Amount outstanding at end of year	$ -	$ -	$1,000
Weighted average interest rate at end of year	–%	–%	–%
Maximum outstanding at any month end	$5,000	$5,000	$1,000
Average outstanding during year	$1,230	$1,666	$667
Weighted average interest rate during year	–%	–%	–%

NOTE 13 – OTHER BORROWINGS

In March 2005, the Company formed a wholly owned subsidiary -- First Citizens (TN) Statutory Trust III. The trust was created as a Delaware statutory trust for the sole purpose of issuing and selling trust preferred securities and using proceeds from the sale to acquire long-term subordinated debentures issued by the Company. The debentures are the sole assets of the trust. The Company owns 100% of the common stock of the trust.

On March 17, 2005, the Company, through First Citizens (TN) Statutory Trust III, sold 5,000 of its floating rate trust preferred securities at a liquidation amount of $1,000 per security for an aggregate amount of $5.0 million. For the period beginning on (and including) the date of original issuance and ending on (but excluding) June 17, 2005, the rate per annum was 4.84%. For each successive period beginning on (and including) June 17, 2005, and each succeeding interest payment date, interest accrues at a rate per annum equal to the three-month LIBOR plus 1.80%. Interest payment dates are March 17, June 17, September 17, and December 17 during the 30-year term. The entire $5.0 million in proceeds was used to reduce other debt at the Company. The Company's obligation under the debentures and related documents constitute a full and unconditional guarantee by the Company of the trust issuer's obligations under the trust preferred securities.

In March 2007, the Company formed a wholly owned subsidiary -- First Citizens (TN) Statutory Trust IV. The trust was created as a Delaware statutory trust for the sole purpose of issuing and selling trust preferred securities and using proceeds from the sale to acquire long-term subordinated debentures issued by the Company. The debentures are the sole assets of the trust. The Company owns 100% of the common stock of the trust.

In March 2007, the Company, through First Citizens (TN) Statutory Trust IV, sold 5,000 of its floating rate trust preferred securities at a liquidation amount of $1,000 per security for an aggregate amount of $5.0 million. For the period beginning on (and including) the date of original issuance and ending on (but excluding) June 15, 2007, the rate per annum was 7.10%. For each successive period beginning on (and including) June 15, 2007, and each succeeding interest payment date, interest accrues at a rate per annum equal to the three-month LIBOR plus 1.75%. Interest payment dates are March 15, June 15, September 15, and December 15 during the 30-year term. The purpose of proceeds was to refinance the debt issued through First Citizens (TN) Statutory Trust II at a lower spread to LIBOR and results in savings of approximately $92,500 annually. First Citizens (TN) Statutory Trust II was dissolved as a result of this transaction. The Company's obligation under the debentures and related documents constitute a full and unconditional guarantee by the Company of the trust issuer's obligations under the trust preferred securities.

Although for accounting presentation the trust preferred securities are presented as debt, the outstanding balance qualifies as Tier I capital subject to the limitation that the amount of the securities included in Tier I Capital cannot exceed 25% of total Tier I capital.

The Company is dependent on the profitability of its subsidiaries and their ability to pay dividends in order to service its long-term debt.

The Bank had secured advances from the FHLB totaling $38.4 million as of December 31, 2012 and $37.1 million as of December 31, 2011. FHLB borrowings are comprised primarily of advances with principal due at call date or maturity date with fixed interest rates ranging from 0.62% to 7.05%. Some of these FHLB borrowings have quarterly call features and maturities ranging from 2013 to 2022. Advances totaling $16 million require repayment if the call feature is exercised. Under the existing and forecasted rate environments, borrowings with call features in place are not likely to be called in the next 12 months. The Bank had one London Interbank Offered Rate ("LIBOR") based variable rate advance totaling $2.5 million with a rate of 0.26% as of December 31, 2012. Also included in the FHLB borrowings total reported above is a pool of smaller balance amortizing advances that totaled $686,000 as of year-end 2012 and $1.0 million as of year-end 2011. These smaller balance advances have rates ranging from 3.34% to 7.05% and maturities range from 2013 to 2019. Obligations are secured by loans totaling $372 million consisting of the Bank's entire portfolio of fully disbursed, one-to-four family residential mortgages, commercial mortgages, farm mortgages, second mortgages and multi-family residential mortgages. The Bank had additional borrowing capacity with the FHLB of $112.3 million as of December 31, 2012.

