FIRST CITIZENS BANCSHARES, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2017

FIRST CITIZENS BANCSHARES, INC.
One First Citizens Place
Dyersburg, TN 38024

First Citizens Bancshares, Inc.

Management's Annual Report on Internal Control Over Financial Reporting

December 31, 2017

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, 2017, based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2017, 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. The reports appear beginning on the next page.

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FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
ASSETS		
Cash and due from banks	$ 27,951	$ 25,472
Federal funds sold	5,283	7,983
Cash and cash equivalents	33,234	33,455
Interest-bearing deposits in other banks	34,135	27,690
Investment securities:		
Available-for-Sale, stated at market	565,073	581,532
Loans (excluding unearned income of $1,014 at December 31, 2017 and $869 at December 31, 2016)	913,012	841,586
Less: Allowance for loan losses	10,258	8,791
Net loans	902,754	832,795
Loans held-for-sale	4,212	6,737
Federal Home Loan Bank and Federal Reserve Bank stocks, at cost	7,235	6,134
Premises and equipment	41,035	41,256
Accrued interest receivable	7,387	7,226
Goodwill	22,340	22,340
Other intangible assets	1,223	1,416
Other real estate owned	2,902	3,708
Bank-owned life insurance policies	25,748	25,402
Other assets	8,972	9,309
TOTAL ASSETS	$1,656,250	$1,599,000
LIABILITIES AND EQUITY		
Non-interest bearing deposits	$ 237,747	$ 211,173
Interest-bearing deposits	1,122,564	1,128,454
Total deposits	1,360,311	1,339,627
Securities sold under agreements to repurchase	35,555	29,303
Long-term debt	80,442	64,135
Other liabilities	9,576	9,115
Total liabilities	1,485,884	1,442,180

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (cont'd)
DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	2017	2016
Equity		
Class A common stock, no par value – 1,000,000 authorized; 145,728 issued and 140,394 outstanding at December 31, 2017 and 1,000,000 authorized; 145,728 issued and 141,220 outstanding at December 31, 2016	$ 146	$ 146
Common stock, no par value - 10,000,000 authorized; 3,986,895 issued and 3,833,651 outstanding at December 31, 2017 and - 10,000,000 authorized; 3,986,895 issued and 3,834,203 outstanding at December 31, 2016	3,950	3,950
Surplus	31,946	31,946
Retained earnings	134,552	123,791
Accumulated other comprehensive income (loss)	1,320	(1,551)
Total common stock and retained earnings	171,914	158,282
Less-121,206 treasury shares, at cost as of December 31, 2017 and 119,829 treasury shares, at cost as of December 31, 2016	3,603	3,517
Total shareholders' equity	168,311	154,765
Non-controlling (minority) interest in consolidated subsidiary	2,055	2,055
Total equity	170,366	156,820
TOTAL LIABILITIES AND EQUITY	$1,656,250	$1,599,000

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands, except per share data)

	2017	2016	2015
Interest income			
Interest and fees on loans	$44,135	$42,319	$39,931
Interest and dividends on investment securities:			
Taxable	7,911	7,122	7,486
Tax-exempt	8,115	7,495	6,925
Dividends	262	200	212
Other interest income	481	322	161
Total interest income	60,904	57,458	54,715
Interest expense			
Interest on deposits	6,075	5,667	5,616
Interest on borrowings	1,806	1,645	1,549
Other interest expense	200	161	186
Total interest expense	8,081	7,473	7,351
Net interest income	52,823	49,985	47,364
Provision for loan losses	2,125	2,003	1,526
Net interest income after provision for loan losses	50,698	47,982	45,838
Non-interest income			
Service charges on deposit accounts	5,361	5,719	4,981
Income from ATM and debit cards	3,572	3,505	3,301
Mortgage banking income	2,976	3,209	3,094
Income from insurance activities	1,112	1,067	1,093
Income from fiduciary activities	947	883	806
Brokerage fees	208	197	1,608
Earnings on bank owned life insurance	591	579	530
Loss on sale or write down of other real estate owned	(38)	(113)	(826)
Gain on sale or call of available-for-sale securities	628	651	1,354
Other non-interest income	752	836	712
Total non-interest income	16,109	16,533	16,653

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (cont'd)
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands, except per share data)

	2017	2016	2015
Other non-interest expense:			
Salaries and employee benefits	$27,002	$25,353	$25,363
Net occupancy expense	2,427	2,272	2,119
Depreciation	2,445	2,548	2,382
Data processing expense	3,194	3,867	2,807
ATM and debit card fees and expenses	1,638	1,666	1,437
Advertising and promotions	960	1,226	959
Legal and professional fees	711	638	885
Premiums for FDIC insurance	404	746	759
Expenses related to other real estate owned	217	229	248
Stationary and office supplies	198	271	306
Amortization of intangibles	192	192	192
Other non-interest expense	5,947	6,127	5,622
Total other non-interest expense	45,335	45,135	43,079
Net income before income taxes	21,472	19,380	19,412
Provision for income tax expense	4,461	3,602	3,783
Net income	$17,011	$15,778	$15,629
Earnings per common share:			
Net income per common share	$4.28	$3.97	$3.92
Weighted average common shares outstanding	3,975	3,977	3,984

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	2017	2016	2015
Net income	$17,011	$15,778	$15,629
Other comprehensive income, net of tax:			
Net change in unrealized gains (losses) on available-for-sale securities	2,587	(7,190)	(316)
Total other comprehensive income (loss), net of tax	2,587	(7,190)	(316)
Total comprehensive income	$19,598	$8,588	$15,313

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, 2017:			
Unrealized gains on available-for-sale securities:			
Unrealized gains arising during the period	$4,806	$(1,840)	$2,966
Reclassification adjustments for net gains included in net income	(628)	249	(379)
Net unrealized gains (losses)	$4,178	$(1,591)	$2,587
Year ended December 31, 2016:			
Unrealized gains on available-for-sale securities:			
Unrealized gains arising during the period	$(11,000)	$4,212	$(6,788)
Reclassification adjustments for net gains included in net income	(651)	249	(402)
Net unrealized gains (losses)	$ (11,651)	$4,461	$(7,190)
Year ended December 31, 2015:			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized losses arising during the period	$ 843	$(323)	$ 520
Reclassification adjustments for net gains included in net income	(1,354)	518	(836)
Net unrealized gains (losses)	$ (511)	$ 195	$(316)