Annual average volume, rates and maturities of other borrowings for the years ended December 31, 2012 and 2011 were as follows (dollars in thousands):

	Average Volume	Average Interest Rate	Average Maturity
2012			
First Citizens Bancshares, Inc.	$10,310	2.29%	23 years
First Citizens National Bank	39,972	2.23%	4 years
2011			
First Citizens Bancshares, Inc.	$10,310	2.11%	25 years
First Citizens National Bank	37,568	2.50%	3 years

Maturities of principal of other borrowings for the following five years were as follows as of December 31, 2012 (in thousands):

2013	$16,125
2014	2,876
2015	2,741
2016	649
2017	5,569
Thereafter	20,759
	$48,719

NOTE 14 – INCOME TAXES

Provision for income taxes was comprised of the following for the years ended December 31 (in thousands):

	2012	2011	2010
Income tax expense (benefit):			
Current	$4,108	$3,426	$1,957
Deferred	(102)	(10)	65
State income tax expense (benefit of operating loss carryforwards)	251	84	41
Change in valuation allowance	(251)	(84)	164
	$4,006	$3,416	$2,022

Effective tax rates for the years ended December 31, 2012, 2011 and 2010 differed from federal statutory rate of 34% applied to income before income taxes as a result of the following (in thousands):

	2012	2011	2010
Tax expenses at statutory rate	$5,957	$5,195	$3,705
(Decrease) increase resulting from:			
Tax exempt interest income	(1,582)	(1,598)	(1,340)
Net earnings on bank-owned life insurance	(132)	(207)	(171)
ESOP dividend	(296)	(109)	(261)
Other items	59	135	89
	$4,006	$3,416	$2,022

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deductible differences. However, the amount of deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced. Deferred tax assets and liabilities were comprised of the following as of December 31 for the years indicated (in thousands):

	2012	2011	2010
Deferred tax assets:			
Allowance for loan losses	$2,706	$2,734	$2,714
Impairment loss on equity securities	618	618	618
Impairment loss on debt securities	436	436	419
Net unrealized loss on cash flow hedge	-	-	-
Deferred loan fees	91	83	94
State income tax benefit for net operating loss carryforwards	1,224	1,475	1,559
Imputed income tax reimbursement plan	139	137	133
Unrealized loss on other real estate owned	1,050	843	498
Other	203	59	41
Total deferred tax assets	6,467	6,385	6,076
Deferred tax liabilities:			
Depreciation	(2,473)	(2,386)	(2,240)
FHLB stock dividends	(742)	(742)	(742)
Net unrealized gain on available-for-sale debt securities	(6,385)	(5,461)	(1,177)
Prepaid expenses	(117)	(126)	(121)
Other	(252)	(252)	-
Total deferred tax liabilities	(9,969)	(8,967)	(4,280)
Valuation allowance for state income tax benefit	(1,224)	(1,475)	(1,559)
Net deferred tax assets (liabilities)	$(4,726)	$(4,057)	$ 237

At year-end 2012, the Company had a net operating loss carryforward for state tax purposes of $4.8 million expiring in 2021, $8.2 million expiring in 2022, $3.4 million expiring in 2023 and $2.3 million expiring in 2025. As of December 31, 2012 and 2011, the Company had no unrecognized tax benefits. The Company's policy is to recognize penalties and interest on unrecognized tax benefits in Provision for Income Tax Expense in the Consolidated Statements of Income. There were no amounts related to interest and penalties recognized for each of the years ended December 31, 2012, 2011 and 2010. The tax years subject to examination by federal and state taxing authorities are the years ended December 31, 2012, 2011, 2010 and 2009.

NOTE 15 – REGULATORY MATTERS

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and the Consolidated Financial Statements. The regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier I capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier I and total risk-based capital (as defined) to risk-weighted assets (as defined). To be considered adequately capitalized (as defined) under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier I leverage, Tier I risk-based and total risk-based ratios as set forth in the table. The Bank's actual capital amounts and ratios are presented in the table below.

As of December 31, 2012, the most recent notification from the Bank's primary regulatory authorities categorized the Bank and the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since notification that management believes have changed the institution's category.