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	Class A Common Stock Shares (#)	Class A Common Stock Amount ($)	Common Stock Shares (#)	Common Stock Amount ($)	Surplus ($)	Retained Earnings ($)	Accumulated. Other Comprehensive. Income ($)	Treasury Stock ($)	Non-Controlling Minority Interests ($)	Total ($)
Balance January 1, 2015	146	$146	3,839	$3,950	$31,946	$103,536	$5,955	$(3,078)	$2,055	$144,510
Comprehensive income:										
Net income, year ended December 31, 2015						15,629				15,629
Adjustment of unrealized gains on securities available-for-sale, net of tax							(316)			(316)
Total comprehensive income						15,629	(316)			15,313
Cash dividends paid - $1.30 per common share						(5,580)				(5,580)
Treasury stock purchases – net	(2)		(2)					(167)		(167)
Balance December 31, 2015	144	$146	3,837	$3,950	$31,946	$113,585	$5,639	$(3,245)	$2,055	$154,076
Comprehensive income:										
Net income, year ended December 31, 2016						15,778				15,778
Adjustment of unrealized gains on securities available-for-sale, net of tax							(7,190)			(7,190)
Total comprehensive income						15,778	(7,190)			8,588
Cash dividends paid - $1.40 per common share						(5,572)				(5,572)
Treasury stock purchases – net	(3)		(3)					(272)		(272)
Balance December 31, 2016	141	$146	3,834	$3,950	$31,946	$123,791	$(1,551)	$(3,517)	$2,055	$156,820
Comprehensive income:										
Net income, year ended December 31, 2017						17,011				17,011
Adjustment of unrealized gains on securities available-for-sale, net of tax							2,587			2,587
Total comprehensive income						17,011	2,587			19,598
Cash dividends paid - $1.50 per common share						(5,966)				(5,966)
Reclassification of tax reform adjustment related to unrealized gains on securities						(284)	284			-
Treasury stock purchases – net	(1)		(1)					(86)		(86)
Balance December 31, 2017	140	$146	3,833	$3,950	$31,946	$134,552	$1,320	$(3,603)	$2,055	$170,366

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	2017	2016	2015
Operating activities			
Net income	$17,011	$15,778	$15,629
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,125	2,003	1,526
Provision for depreciation	2,445	2,548	2,382
Provision for amortization of intangibles	192	192	192
Deferred income taxes	(398)	(801)	178
Net gains on sale or call of available-for-sale securities	(628)	(651)	(1,354)
Net losses on sale or write down of other real estate owned	38	113	826
Net (increase) decrease in loans held-for-sale	2,525	(959)	(1,439)
Increase in accrued interest receivable	(161)	(268)	(698)
Increase (decrease) in accrued interest payable	29	59	(35)
(Increase) decrease in cash surrender value of bank-owned life insurance policies	(330)	494	28
Net decrease in other assets	755	2,110	334
Net increase in other liabilities	922	2,156	2,324
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,525	22,774	19,893
Investing activities			
(Increase) decrease in interest-bearing deposits in other banks	(6,445)	7,408	5,895
Proceeds of paydowns and maturities of available-for-sale investment securities	60,624	70,705	71,625
Proceeds of sales of available-for-sale investment securities	66,015	77,733	77,078
Purchases of available-for-sale investment securities	(107,801)	(183,360)	(126,391)
Increase in loans – net	(73,595)	(54,729)	(80,094)
Proceeds from sale of other real estate owned	1,489	2,501	750
Purchase of premises and equipment	(2,224)	(3,028)	(2,152)
NET CASH USED BY INVESTING ACTIVITIES	(61,937)	(82,770)	(53,289)
Financing activities			
Net increase in noninterest-bearing deposits	26,574	15,480	14,498
Net increase in interest bearing deposits	(5,890)	50,034	48,109
Net increase (decrease) in short-term borrowings	6,252	(5,019)	(14,995)
Issuance of long-term debt	28,000	20,000	-
Payment of principal on long-term debt	(11,693)	(15,104)	(7,747)
Cash dividends paid	(5,966)	(5,572)	(5,580)
Treasury stock transactions – net	(86)	(272)	(167)
NET CASH PROVIDED BY FINANCING ACTIVITIES	37,191	59,547	34,118

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	2017	2016	2015
Increase (decrease) in cash and cash equivalents	$ (221)	$ (449)	$ 722
Cash and cash equivalents at beginning of year	33,455	33,904	33,182
Cash and cash equivalents at end of year	$33,234	$33,455	$33,904
Supplemental cash flow information:			
Interest paid	$8,052	$7,414	$7,199
Income taxes paid	5,600	4,744	5,145
Supplemental noncash disclosures:			
Transfers from loans to other real estate owned	776	2,360	1,300
Transfers from other real estate owned to loans	55	79	1,400

Note: See accompanying notes to consolidated financial statements.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 wholly owned subsidiary depository financial institution, First Citizens National Bank ("FirstCNB" or the "Bank"). Its wholly owned subsidiary depository financial institution, Southern Heritage Bank ("SHB") was merged into FirstCNB on September 30, 2016. The Company's investment in subsidiaries is reflected on the Company's condensed balance sheets. See Notes 2 and 24 for more information.

FirstCNB has one wholly-owned subsidiary, First Citizens Investments, Inc., which is consolidated into its financial statements. First Citizens Financial Plus, Inc. ("Financial Plus") was a formerly wholly owned subsidiary brokerage subsidiary. Financial Plus filed to withdraw its broker dealer status with the Securities and Exchange Commission on November 23, 2015 as the Company entered into agreement with a third party vendor to offer brokerage services going forward. The broker dealer status terminated on January 23, 2016 and the subsidiary was dissolved and liquidated in April 2016. Dissolution and liquidation of this subsidiary did not have a material impact on the consolidated financial statements of the Company.

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 FirstCNB and provide FirstCNB 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 FirstCNB 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 non-controlling interest is included in Other Non-Interest Expense on the Consolidated Statements of Income and is not material for any of the periods presented.

FirstCNB has a 50% ownership in an insurance subsidiary which is 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. The investment in this insurance subsidiary 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 Company has three additional wholly owned subsidiaries, First Citizens (TN) Statutory Trusts III and IV and Southern Heritage Bancshares Statutory Trust I. These three subsidiaries are reported under the equity method in accordance with GAAP for Variable Interest Entities for the periods presented. These investments are reported in Other Assets and the proportionate share of income (loss) is reported in other non-interest income.

All significant intercompany 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.

Business Combinations

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, "Business Combinations" ("ASC 805"). Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date and are recognized separately from goodwill. Results of operations of the acquired entities are included in the Consolidated Statements of Income from the date of acquisition.

Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Acquired credit-impaired loans are accounted for under the accounting guidance for loan and debt securities acquired with deteriorated credit quality, in accordance with ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"), and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Increases in expected cash flows to be collected on these loans are recognized as an adjustment to the loan's yield over its remaining life, while decreases in expected cash flows are recognized as impairment. Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30 but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on expected cash flow of the acquired loans.

Cash Equivalents

Cash equivalents include cash on hand, cash items, clearings and exchanges as well as amounts due from correspondent 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 Company'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 Company 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 21 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. 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). See additional discussion of valuation techniques and inputs in Note 21.

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.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 6, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – MERGERS AND ACQUISITIONS

Southern Heritage Bancshares, Inc.

On October 1, 2014, the Company completed its acquisition by merger of Southern Heritage Bancshares, Inc. ("SH Bancshares"), a bank holding company headquartered in Cleveland, Tennessee, and parent of Southern Heritage Bank ("SHB"), a Tennessee chartered bank. The operations of SHB have been included in the consolidated financial statements since October 1, 2014. From acquisition on October 1 2014 until September 29, 2016, SHB continued to operate as a separate depository institution. Then, Company merged SHB into FirstCNB on September 30, 2016. The merger of SHB into FirstCNB on September 30, 2016 did not have a material impact on the consolidated financial statements for the year ended December 31, 2016. SHB has three full-service financial centers in Cleveland, Bradley County, Tennessee. The acquisition of SH Bancshares and SHB allowed the Company to further its strategic objectives by expanding its geographic footprint across the State of Tennessee.

At the acquisition date of October 1, 2014, the Company issued 269,302 shares of common stock and 108,356 shares of Class A common stock and paid $16.1 million in cash or $33.1 million in aggregate consideration for 100% of the equity interests in SH Bancshares. The Company recorded intangible assets totaling $10.2 million which consist of $8.7 of goodwill and $1.5 million of core deposit intangible. Goodwill resulted from a combination of revenue enhancements from expansion into new markets and efficiencies to be gained from operational synergies. The fair value of the core deposit intangible is being amortized on a straight line basis over the estimated useful life, currently expected to be approximately 10 years. The intangible assets are not deductible for income tax purposes.

At the acquisition date of October 1, 2014, the Company assumed $5.155 million in floating rate junior subordinated deferrable interest debentures payable to Southern Heritage Statutory Trust I that must be redeemed by December 2034. The acquired subordinated debentures require interest to be paid quarterly at a rate of 90-day LIBOR plus 2.05%. The fair value adjustment on the junior subordinated debentures of $1.55 million will be amortized on a straight line basis over the remaining expected life of 10 years which is when the securities are intended to be repaid.

At the acquisition date of October 1, 2014, supplemental executive retirement plan ("SERP") agreements became effective with certain key executives of SHB as part of the Company's long-term retention strategy. The SERPs provide for a nonqualified defined lifetime post-retirement benefit. Vesting for the benefit occurs 50% after three years, 75% after four years and 100% after five years from the effective date of the agreements. Expense for accrual of such benefits is reflected in Salaries and Employee Benefits on the Statement of Income and totaled approximately $195,000, $184,000, and $175,000, for the years ended December 31, 2017, 2016 and 2015, respectively. The accrual liability for SERP benefits is included in other liabilities on the Balance Sheet and totaled $597,000, and $304,000 as of December 31, 2017 and 2016, respectively. Benefit payments are expected to total approximately $82,000 annually beginning in 2019.

The following summarizes the allocation of purchase price to assets and liabilities acquired in connection with the Company's acquisition of SH Bancshares and SHB based on their fair values on October 1, 2014 (dollars in thousands except per share amounts).

Purchase Price:		
Total shares of SH Bancshares outstanding as of October 1, 2014	1,313,135	
Fixed exchange ratio	0.2876	
Company common shares issued for SH Bancshares common shares	269,302	
Company Class A common shares issued for SH Bancshares Class A, Class B or Series A preferred shares	108,356	
Price per share based on Company shares as of October 1, 2014	$45.00	
Aggregate value of Company stock issued	$16,995	
Aggregate cash consideration at $12.25 per SH Bancshares share	16,087	
Total purchase price		$33,082

Net assets acquired:		
Cash and cash equivalents	$ 10,493	
Interest bearing deposits in banks	8,633	
Available-for-sale investment securities	80,869	
Loans, net of unearned income	126,850	
Mortgage loans held for sale	2,852	
Premises and equipment	5,274	
Other real estate owned	546	
Other intangible assets	1,496	
Other assets	3,482	
Total assets	240,495	
Non-interest bearing deposits	35,275	
Interest bearing deposits	176,330	
Total deposits	211,605	
Borrowings	3,602	
Other liabilities	895	
Total liabilities	216,102	
Net assets acquired		24,393
Goodwill		$ 8,689

NOTE 3 – CASH AND INTEREST-BEARING DEPOSITS IN OTHER BANKS

Cash and cash equivalents include federal funds sold and deposit balances due from correspondent banks. Federal funds sold and balances due from correspondent banks above FDIC insurance limits totaled approximately $5.7 million and $8.4 million as of December 31, 2017 and 2016, respectively.

The Company maintains cash reserve balances as required by the Federal Reserve Bank. Average required balances during both 2017 and 2016 were $500,000. Balances held at the Federal Reserve Bank 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, 2017 and 2016 were $33.5 million and $27.5 million, respectively. Interest-bearing deposits in other banks also include short-term CDs held in increments that are within FDIC insurance limits and totaled approximately $669,000 and $222,000 as of December 31, 2017 and 2016, respectively.

NOTE 4 – 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, 2017:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$322,723	$ 390	$(4,714)	$318,399
Obligations of states and political subdivisions	240,161	6,448	(565)	246,044
All Other	510	120	-	630
Total investment securities	$563,394	$6,958	$(5,279)	$565,073
As of December 31, 2016:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$348,120	$1,125	$(6,547)	$342,698
Obligations of states and political subdivisions	235,916	5,280	(2,462)	238,734
All other	10	90	-	100
Total investment securities	$584,046	$6,495	$(9,009)	$581,532

There were no securities categorized as trading or held-to-maturity as of December 31, 2017 or 2016. At December 31, 2017 and 2016, investment securities were pledged to secure government, public and trust deposits as follows (in thousands):

	Amortized Cost	Fair Value
2017	$292,624	$289,229
2016	269,634	266,657

The following table summarizes contractual maturities of available-for-sale securities as of December 31, 2017 (in thousands):

	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 10,363	$ 10,521
After one year through five years	40,042	41,351
After five years through ten years	79,864	82,417
After ten years*	432,615	430,154
Total debt securities	562,884	564,443
Equity securities	510	630
Total securities	$563,394	$565,073

* Of the $431 million (amortized cost) in this category, $318 million (amortized cost) 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, 2017, 2016 and 2015 are presented as follows (in thousands):

	Gross Sales	Gross Gains	Gross Losses	Net Gains
2017	$60,624	$ 804	($176)	$ 628
2016	77,733	682	(31)	651
2015	77,078	1,537	(183)	1,354

The following table presents information on available-for-sale securities with gross unrealized losses at December 31, 2017 and 2016, 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
December 31, 2017:						
U.S. Treasury securities and obligations of U.S. Government agencies and corporations	($1,054)	$147,609	($3,660)	$126,958	($4,714)	$274,567
Obligations of states and political subdivisions	(163)	25,839	(402)	15,819	(565)	41,658
Total securities with unrealized losses	($1,217)	$173,448	($4,062)	$142,777	($5,279)	$316,225
December 31, 2016:						
U.S. Treasury securities and obligations of U.S. Government agencies and corporations	($5,605)	$249,603	($942)	$27,931	($6,547)	$277,534
Obligations of states and political subdivisions	(2,446)	92,997	(16)	363	(2,462)	93,360
Total securities with unrealized losses	($8,051)	$342,600	($958)	$28,294	($9,009)	$370,894

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, 2017, the Company had 177 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 177 debt securities, 96 are obligations of state and political subdivisions and 81 are obligations of U.S. government agencies consisting of collateralized mortgage obligations (CMOs) or mortgage-backed securities (MBS). The securities in an unrealized loss position as of December 31, 2017, 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, 2017. The unrealized losses on the agency and municipal securities have not been recognized for other-than-temporary impairment through earnings during the year ended December 31, 2017.

As of December 31, 2016, the Company had 308 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 308 debt securities, 221 are obligations of state and political subdivisions and 87 are obligations of U.S. government agencies consisting of collateralized mortgage obligations (CMOs) or mortgage-backed securities (MBS). The securities in an unrealized loss position as of December 31, 2016, 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, 2016. The unrealized losses on the agency and municipal securities have not been recognized for other-than-temporary impairment through earnings during the year ended December 31, 2016.