The Company's and the Bank's actual and minimum capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2012:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets:						
First Citizens Bancshares, Inc.	$107,930	17.1%	$50,435	8.0%	N/A	10.0%
First Citizens National Bank	107,153	17.0%	50,484	8.0%	$63,105	10.0%
Tier I capital to risk weighted assets:						
First Citizens Bancshares, Inc.	100,026	15.9%	25,227	4.0%	N/A	6.0%
First Citizens National Bank	99,242	15.7%	25,252	4.0%	37,879	6.0%
Tier I capital to average assets:						
First Citizens Bancshares, Inc.	100,026	9.2%	43,632	4.0%	N/A	5.0%
First Citizens National Bank	99,242	9.1%	43,623	4.0%	54,529	5.0%
December 31, 2011:						
Total capital to risk weighted assets:						
First Citizens Bancshares, Inc.	$100,456	17.0%	$47,218	8.0%	N/A	10.0%
First Citizens National Bank	99,771	16.9%	47,201	8.0%	$59,001	10.0%
Tier I capital to risk weighted assets:						
First Citizens Bancshares, Inc.	93,063	15.8%	23,605	4.0%	N/A	6.0%
First Citizens National Bank	92,407	15.7%	23,603	4.0%	35,405	6.0%
Tier I capital to average assets:						
First Citizens Bancshares, Inc.	93,063	9.2%	40,418	4.0%	N/A	5.0%
First Citizens National Bank	92,407	9.2%	40,397	4.0%	50,496	5.0%

NOTE 16 – CAPITAL

The Company is subject to capital adequacy requirements imposed by the Federal Reserve. In addition, the Bank is restricted by the Office of the Comptroller of the Currency from paying dividends in an amount in excess of the net earnings of the current year plus retained profits of the preceding two years. As of December 31, 2012, $20.8 million of retained earnings were available for future dividends from the Bank to the Company.

Accumulated Other Comprehensive Income as of December 31, 2012 and 2011 was as follows (in thousands):

	2012	2011
Unrealized gains on available-for-sale securities without other-than-temporary impairment, net of tax	$10,542	$9,614
Unrealized losses on available-for-sale securities with other-than-temporary impairment, net of tax	(251)	(813)
Total accumulated other comprehensive income	$10,291	$8,801

NOTE 17 – RELATED PARTY TRANSACTIONS

The Company has loans and deposits with certain executive officers, directors and their affiliates. The Company also enters into contracts with certain related parties from time to time such as for construction of a branch. All related party transactions are entered into under substantially the same terms as unrelated third-party transactions. All material contracts are awarded based on competitive bids.

Activity in loans to executive officers, directors and their affiliates was as follows for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Balance at beginning of period	$6,489	$11,645
New loans	4,381	5,463
Repayments	(5,181)	(10,619)
Balance at end of period	$5,689	$ 6,489

There were no charged-off, restructured or non-current loans to related parties for any of the periods presented. Loans to related parties are made on substantially the same terms as third-party transactions.

Indebtedness shown represents amounts owed by directors and executive officers of the Company and the Bank and by entities in which such persons are general partners or have at least 10% or greater interest and trust and estates in which they have a substantial beneficial interest. All loans have been made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and do not involve other than normal risks of collectability.

The Bank routinely enters into deposit relationships with its directors, officers and employees in the normal course of business. These deposits bear the same terms and conditions as those prevailing at the time for comparable transactions with unrelated parties. Balances of executive officers and directors on deposit as of December 31, 2012 and 2011 were $21.4 million and $21.0 million, respectively.

NOTE 18 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk not recognized in the statement of financial position.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The same policies are utilized in making commitments and conditional obligations as are used for creating on-balance sheet instruments. Ordinarily, collateral or other security is not required to support financial instruments with off-balance sheet risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. Each customer's credit-worthiness is evaluated on a case-by-case basis, including the collateral required, if deemed necessary by the Bank upon extension of credit, and is based on management's credit evaluation of the counter party. At December 31, 2012 and 2011, the Bank had outstanding loan commitments of $89.1 million and $77.9 million, respectively. As of year-end 2012, variable rate commitments were $56.6 million and fixed rate commitments were $32.5 million. As of year-end 2011, variable rate commitments were $41.3 million and fixed rate commitments were $36.6 million. Of these commitments, none had an original maturity in excess of one year.

Standby letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements, and the credit risk involved is essentially the same as that involved in extending loans to customers. The Bank requires collateral to secure these commitments when deemed necessary. At December 31, 2012 and 2011, outstanding standby letters of credit totaled $3.8 million and $2.4 million, respectively.