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 5 – LOANS

The following is a summary of loans at December 31:

	2017	2016
Commercial, financial and agricultural	$112,734	$124,424
Real estate – construction	135,641	104,390
Real estate – mortgage	622,981	574,001
Installment loans to individuals	23,464	22,103
All other loans	18,192	16,668
Total	$913,012	$841,586

Credit Quality

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, 2017 and 2016 were as follows (in thousands):

	Pass	Special Mention	Substandard	Total
December 31, 2017:				
Commercial, financial and agricultural	$102,307	$3,205	$ 7,222	$112,734
Real estate – construction	135,306	-	335	135,641
Real estate – mortgage	599,022	5,103	18,856	622,981
Installment loans to individuals	23,353	-	111	23,464
All other loans	18,192	-	-	18,192
Total	$878,180	$8,308	$26,524	$913,012
December 31, 2016:				
Commercial, financial and agricultural	$114,216	$2,548	$ 7,660	$124,424
Real estate – construction	104,075	-	315	104,390
Real estate – mortgage	552,877	2,613	18,511	574,001
Installment loans to individuals	21,930	9	164	22,103
All other loans	16,667	-	1	16,668
Total	$809,765	$5,170	$26,651	$841,586

Past Due and Non-Performing Loans

An aging analysis of loans outstanding by category as of December 31, 2017 and 2016 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, 2017:							
Commercial, financial and agricultural	$1,481	$ -	$ 518	$1,999	$110,735	$112,734	$ -
Real estate – construction	-	17	-	17	135,624	135,641	-
Real estate – mortgage	960	353	1,507	2,820	620,161	622,981	330
Installment loans to individuals	142	13	16	171	23,293	23,464	1
All other loans	-	-	-	-	18,192	18,192	-
Total	$2,583	$383	$2,041	$5,007	$908,005	$913,012	$331
As of December 31, 2016:							
Commercial, financial and agricultural	$ 1,145	$94	$ 355	$1,594	$122,830	$124,424	$ 215
Real estate – construction	4	-	14	18	104,372	104,390	14
Real estate – mortgage	1,128	683	873	2,684	571,317	574,001	235
Installment loans to individuals	181	74	25	280	21,823	22,103	20
All other loans	-	-	-	-	16,668	16,668	-
Total	$2,458	$851	$1,267	$4,576	$837,010	$841,586	$484

Performing and non-performing loans by category were as follows as of December 31, 2017 and 2016 (in thousands):

	Performing	Non- Performing*	Total
December 31, 2017:			
Commercial, financial and agricultural	$111,013	$1,721	$112,734
Real estate – construction	135,626	15	135,641
Real estate – mortgage	620,037	3,274	622,981
Installment loans to individuals	23,371	93	23,464
All other loans	18,192	-	18,192
Total	$908,239	$5,103	$913,012
December 31, 2016:			
Commercial, financial and agricultural	$123,564	$ 860	$124,424
Real estate – construction	104,296	94	104,390
Real estate – mortgage	570,832	3,169	574,001
Installment loans to individuals	21,991	112	22,103
All other loans	16,667	1	16,668
Total	$837,350	$4,236	$841,586

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

Non-accrual loans as of December 31, 2017 and 2016 by category were as follows (in thousands):

	2017	2016
Commercial, financial and agricultural	$1,721	$ 645
Real estate – construction	15	80
Real estate – mortgage	2,944	2,934
Installment loans to individuals	93	92
All other loans	-	1
Total	$4,773	$3,752

Troubled Debt Restructurings

Loans that were restructured during the year ended December 31, 2017 consisted of the following (dollars in thousands):

	2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial, financial and agricultural	12	$1,370	$ 955
Real estate – construction	7	492	421
Real estate – mortgage	35	6,839	4,885
Installment loans to individuals	12	118	65
All other loans	-	-	-
Total	66	$8,819	$6,326

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, 2017 consisted of the following (dollars in thousands):

	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	4	$102
Real estate – construction	1	52
Real estate – mortgage	-	-
Installment loans to individuals	4	17
All other loans	-	-
Total	9	$171

The allowance for loan losses associated with the TDRs totaled approximately $189,000 and $392,000 as of December 31, 2017 and 2016, respectively.

Impaired Loans

Information regarding the Company's impaired loans for the years ended December 31, 2017 and 2016 is as follows (in thousands):

	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017:					
With no specific allocation recorded:					
Commercial, financial and agricultural	$ 265	$ 320	N/A	$ 186	$ -
Real estate – construction	-	-	N/A	-	-
Real estate – mortgage	119	119	N/A	521	-
Installment loans to individuals	-	-	N/A	-	-
All other loans	-	-	N/A	-	-
With allocation recorded:					
Commercial, financial and agricultural	$1,513	$1,531	$197	$2,883	$58
Real estate – construction	-	-	-	33	-
Real estate – mortgage	870	873	38	1,528	46
Installment loans to individuals	14	15	8	38	1
All other loans	-	-	-	-	-
Total:					
Commercial, financial and agricultural	$1,778	$1,851	$197	$3,069	$58
Real estate – construction	-	-	-	33	-
Real estate – mortgage(1)	989	992	38	2,049	46
Installment loans to individuals	14	15	8	38	1
All other loans	-	-	-	-	-
December 31, 2016:					
With no specific allocation recorded:					
Commercial, financial and agricultural	$1,303	$1,323	N/A	$1,303	$ 77
Real estate – construction	19	19	N/A	19	2
Real estate – mortgage	3,095	3,293	N/A	3,095	205
Installment loans to individuals	11	11	N/A	11	1
All other loans	-	-	N/A	-	-
With allocation recorded:					
Commercial, financial and agricultural	$1,630	$1,675	$140	$1,630	$114
Real estate – construction	-	-	-	-	-
Real estate – mortgage	594	639	78	594	59
Installment loans to individuals	-	-	-	-	-
All other loans	-	-	-	-	-
Total:					
Commercial, financial and agricultural	$2,933	$2,998	$140	$2,933	$191
Real estate – construction	19	19	-	19	2
Real estate – mortgage(1)	3,689	3,932	78	3,689	264
Installment loans to individuals	11	11	-	11	1
All other loans	-	-	-	-	-

(1) Impaired total for this category includes troubled debt restructurings with recorded investment totaling approximately $365,000 and a specific allowance of approximately $14,000 as of December 31, 2017 and recorded investment totaling approximately $594,000 and a specific allowance of approximately $78,000 as of December 31, 2016.

Acquired Loans with Evidence of Credit Deterioration

Loans acquired in business combinations that exhibited, at date of acquisition, evidence of credit deterioration since origination, such that it was probable that all contractually required payments would not be collected, were as follows:

	Impaired Loans	Other Loans	Total
December 31, 2017:			
Commercial, financial and agricultural	$-	$ 88	$ 88
Real estate – construction	-	93	93
Real estate – mortgage	-	6,795	6,795
Installment loans to individuals	-	-	-
All other loans	-	-	-
Total	$-	$6,976	$6,976
December 31, 2016:			
Commercial, financial and agricultural	$ 825	$ 220	$1,045
Real estate – construction	-	130	130
Real estate – mortgage	1,652	6,793	8,445
Installment loans to individuals	-	-	-
All other loans	-	-	-
Total	$2,477	$7,143	$9,620

The following table presents the fair value of loans determined to have evidence of credit deterioration at the time of acquisition as of the date presented:

December 31, 2017:	
Contractually-required principal	$8,705
Nonaccretable difference	(1,729)
Cash flows expected to be collected	6,976
Accretable yield	-
Fair Value	$6,976
December 31, 2016:	
Contractually-required principal	$11,544
Nonaccretable difference	(1,924)
Cash flows expected to be collected	9,620
Accretable yield	-
Fair Value	$9,620