In the normal course of business, the Bank extends loans, which are subsequently sold to other lenders, including agencies of the U.S. government. Certain of these loans are conveyed with recourse creating off-balance sheet risk with regard to the collectibility of the loan. At December 31, 2012 and 2011, the Bank had no loans sold with recourse.

NOTE 19 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Bank grants agribusiness, commercial, residential and personal loans to customers throughout a wide area of the mid-southern United States. A large majority of the Bank's loans, however, are concentrated in the immediate vicinity of the Bank, primarily in West Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their obligations is dependent upon the agribusiness and industrial economic sectors of that geographic area.

NOTE 20 – FAIR VALUE MEASUREMENTS

Recurring Basis

The following are descriptions of valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

Available-for-Sale Securities

Fair values for available-for-sale securities are obtained from a third party vendor and are valued using Level 2 inputs, except for TRUP CDOs which are accounted for using Level 3 inputs. TRUP CDOs accounted for less than 1% of the portfolio at December 31, 2012 and 2011.

The markets for TRUP CDOs and other similar securities were not active at December 31, 2012 or 2011. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which these securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market has also been relatively inactive.

The market values for TRUP CDOs and other securities except for those issued or guaranteed by the U.S. Treasury have been very depressed relative to historical levels. For example, the yield spreads for the broad market of investment grade and high yield corporate bonds reached all-time levels versus Treasuries at the end of November 2008 and remained close to those levels at December 31, 2012. Therefore, during 2012 and 2011, a low market price for a particular bond may only have provided evidence of stress in credit markets in general rather than being an indicator of credit problems with a particular issuer.

Given market conditions for TRUP CDOs at December 31, 2012 and 2011 and the relative inactivity in the secondary and new issue markets, the Company determined:

- Few observable transactions existed and market quotations that were available were not reliable for purposes of determining fair value as of December 31, 2012 and 2011;

- An income valuation approach (present value technique) that maximized the use of relevant observable inputs and minimized the use of unobservable inputs was equally or more representative of fair value than the market approach valuation technique used at prior measurement dates; and

- The Company's TRUP CDOs should be classified within Level 3 of the fair value hierarchy because significant adjustments were required to determine fair value at the measurement date.

The third party's methodology and the approach to determining fair value as of December 31, 2012 and 2011 involved these steps:

- The credit quality of the collateral was calibrated by assigning default probabilities to each issuer;

- Asset defaults were generated taking into account both the probability of default of the asset and an assumed level of correlation among the assets;

- A 50% level of correlation was assumed among assets from the same industry (e.g., banks with other banks) while a lower (30%) correlation level is assumed among those from different industries;

- The loss given default was assumed to be 100% (i.e., no recovery);

- The cash flows were forecast for the underlying collateral and applied to each TRUP CDO tranche to determine the resulting distribution among the securities;

- The calculations were modeled in 10,000 scenarios using a Monte Carlo engine;

- The expected cash flows for each scenario were discounted using a discount rate that the third party calculates for each bond that represents an estimate of the yield that would be required in today's market for a bond with a similar credit profile as the bond in question; and

- The prices were aggregated and the average price was used for valuation purposes.

The Company recalculated the overall effective discount rates for these valuations. The overall discount rates ranged from 3.25% to 39.54% and were highly dependent upon the credit quality of the collateral, the relative position of the tranche in the capital structure of the TRUP CDO and the prepayment assumptions.

Assets and liabilities as of December 31, 2012 and 2011 measured at estimated fair value on a recurring basis were as follows (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2012:				
Financial assets:				
Securities available-for-sale	$ -	$465,664	$755	$466,419
December 31, 2011:				
Financial assets:				
Securities available-for-sale	$ -	$364,912	$553	$365,465

The following table presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Available-for-sale securities		
Beginning balance	$553	$439
Total unrealized gains (losses) included in:		
Net income	-	(48)
Other comprehensive income	207	167
Purchases, sales, issuances and settlements, net	(5)	(5)
Transfers in and (out) of Level 3	-	-
Ending balance	$755	$553

Non-Recurring Basis

Certain assets are measured at fair value on a non-recurring basis as described below.

Impaired Loans

Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Independent appraisals for collateral are obtained and may be discounted by management based on historical experience, changes in market conditions from the time of valuation and/or management's knowledge of the borrower and the borrower's business. As such discounts may be significant, these inputs are considered Level 3 in the hierarchy for determining fair value.