Changes in the accretable yield of loans acquired with deteriorated credit quality were as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Beginning balance	$ -	$(245)
Additions through acquisition	-	-
Reclasses from nonaccretable difference	(194)	(242)
Accretion	194	487
Ending balance	$ -	$ -

NOTE 6 – 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):

	2017		2016		2015	
	Amount	% to Total Loans	Amount	% to Total Loans	Amount	% to Total Loans
Commercial, financial and agricultural	$ 1,522	12.35%	$1,546	14.78%	$1,477	14.63%
Real estate – construction	1,615	14.86%	1,116	12.40%	1,191	12.58%
Real estate – mortgage	6,710	68.23%	5,588	68.21%	4,749	67.45%
Installment loans to individuals	259	2.57%	249	2.63%	272	3.12%
All other loans	152	1.99%	292	1.98%	304	2.22%
Total	$10,258	100.00%	$8,791	100.00%	$7,993	100.00%

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

	2017	2016	2015
Balance - beginning of year	$8,791	$7,993	$7,541
Provision for loan losses	2,125	2,003	1,526
Loans charged to allowance	(1,448)	(1,814)	(2,027)
Recovery of loans previously charged off	790	609	953
Net charge-offs	(658)	(1,205)	(1,074)
Balance - end of year	$10,258	$8,791	$7,993

An analysis of the activity in the allowance for loan losses by category for the years ended December 31, 2017 and 2016 is as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Year ended December 31, 2017:					
Commercial, financial and agricultural	$1,546	$(893)	$110	$759	$ 1,522
Real estate – construction	1,116	(9)	20	488	1,615
Real estate – mortgage	5,588	(116)	471	767	6,710
Installment loans to individuals	249	(200)	36	174	259
All other loans	292	(230)	153	(63)	152
Total	$8,791	$(1,448)	$790	$2,125	$10,258
Year ended December 31, 2016:					
Commercial, financial and agricultural	$1,477	$(463)	$123	$409	$1,546
Real estate – construction	1,191	(23)	70	(122)	1,116
Real estate – mortgage	4,749	(745)	157	1,427	5,588
Installment loans to individuals	272	(218)	72	123	249
All other loans	304	(365)	187	166	292
Total	$7,993	$(1,814)	$609	$2,003	$8,791

The allowance for loan losses is comprised of allocations for loans evaluated individually and loans evaluated collectively for impairment. In addition, specific acquired loans were evaluated at time of acquisition and determined to have evidence of credit deterioration. The allocations of the allowance for loan losses for outstanding loans by category evaluated individually and collectively were as follows as of December 31, 2017 and 2016 (in thousands):

	Evaluated Individually	Evaluated Collectively	Acquired Loans with Evidence of Credit Deterioration	Total
As of December 31, 2017:				
Allowance for loan losses				
Commercial, financial and agricultural	$197	$1,325	$-	$1,522
Real estate – construction	-	1,615	-	1,615
Real estate – mortgage	38	6,672	-	6,710
Installment loans to individuals	9	250	-	259
All other loans	-	152	-	152
Total	$244	$10,014	$-	$10,258
Loans				
Commercial, financial and agricultural	$1,778	$110,868	$88	$112,734
Real estate – construction	-	135,548	93	135,641
Real estate – mortgage	989	615,197	6,795	622,981
Installment loans to individuals	14	23,450	-	23,464
All other loans	-	18,192	-	18,192
Total	$2,781	$903,255	$6,976	$913,012
As of December 31, 2016:				
Allowance for loan losses				
Commercial, financial and agricultural	$135	$1,698	$5	$1,838
Real estate – construction	-	1,116	-	1,116
Real estate – mortgage	78	5,510	-	5,588
Installment loans to individuals	-	249	-	249
All other loans	-	-	-	-
Total	$213	$8,573	$5	$8,791
Loans				
Commercial, financial and agricultural	$2,108	$137,939	$1,045	$141,092
Real estate – construction	19	104,241	130	104,390
Real estate – mortgage	2,037	563,519	8,445	574,001
Installment loans to individuals	11	22,092	-	22,103
All other loans	-	-	-	-
Total	$4,175	$827,791	$9,620	$841,586

NOTE 7 – 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, 2017, 2016 or 2015. 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 $3.0 million, $3.2 million, and $3.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 8 – 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	2017	2016
Land		$12,031	$12,031
Buildings	5 to 50	42,200	41,622
Furniture and equipment	3 to 20	24,091	22,524
Total premises and equipment		78,322	76,177
Less: accumulated depreciation		37,287	34,921
Net premises and equipment		$41,035	$41,256

NOTE 9 – 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. Total goodwill as of December 31, 2017 was $22.3 million or 1.35% of total assets and 13.11% of total capital. Total goodwill as of December 31, 2016 was $22.3 million or 1.40% of total assets and 14.25% of total capital. See also Note 2.

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

	2017	2016
Core deposit intangible	$1,922	$1,922
Accumulated amortization	(699)	(506)
Net core deposit intangible	$1,223	$1,416

Amortization expense was approximately $192,000 per year in each of the years 2017, 2016 and 2015. Amortization expense is expected to be approximately $192,000 per year for each of the next five years. See also Note 2.

NOTE 10 – OTHER REAL ESTATE OWNED

The carrying value of other real estate owned on the Consolidated Balance Sheets was $2.9 million as of December 31, 2017 compared to $3.7 million as of December 31, 2016. 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 21.

At December 31, 2017 and 2016, the balance of real estate owned includes $610,000 and $1.5 million, respectively of foreclosed residential real estate properties. No consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds were in process at December 31, 2017 or 2016.

NOTE 11 – BANK-OWNED LIFE INSURANCE AND IMPUTED INCOME TAX REIMBURSEMENT AGREEMENTS

The Company 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 value of BOLI was $25.7 million as of December 31, 2017 and $25.4 million as of December 31, 2016. BOLI policies 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 $591,000, $579,000, and $530,000, for the years ended December 31, 2017, 2016 and 2015, 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 $330,000, $33,000, and $42,000, for the years ended December 31, 2017, 2016 and 2015, respectively. The accrued liability for post-retirement death benefits is included in Other Liabilities on the Consolidated Balance Sheet and totaled $2.7 million and $2.6 million as of December 31, 2017 and 2016, 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, FirstCNB 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):

	2017	2016
Service cost	$ -	$ -
Interest cost	18	18
Net other post-retirement benefits expense	$18	$18

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:	2017	2016
Beginning balance	$285	$285
Service cost	-	-
Interest cost	18	18
Benefit payments	(21)	(18)
Ending balance	$282	$285

The accumulated post-retirement benefit obligation was included in Other Liabilities as of December 31, 2017 and 2016 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 12 – DEPOSITS

Included in interest-bearing deposits shown at December 31 were the following deposits in denominations of $250,000 or greater (in thousands):

	2017	2016
Time deposits	$133,901	$134,827
Non-maturity transaction and savings deposits	382,020	375,397

NOW accounts, included in interest bearing deposits on the Consolidated Balance Sheets, totaled $105.3 million as of December 31, 2017 and $101.1 million as of December 31, 2016. Demand deposit balances reclassified as loans consisted of overdrafts totaling approximately $439,000 and $608,000 as of December 31, 2017 and 2016, respectively. Maturities of time deposits were as follows as of December 31, 2017 (in thousands):

On or before December 31, 2018	$290,329
On or during year ended December 31, 2019	32,900
On or during year ended December 31, 2020	21,575
On or during year ended December 31, 2021	11,970
During or after year ended December 31, 2022	11,421
	$368,195

NOTE 13 – FEDERAL FUNDS PURCHASED AND OTHER SHORT-TERM BORROWINGS

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

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 14 for more information about maximum borrowing capacity with FHLB. There were no short-term borrowings outstanding against this line as of December 31, 2017 or 2016.

The Company has four federal fund lines of credit available with various correspondent banks totaling $49.5 million as of December 31, 2017. There were no federal funds purchased as of December 31, 2017 or 2016.

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, 2017, 2016 and 2015 (dollars in thousands):

	2017	2016	2015
Amount outstanding at end of year	$ -	$ -	$ -
Weighted average interest rate at end of year	–%	–%	–%
Maximum outstanding at any month end	$-	$-	$-
Average outstanding during year	88	10	7
Weighted average interest rate during year	1.7%	–%	–%

NOTE 14 – LONG TERM DEBT

Long-term debt as of December 31, 2017 and 2016 is summarized as follows (in thousands):

	2017	2016
FHLB advances	$60,186	$40,889
Junior subordinated debentures	14,417	14,261
Promissory notes	5,839	8,985
Total long-term debt	$80,442	$64,135

FHLB advances

FirstCNB had secured advances from FHLB totaling $60.2 million as of December 31, 2017 and $40.9 million as of December 31, 2016. FHLB borrowings are comprised primarily of advances with principal due at call date or maturity date with fixed interest rates ranging from 0.99% to 7.05%. Some FHLB borrowings have quarterly call features and maturities range from 2018 to 2023. Advances totaling $9 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. Obligations are secured by loans totaling $589 million consisting of the FirstCNB's entire portfolio of fully disbursed, one-to-four family residential mortgages, commercial mortgages, farm mortgages, and multi-family residential mortgages. FirstCNB had additional borrowing capacity with the FHLB of $96 million as of December 31, 2017.

Junior subordinated debentures

The Company owns 100% of the outstanding common securities of three business trusts that issued corporation-obligated mandatorily redeemable preferred capital securities to third-party investors. The trusts used the proceeds from the issuance of their preferred capital securities and common securities (collectively referred to as "capital securities" to buy floating rate junior subordinated debentures issued by the Company. The debentures are the trusts' only assets and interest payments from the debentures finance the distributions paid on the capital securities. Distributions are payable quarterly at a rate per annum equal to the interest rate being earned by the trusts on the debentures held by the trusts. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreement which fully and unconditionally guarantees the capital securities subject to terms of the guarantee. Although for accounting presentation the trust preferred securities are presented as long-term debt, the outstanding balance qualifies as additional Tier I capital subject to certain limitations. The following table provides details on the debentures as of December 31, 2017 and 2016:

	Principal Amount	Interest Rate	Year of Maturity	Amount included in Additional Tier I Capital
As of December 31, 2017:				
First Citizens (TN) Statutory Trust III	$5,155	3.12%	2035	$5,155
First Citizens (TN) Statutory Trust IV	5,155	3.07%	2037	5,155
Southern Heritage Statutory Trust I	5,155	3.37%	2035	5,155
As of December 31, 2016:				
First Citizens (TN) Statutory Trust III	$5,155	2.66%	2035	$5,155
First Citizens (TN) Statutory Trust IV	5,155	2.60%	2037	5,155
Southern Heritage Statutory Trust I	5,155	2.90%	2035	5,155

In March 2005, the Company formed First Citizens (TN) Statutory Trust III, 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. Proceeds were used to reduce other debt at the Company. For the period beginning on (and including) the date of original issuance and ending on (but excluding) June 17, 2005, the rate per annum equals 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.

In March 2007, the Company formed First Citizens (TN) Statutory Trust IV, 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. Proceeds were used to refinance other debt at the Company at a lower interest rate. For the period beginning on (and including) the date of original issuance and ending on (but excluding) June 15, 2007, the rate per annum equals 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.

Pursuant to the merger with SH Bancshares on October 1, 2014, the Company assumed the debentures issued to Southern Heritage Statutory Trust I. The discount associated with the Company's assumption of the debentures issued to Southern Heritage Statutory Trust I had a carrying value of $1.0 million and $1.2 million as of December 31, 2017 and 2016, respectively, and is being amortized through September 2024. Interest for Southern Heritage Statutory Trust I reprices quarterly equal to the three-month LIBOR plus 2.05%.

Promissory Notes

On October 1, 2014, the Company entered into a Loan Agreement, Pledge and Security Agreement, Promissory Note (Fixed Rate) and Promissory Note (Floating Rate) (collectively, the "Promissory Notes") with First Tennessee Bank, National Association (the "Lender"), pursuant to which the Lender has agreed to extend to the Company two five-year term loans in the aggregate maximum principal amount of $12,000,000 (the "Credit Facilities"). The Promissory Notes provide that the Credit Facilities will be repaid in quarterly installments of principal and interest based on a ten-year amortization schedule consisting of a $6.0 million five-year fixed rate loan at a fixed rate of 3.76% and a $6.0 million five-year floating rate loan at the 90 day rounded LIBOR plus 2% that reprices quarterly. The current principal balance on the Promissory Notes is $5.8 million as of December 31, 2017 and $9.0 million as of December 31, 2016.

The Credit Facilities are secured by a pledge of 51% of the stock of FirstCNB, the Company's wholly owned subsidiary. The Loan Documents also contain a number of affirmative and negative covenants, including limitations on the incurrence of additional debt, liens on property, guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, relocation of the Company's principal office, principal banking office, or principal registered office, and transactions with affiliates. The Company has used the proceeds of the Credit Facilities to finance part of the cash consideration in the merger with SH Bancshares.

Annual average volume, rates and maturities of long-term debt for the years ended December 31, 2017 and 2016 were as follows (dollars in thousands):

	Average		
	Volume	Interest Rate	Maturity
2017			
First Citizens Bancshares, Inc.	$21,004	3.43%	13 years
First Citizens National Bank	52,066	1.62%	2 years
2016			
First Citizens Bancshares, Inc.	$23,819	3.67%	12 years
First Citizens National Bank	40,735	1.96%	2 years

Maturities of principal of long-term debt for the following five years were as follows as of December 31, 2017 (in thousands):

2018	$22,707
2019	20,850
2020	15,959
2021	5,799
2022	539
Thereafter	14,588
	$80,442

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

NOTE 15 – INCOME TAXES

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

	2017	2016	2015
Income tax expense (benefit):			
Current	$4,859	$4,403	$3,605
Deferred	(339)	(801)	178
Net impact from change in tax law and rates	(59)	-	-
State income tax expense (benefit of operating loss carryforwards)	105	343	397
Change in valuation allowance	(105)	(343)	(397)
	$4,461	$3,602	$3,783

Effective tax rates for the years ended December 31, 2017, 2016 and 2015 differed from federal statutory rate of 34% applied to income before income taxes as a result of the following (in thousands):

	2017	2016	2015
Tax expenses at statutory rate	$7,415	$6,683	$6,600
(Decrease) increase resulting from:			
Tax exempt interest income	(2,802)	(2,585)	(2,384)
Net earnings on bank-owned life insurance	(204)	(200)	(180)
ESOP dividend	(321)	(321)	(234)
Other items	373	25	(19)
	$4,461	$3,602	$3,783

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 carryforward period are reduced.