Values of impaired loans are reviewed on at least a quarterly basis to determine if specific allocations in the reserve for loan losses are adequate.

Loans Held for Sale

Loans held for sale are recorded at the lower of cost or fair value. Fair value of loans held for sale are based upon binding contracts and quotes from third party investors that qualify as Level 2 inputs for determining fair value. Loans held for sale did not have an impairment charge in 2012 or 2011.

Other Real Estate Owned

OREO is recorded at the lower of cost or fair value. Fair value is measured based on independent appraisals and may be discounted by management based on historical experience and knowledge and changes in market conditions from time of valuation. As such discounts may be significant, these inputs are considered Level 3 in the hierarchy for determining fair value. Values of OREO are reviewed at least annually or more often if circumstances require more frequent evaluations.

Assets as of December 31, 2012 and 2011 measured at estimated fair value on a non-recurring basis were as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2012:				
Assets:				
Impaired loans	$ -	$ -	$ 8,709	$ 8,709
Loans held for sale	-	4,678	-	4,678
Other real estate owned	-	-	8,580	8,580
December 31, 2011:				
Assets:				
Impaired loans	$ -	$ -	$ 6,797	$ 6,797
Loans held for sale	-	2,616	-	2,616
Other real estate owned	-	-	11,073	11,073

Fair Value Estimates

ASC 820 requires disclosure of the estimated fair value of financial instruments for interim and annual periods. The following assumptions were made and methods applied to estimate the fair value of each class of financial instruments not measured at fair value on the Consolidated Balance Sheets:

Cash and Cash Equivalents

For instruments that qualify as cash equivalents, as described in Note 1, the carrying amount is assumed to be fair value.

Interest Bearing Deposits in Other Banks

Interest bearing deposits in other banks consist of excess balances held at the Federal Reserve Bank and short term CDs and the carrying amount is assumed to be fair value.

Loans

Fair value of variable-rate loans with no significant change in credit risk subsequent to loan origination is based on carrying amounts. For other loans, such as fixed rate loans, fair values are estimated utilizing discounted cash flow analyses, applying interest rates currently offered for new loans with similar terms to borrowers of similar credit quality. Fair values of loans that have experienced significant changes in credit risk have been adjusted to reflect such changes.

Accrued Interest Receivable

The fair values of accrued interest receivable and other assets are assumed to be the carrying value.

Federal Home Loan Bank and Federal Reserve Bank Stock

Carrying amounts of capital stock of the FHLB of Cincinnati and Federal Reserve Bank of St. Louis approximate fair value.

Bank Owned Life Insurance

Carrying amount of bank owned life insurance is the cash surrender value as of the end of the periods presented and approximates fair value.

Deposit Liabilities

Demand Deposits

The fair values of deposits which are payable on demand, such as interest bearing and non-interest bearing checking accounts, passbook savings, and certain money market accounts are equal to the carrying amount of the deposits.

Variable-Rate Deposits

The fair value of variable-rate money market accounts and CDs approximate their carrying value at the balance sheet date.

Fixed-Rate Deposits

For fixed-rate CDs, fair values are estimated utilizing discounted cash flow analyses, which apply interest rates currently being offered on CDs to a schedule of aggregated monthly maturities on time deposits.

Other Borrowings

For securities sold under repurchase agreements payable upon demand, the carrying amount is a reasonable estimate of fair value. For securities sold under repurchase agreements for a fixed term, fair values are estimated using the same methodology as fixed rate time deposits discussed above. The fair value of the advances from the FHLB and other long-term borrowings are estimated by discounting the future cash outflows using the current market rates.

Other Liabilities

Fair value of other liabilities is assumed to be the carrying values.

The carrying amount and fair value of assets and liabilities as of December 31, 2012 and 2011 were as follows (in thousands):

	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
As of December 31, 2012:					
Financial assets:					
Cash and cash equivalents	$ 28,199	$28,199	$ -	$ -	$ 28,199
Interest bearing deposits in other banks	41,849	41,849	-	-	41,849
Investment securities	466,419	-	465,664	755	466,419
Loans, net of allowance	541,497	-	547,110	8,709	555,819
Loans held for sale	4,678	-	4,678	-	4,678
Accrued interest receivable	5,021	-	5,021	-	5,021
Federal Reserve Bank and Federal Home Loan Bank Stock	5,684	-	5,684	-	5,684
Other real estate owned	8,580	-	-	8,580	8,580
Bank owned life insurance	21,958	-	21,958	-	21,958
Financial liabilities:				-	
Deposits	964,839	-	966,396	-	966,396
Short-term borrowings	38,844	-	38,844	-	38,844
Other borrowings	48,719	-	50,211	-	50,211
Other liabilities	11,783	-	11,783	-	11,783
Off-balance sheet arrangements				-	
Commitments to extend credit	89,144	-	89,144	-	89,144
Standby letters of credit	3,844	-	3,844	-	3,844
As of December 31, 2011:					
Financial assets					
Cash and cash equivalents	$ 34,133	$ 34,133	$ -	$ -	$ 34,133
Interest bearing deposits in other banks	40,138	40,138	-	-	40,138
Investment securities	365,465	-	364,912	553	365,465
Loans, net of allowance	519,660	-	512,863	6,797	519,269
Loans held for sale	2,616	-	2,616	-	2,616
Accrued interest receivable	5,306	-	5,306	-	5,306
Federal Reserve Bank and Federal Home Loan Bank Stock	5,684	-	5,684	-	5,684
Other real estate owned	11,073	-	11,073	-	11,073
Bank owned life insurance	21,438	-	21,438	-	21,438
Financial liabilities				-	
Deposits	855,672	-	855,672	-	857,299
Short-term borrowings	36,471	-	36,471	-	36,550
Other borrowings	47,328	-	47,328	-	49,230
Other liabilities	10,610	-	-	10,610	10,610
Off-balance sheet arrangements				-	
Commitments to extend credit	77,861	-	77,861	-	77,861
Standby letters of credit	2,410	-	2,410	-	2,410

NOTE 21 – EMPLOYEE STOCK OWNERSHIP AND 401(k) PLANS

The Bank maintains the First Citizens National Bank of Dyersburg Employee Stock Ownership Plan (the "ESOP") and the First Citizens National Bank 401(k) Plan (the "401(k) Plan") as employee benefits. The plans provide for a contribution annually not to exceed 25% of the total compensation of all participants and afford eligibility for participation to all full-time employees who have completed at least one year of service and are age 21 or older.

The Company annually contributes amounts equal to 3% of total eligible compensation to the 401(k) Plan and a discretionary percentage of total eligible compensation to the ESOP. The discretionary percentage of total eligible compensation was 7% for 2012 and 6% for 2011. Total eligible compensation for both plans consists of total compensation subject to income tax. Total eligible compensation includes any salary deferrals made through the 401(k) Plan and Section 125 Cafeteria Plan and is subject to maximum limits set annually by the IRS. Each participant may also elect to defer up to 75% of his or her pay into the 401(k) Plan, subject to dollar limitations imposed by law.

Employer cash contributions to the 401(k) Plan totaled approximately $382,000 in 2012, $365,000 in 2011, and $364,000 in 2010. Cash contributions to the ESOP totaled approximately $895,000 in 2012, $735,000 in 2011, and $239,000 in 2010. Cash contributions to the 401(k) Plan and ESOP are reported in Salaries and Employee Benefits in Non-Interest Expenses on the Consolidated Statements of Income.

The ESOP is a non-leveraged plan and all shares of Company common stock owned by the ESOP were allocated to participants as of December 31, 2011 and 2012. Cash dividends paid by the Company on common stock held by the ESOP are charged to retained earnings. All shares owned by the ESOP are considered outstanding for earnings per share computations. In the event a terminated or retired ESOP participant desires to sell his or her shares of Company common stock, or if certain employees elect to diversify their account balances, the Company may be required to purchase the shares from the participant at their fair market value. The ESOP owned 716,786 shares of Company common stock with an estimated fair value of $28.0 million as of December 31, 2012 and 750,798 shares of Company common stock with an estimated fair value of $27.0 million as of December 31, 2011.

NOTE 22 – BRANCH ACQUISITION

On December 7, 2012, the Bank acquired one branch located at 9045 Carothers Parkway in Franklin, Tennessee from Community First Bank & Trust. Through the acquisition, the Bank assumed $55 million in deposit liabilities and purchased $5 million in real and personal property and $20 million in loans. Goodwill totaling $1.8 million and a core deposit intangible of approximately $426,000 was recorded in relation to the deposit premium paid and fair value adjustments recorded at the time of acquisition. The core deposit intangible will be amortized over a ten-year period and goodwill will continue to be evaluated for impairment annually as noted in Note 8 above.

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