In December 2017, the Tax Cuts and Jobs Act was signed into law with widespread impact to the Internal Revenue Code. One of the most significant provisions is reduction of the corporate tax rate to 21% effective

January 1, 2018. In accordance with Accounting Standards Codification (ASC) 740, the effects of changes in tax laws and rates on deferred tax assets and liabilities has been recorded to income tax expense in the year ended December 31, 2017 and totaled approximately $59,000.

Deferred tax assets and liabilities were comprised of the following as of December 31 for the years indicated (in thousands):

	2017	2016	2015
Deferred tax assets:			
Allowance for loan losses	$2,547	$2,990	$2,737
Unrealized loss on other real estate owned	490	757	1,061
State income tax benefit for net operating loss carryforwards	-	105	448
Alternative Minimum Tax Credit	659	659	659
Purchase accounting adjustments, net	-	18	-
Net unrealized losses on available-for-sale debt securities	-	963	-
Deferred loan fees	265	294	211
Deferred compensation plans	388	234	159
Other	99	72	71
Total deferred tax assets	4,448	6,092	5,346
Deferred tax liabilities:			
Depreciation	(2,118)	(2,652)	(3,122)
Net unrealized gains on available-for-sale debt securities	(578)	-	(3,439)
FHLB stock dividends	(359)	(770)	(770)
Purchase accounting adjustments, net.	(233)	-	(183)
Prepaid expenses	(68)	(214)	(199)
Other	(309)	(132)	(169)
Total deferred tax liabilities	(3,665)	(3,768)	(7,882)
Valuation allowance for state income tax benefit	-	(105)	(448)
Net deferred tax assets (liabilities)	$ 783	$2,219	$(2,984)

As of December 31, 2017, the Company had no net operating loss carryforwards for state or federal tax purposes. As of December 31, 2017 and 2016, 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, 2017, 2016 and 2015.

NOTE 16 – 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. Regulations require banks to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital classifications are 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 banks 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 Common Equity Tier I, Tier I and total risk-based capital (as defined) to risk-weighted assets (as defined). The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U. S. bank (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer is 1.25% for 2017 and 0.625% for 2016. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. To be considered adequately capitalized (as defined) under the regulatory framework for prompt corrective action, the minimums must be maintained for Tier I leverage, Common Equity Tier I risk-based, Tier I risk-based and total risk-based ratios as set forth in the table. Management believes as of December 31, 2017, the Company and FirstCNB meet all capital adequacy requirements to which they are subject. Actual capital amounts and ratios are presented in the table below.

As of December 31, 2017 and 2016, the most recent notifications from primary regulatory authorities categorized the Company and its subsidiary bank(s) as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, FirstCNB must maintain minimum total risk-based, Common Equity Tier I 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 its categories.

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, 2017:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets:						
First Citizens Bancshares, Inc.	$ 169,197	16.0%	$ 84,570	8.0%	N/A	10.0%
First Citizens National Bank	172,938	16.4%	84,566	8.0%	$ 105,708	10.0%
Tier I capital to risk weighted assets:						
First Citizens Bancshares, Inc.	158,885	15.0%	63,428	6.0%	N/A	8.0%
First Citizens National Bank	162,626	15.4%	63,402	6.0%	84,536	8.0%
Common Equity Tier I capital to risk weighted assets:						
First Citizens Bancshares, Inc.	143,929	13.6%	47,571	4.5%	N/A	6.5%
First Citizens National Bank	162,087	15.3%	47,548	4.5%	68,681	6.5%
Tier I capital to average assets:						
First Citizens Bancshares, Inc.	158,885	9.8%	64,674	4.0%	N/A	5.0%
First Citizens National Bank	162,626	10.1%	64,662	4.0%	80,828	5.0%
December 31, 2016:						
Total capital to risk weighted assets:						
First Citizens Bancshares, Inc.	$157,411	15.9%	$79,352	8.0%	N/A	10.0%
First Citizens National Bank	164,583	16.6%	79,402	8.0%	$99,252	10.0%
Tier I capital to risk weighted assets:						
First Citizens Bancshares, Inc.	148,579	15.0%	59,514	6.0%	N/A	8.0%
First Citizens National Bank	155,751	15.7%	59,551	6.0%	79,401	8.0%
Common Equity Tier I capital to risk weighted assets:						
First Citizens Bancshares, Inc.	133,414	13.5%	44,636	4.5%	N/A	6.5%
First Citizens National Bank	154,847	15.6%	44,663	4.5%	64,514	6.5%
Tier I capital to average assets:						
First Citizens Bancshares, Inc.	148,579	9.5%	62,882	4.0%	N/A	5.0%
First Citizens National Bank	155,751	9.9%	62,988	4.0%	78,734	5.0%

NOTE 17 – CAPITAL

The Company is subject to capital adequacy requirements imposed by the Federal Reserve. In addition, the Banks are restricted by regulation 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, 2017, $25.5 million of retained earnings were available for future dividends from FirstCNB to the Company.

Accumulated Other Comprehensive Income (Loss) as of December 31, 2017 and 2016 was as follows (in thousands):

	2017	2016
Unrealized gains (losses) on available-for-sale securities without other-than-temporary impairment, net of tax	$1,320	$(1,551)
Unrealized losses on available-for-sale securities with other-than-temporary impairment, net of tax	-	-
Total accumulated other comprehensive income (loss)	$1,320	$(1,551)

NOTE 18 – 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.

In 2015, FirstCNB contracted with a related party for the construction of a new full service branch facility in Union City, Tennessee. The contract is for $1.7 million and was awarded on a competitive bid basis. Contract payments paid totaled approximately $980,000 in the year ended December 31, 2015 and the remainder of the contract was paid in 2016.

Activity in loans to executive officers, directors and their affiliates was as follows for the years ended December 31, 2017 and 2016 (in thousands):

	2017	2016
Balance at beginning of period	$5,192	$14,019
New loans	2,124	3,340
Effect of changes in composition of related parties	-	(10,512)
Repayments	(1,692)	(1,655)
Balance at end of period	$ 5,624	$ 5,192

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 Banks 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 Banks 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, 2017 and 2016 were $9.0 million and $12.8 million, respectively.

NOTE 19 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company 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 Company'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 Banks upon extension of credit, and is based on management's credit evaluation of the counter party. At December 31, 2017 and 2016, the Company had outstanding loan commitments of $154.4 million and $157.9 million, respectively. As of year-end 2017, variable rate commitments were $59.9 million and fixed rate commitments were $94.5 million. As of year-end 2016, variable rate commitments were $50.7 million and fixed rate commitments were $107.2 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 Company 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 Company requires collateral to secure these commitments when deemed necessary. At December 31, 2017 and 2016, outstanding standby letters of credit both totaled $2.6 million.

In the normal course of business, the Company 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, 2017 and 2016, the Company had no loans sold with recourse.

NOTE 20 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Company grants agribusiness, commercial, residential and personal loans to customers throughout a wide area of the mid-southern United States. A large majority of the Company's loans, however, are concentrated in the immediate vicinity of the Company, primarily in West Tennessee. Although the Company 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 21 – FAIR VALUE MEASUREMENTS

Recurring Basis

The following are descriptions of valuation methodologies used for assets measured at fair value on a recurring basis. There are no liabilities measured for fair value on a recurring basis for any of the periods presented.

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.

Assets as of December 31, 2017 and 2016 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, 2017:				
Financial assets:				
Securities available-for-sale	$ -	$565,073	$ -	$565,073
December 31, 2016:				
Financial assets:				
Securities available-for-sale	$ -	$581,532	$ -	$581,532

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 vary are determined on case-by-case basis, 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 2017 or 2016.

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, 2017 and 2016 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, 2017:				
Assets:				
Impaired loans	$ -	$ -	$2,781	$2,781
Loans held-for-sale	-	4,212	-	4,212
Other real estate owned	-	-	2,902	2,902
December 31, 2016:				
Assets:				
Impaired loans	$ -	$ -	$6,652	$6,652
Loans held-for-sale	-	6,737	-	6,737
Other real estate owned	-	-	3,708	3,708

Other Fair Value Estimates

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.

Long-term debt

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 not measured at fair value on the Balance Sheets as of December 31, 2017 and 2016 were as follows (in thousands):

	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
As of December 31, 2017:					
Financial assets:					
Cash and cash equivalents	$ 33,234	$ 33,234	$ -	$ -	$ 33,234
Interest-bearing deposits in other banks	34,135	34,135	-	-	34,135
Loans, net of allowance	902,754	-	896,710	2,781	899,491
Accrued interest receivable	7,387	-	7,387	-	7,387
Federal Reserve Bank and Federal Home Loan Bank Stock	7,235	-	7,235	-	7,235
Bank owned life insurance	25,748	-	25,748	-	25,748
Financial liabilities:				-	
Deposits	1,360,311	-	1,357,368	-	1,357,368
Short-term borrowings	35,555	-	35,555	-	35,555
Other borrowings	80,442	-	79,834	-	79,834
Other liabilities	8,972	-	8,972	-	8,972
Off-balance sheet arrangements				-	
Commitments to extend credit	154,435	-	154,435	-	154,435
Standby letters of credit	2,640	-	2,640	-	2,640

	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
As of December 31, 2016:					
Financial assets					
Cash and cash equivalents	$ 33,455	$33,455	$ -	$ -	$ 33,455
Interest bearing deposits in other banks	27,690	27,690	-	-	27,690
Loans, net of allowance	832,795	-	822,635	6,652	829,287
Accrued interest receivable	7,226	-	7,226	-	7,226
Federal Reserve Bank and Federal Home Loan Bank Stock	6,134	-	6,134	-	6,134
Bank owned life insurance	25,402	-	25,402	-	25,402
Financial liabilities				-	
Deposits	1,339,627	-	1,338,157	-	1,338,157
Short-term borrowings	29,303	-	29,303	-	29,303
Other borrowings	64,135	-	63,995	-	63,995
Other liabilities	8,867	-	8,867	-	8,867
Off-balance sheet arrangements				-	
Commitments to extend credit	157,890	-	157,890	-	157,890
Standby letters of credit	2,612	-	2,612	-	2,612

NOTE 22 – OTHER BENEFIT PLANS

The Company 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 annual discretionary percentage of total eligible compensation was 7% for 2017 and 2016. 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 $564,000 in 2017 and $542,000 in 2016, and $539,000 in 2015. Employer cash contributions to the ESOP totaled approximately $1.3 million per year in each of the years 2017, 2016, and 2015. 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, 2017 and 2016. 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 623,028 shares of Company common stock with an estimated fair value of $36.4 million as of December 31, 2017 and 631,272 shares of Company common stock with an estimated fair value of $32.2 million as of December 31, 2016.

A deferred compensation plan covers executive officers. Under the plan, FirstCNB pays each participant a monthly benefit beginning with the individual’s termination of service. A liability is accrued for the obligation under these plans and reported in Other Liabilities on the Consolidated Balance Sheets. The expense incurred for the deferred compensation for each of the last three years was approximately $162,000, $146,000 and $132,000 resulting in a deferred compensation liability of approximately $606,000 and $444,000 as of December 31, 2017 and

2016, respectively. Annuity contracts were purchased and owned by FirstCNB and are to be used to provide the benefits to the participants upon retirement. The annuity contracts are reported in Other Assets on the Consolidated Balance Sheets and totaled $2.7 million as of both December 31, 2017 and 2016.

NOTE 23 – QUARTERLY SELECTED FINANCIAL DATA (UNAUDITED)

The following table presents quarterly selected financial data (unaudited) for 2017 and 2016 (in thousands, except per share data):

	Interest Income	Net Interest Income	Net Income	EPS Basic	EPS Diluted
2017					
First Quarter	$14,746	$12,859	$4,239	$1.07	$1.07
Second Quarter	15,081	13,133	4,504	1.13	1.13
Third Quarter	15,490	13,433	4,139	1.04	1.04
Fourth Quarter	15,587	13,398	4,129	1.04	1.04
Total	$60,904	$52,823	$17,011	$4.28	$4.28
2016					
First Quarter	$13,973	$12,149	$3,983	$1.00	$1.00
Second Quarter	14,168	12,310	3,891	0.98	0.98
Third Quarter	14,625	12,724	3,891	0.98	0.98
Fourth Quarter	14,692	12,802	4,013	1.01	1.01
Total	$57,458	$49,985	$15,778	$3.97	$3.97

NOTE 24 – CONDENSED FINANCIAL INFORMATION

FIRST CITIZENS BANCSHARES, INC.
(Parent Company Only)
Balance Sheets
December 31, 2017 and 2016
(In thousands)

	2017	2016
Assets		
Cash	$ 1,945	$ 1,570
Investment in subsidiaries	186,935	176,661
Other assets	26	328
Total assets	$188,906	$178,559
Liabilities and shareholders' equity		
Liabilities		
Long term debt	$ 20,255	$ 23,246
Accrued expenses	340	548
Total liabilities	20,595	23,794
Shareholders' equity	168,311	154,765
Total liabilities and shareholders' equity	$188,906	$178,559

FIRST CITIZENS BANCSHARES, INC.
(Parent Company Only)
Condensed Statements of Income
Years Ended December 31, 2017 and 2016
(In thousands)

	2017	2016
Income		
Dividends from subsidiaries	$9,950	$7,700
Other income	14	12
Total income	9,964	7,712
Expenses		
Interest expense	876	874
Other expenses	292	243
Total expenses	1,168	1,117
Income before income taxes and equity in undistributed net income of bank subsidiary	8,796	6,595
Income tax benefit	(529)	(485)
	9,325	7,080
Equity in undistributed net income of bank subsidiary	7,686	8,698
Net income	$17,011	$15,778

FIRST CITIZENS BANCSHARES, INC.
(Parent Company Only)
Condensed Statements of Cash Flows
Years ended December 31, 2017 and 2016
(In thousands)

	2017	2016
Operating activities		
Net income	$17,011	$15,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiary	(7,686)	(8,698)
(Increase) decrease in other assets	302	(119)
Increase in other liabilities	(54)	97
Net cash provided by operating activities	9,573	7,058
Investing activities		
Outlay for business acquisitions-net	0	0
Net cash used by investing activities	-	-
Financing activities		
Dividend payments to shareholders	(5,966)	(5,572)
Principal reductions on long-term debt	(3,146)	(1,125)
Treasury stock transactions -net	(86)	(272)
Net cash used by financing activities	(9,198)	(6,969)
Increase in cash	375	89
Cash at beginning of year	1,570	1,481
Cash at end of year	$1,945	$1,570